Yorkshire Water Services Limited

Annual Report and Financial Statements
An integrated report

For the year ended 31 March 2022

Registered in England no. 02366682

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UK MADE

About this integrated report

We have recognised for many years that our strategy, risk management, performance, and sustainability are inseparable and are integral to our success.

We have taken the 'integrated' approach to our Annual Report and Financial Statements (ARFS) since 2014. Our integrated reporting is in alignment with the International Integrated Reporting Council (IIRC) framework. Find out more about integrated reporting at: theiirc.org In practical terms this means that throughout this report we openly disclose performance information that goes beyond our legal duties to include activities covering a broad range of environmental, financial, and social considerations.

Changes to this year's ARFS

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

- Added further detail to our **Climate-related financial disclosures** section, recognising the increased focus from investors and regulatory bodies in this area.

Assurance

Our Assurance Plan explains the process we have in place to give confidence that the information we publish is accurate, accessible, and easy to understand. You can find our Assurance Plan on our website at this link: yorkshirewater.com/attachments/assurance-plan

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

Alignment with our other publications

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

Our annual performance

Operating profit £242.3m
(2021: £241.4m)
See **Our financial performance** section for more detail

£158.5m total tax contribution
(2021: £148.3m)
See **Our financial performance** section for more detail

78.8 pts in UK customer satisfaction survey
(2021: 76.1 pts)
See our **Putting people first** section for more detail

Continued low carbon emissions of 94Kt CO_2e
(2021: 97Kt CO_2e)
See our **Love our environment** section for more detail

Low annual lost time injury rate (LTIR) of 0.24
(2021: 0.21)
See our **Putting people first** section for more detail

£434.1m Capital expenditure
(2021: £448.3m)
See **Our financial performance** section for more detail

Statement on non-financial information

Yorkshire Water Services Limited (Yorkshire Water) has complied with the requirements of S414CB of the Companies Act 2006 by including certain non-financial information within the **Strategic Report**.

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

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

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

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

All our KPIs, including those non-financial indicators, are reported and discussed within the **Strategic Report**. Further detail on how these are presented can be found in the **Key Performance Indicators** section.

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

Throughout this report, unless otherwise stated, we refer to each financial year by the year end date, e.g. 2022 refers to 31 March 2022 financial year.

Strategic Report

Assuring the quality of this Strategic Report

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

Level 1 – Business operations

This is provided throughout the year from controls in our front-line operations. We regularly review our processes, systems, and controls to ensure accurate reporting. It includes having the right people in the right roles, for example our named data providers and data managers, meaning assurance is timely and comes from the business experts who understand the performance and the challenges faced.

Level 2 – Oversight functions

This comes from oversight teams with specialist knowledge, such as our finance, regulation and legal teams, separate from those who have responsibility for delivery. Those involved will review information for technical accuracy, compliance and against wider company expectations. We have a formal monthly reporting process for data relating to our KPIs.

Level 3 – Independent assurance

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

- Our external technical auditor, Atkins, has reviewed the stated position on our Performance Commitments (PCs) to confirm accuracy and completeness.
- Our external financial auditor, Deloitte LLP, has reviewed the financial statements to confirm they give a true and fair view, and the other information to confirm there is no material inconsistency with the annual report.
- Our Internal Audit team carries out independent reviews of the fundamental financial systems on a cyclical basis. In 2022 this included, but was not limited to, the following areas: AMP7 Capital Programme Design Process, payroll access, stock management and purchase cards.

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

Nicola Shaw
Chief Executive Officer
15 July 2022

Yorkshire Water at a glance

Our purpose is 'we're proud to play water's role in making Yorkshire a brilliant place to be - now and always'

We provide some of life's most essential services to the people and businesses of the Yorkshire and Humberside region, playing a key role in the region's health, wellbeing, and prosperity. We do this by supplying water and wastewater services and being custodians of essential infrastructure and the natural environment.

3,922 employees

Supplying around 1.3bn litres of water every day

Investing over £1m everyday

Managing 28,000 hectares of land

Chair's statement

This is the first set of annual performance and financial results since I took over as Chair of the company in September 2021. Since joining the company last year, I have visited as many sites as possible and have been very impressed with the commitment which our colleagues show in delivering our service to customers, particularly throughout the difficult times of the last two years.

I joined the company in a period in which the environmental performance of water companies has come under considerable scrutiny. This scrutiny has come about because much more information is now publicly available showing how our wastewater networks operate and their impact on the environment. This increase in transparency is welcome, even if it has at times been uncomfortable for all of us in the sector.

We need to recognise the public sentiment about the use of storm discharges and plan to invest to address these concerns in the years ahead. It is important that companies, Government, and regulators work closely to find an affordable method of delivering what the public expects, whilst at the same time also financing the steps we need to take to move towards net zero and improve our own climate resilience.

Yorkshire Water is committed to an ambitious target to achieve net zero by 2030 and earlier in the year we published our carbon strategy. Every year, we will publish our progress towards this important objective, in line with our commitments to transparency.

Climate change has a profound effect on our services. We are already seeing the impact of more volatile weather, and this is testing the resilience of our assets. All the climate projections show that we will have less water available to serve a growing population and therefore we will have to become more efficient, reducing losses through leakage as well as working with our customers to help them use less. These projections are at the centre of our long-term water resources management plan which is currently in development.

The Board of Yorkshire Water takes its environmental and compliance responsibilities seriously. We have processes in place through our Audit and Risk Committee and Safety, Health and Environment (SHE) Committee to assure us of the measures taken to achieve legal compliance in the company, these groups also monitor environmental performance closely.

Yorkshire Water has been an industry leader in operational and financial transparency, and we have recently published a plan which sets out what we intend to do to strengthen the trust of stakeholders and the public and how we intend to work with them to improve water quality in Yorkshire's rivers and coasts. Rivers and coasts do not respect either organisational or geographic boundaries and thus, this plan has to be based on partnerships with local authorities, agriculturalists, landowners and community and environmental groups across Yorkshire if it is to be successful.

Our strategic vision is based on three principles: service, resilience and growth. By transforming our operational efficiency we aim to achieve a step change in the level of service we provide to customers and at the same time secure the resilience of the business, in particular to the impacts of climate change. Sustainability is key to resilience as it is self-evident that the more sustainable we are in the way in which we operate then we will be more resilient in both the short and long term.

If we deliver these improvements in service and resilience, we will have earned the right to look for opportunities to grow our asset base and recognise that in future growth opportunities are most likely to come in partnership with other Yorkshire institutions with similar objectives. We also look forward to working with Iain Coucher, the new Chair of Ofwat, and his team and with the incoming Chair of the Environment Agency (EA) to evolve a fresh approach to environmental and economic regulation which will deliver against public expectations in the longer term.

In April 2022, we announced that after nearly 12 years with the company and close to three years as Chief Executive Officer (CEO), Liz Barber would retire on 6 May 2022. Nicola Shaw, most recently UK Executive Director for National Grid, was appointed as CEO to succeed Liz and joined the company on 9 May 2022. She was previously CEO of High Speed 1 and a Director of First Group and is currently a Non-Executive Director of International Airlines Group.

Liz first joined Yorkshire Water in November 2010 as Group Director of Finance and Regulation, having previously been a Senior Partner at Ernst & Young where she led the firm's national water team. Liz later was appointed as CEO in September 2019.

Liz made a huge contribution to the company in both her leadership roles. As CEO she led us through the pandemic and dealt very effectively with the challenges this caused for both colleagues and customers. On behalf of the Board, I would like to thank her for all she has done and wish her well for the future.

We were delighted to be able to appoint Nicola Shaw as CEO. She brings extensive experience in regulated infrastructure businesses with a high public profile and has an excellent track record in driving efficient delivery whilst also improving customer service and staff engagement.

I would like to thank the Board, leadership team and all colleagues at Yorkshire Water for their work throughout a year which involved considerable economic volatility, the details of which are set out in the Chief Executive's report.

Vanda Murray

Vanda Murray
Chair
15 July 2022

Chief Executive's report

I joined Yorkshire Water on 9 May this year and it is clear that the organisation did a great job maintaining a resilient service to our customers throughout the pandemic and the multiple storms experienced earlier this year. Yorkshire Water is determined to be a great partner in the county — we provide the lifeblood of society bringing clean water to every home and business and then taking away wastewater and processing it to minimise our effect on the environment.

However, over the past year, our performance has not always met the standards we set ourselves in areas such as internal sewer flooding, customer minutes lost and unplanned outage. On top of that we need to do more to control our cost base. The team takes immediate action as and when challenges arise. Nevertheless, to make it simpler for us, better for our customers, and to become more efficient we are also implementing a broader modernisation programme to change the way we operate and manage the company. I look forward to working with the team to deliver and to playing our part in making Yorkshire a great place to be now and always.

Delivering for customers

We have continued to provide good service to our customers despite continued home working and the impact of a number of storm events. We have also continued making improvements in our developer services function and we expect this to improve further as our focus on reducing application backlog continues.

Our work to implement the customer promise has made good progress and our bespoke training has now been rolled out to over 1,500 colleagues at Yorkshire Water and our service partners. This training will ensure that all colleagues understand their role in delivering the promise in their day-to-day work.

Climate change has already had an effect on our business — given the greater frequency of major storms. There is a need to respond to the existing changes and to move the business on to make it more resilient for what is expected to come even if we deliver on the UK's ambitious targets for carbon reduction. We are also planning to play our part by removing carbon from our own business – we have reported further information In our **Love our environment** section.

Despite these weather-related challenges, we have completed leakage surveys on all of our trunk mains, and this has made a material contribution to the achievement of our leakage reduction target. Our Smart Water Network pilot in Sheffield has also progressed well, and we have reduced leakage in the area. Our performance is detailed further in our **Being great with water** section. Despite this there have been a number of substantial bursts in water mains which have led to an increase in our unplanned outage figures. These outages were permitted within our PC but were higher than we targeted in our business plan. These bursts, combined with the impact of Storm Arwen, also led to an increase in our water supply interruptions.

Along with other water and sewerage companies, the performance of our wastewater assets has come under significant scrutiny in the course of the year. At the beginning of March 2022, we received notification of a request for information from Ofwat, made under section 203 of the Water Industry Act.

This request has been made as part of the regulator's industry-wide investigation into flow to full treatment (FFT) at wastewater treatment works. FFT is the measure of the amount of flow which our works have to treat before moving to use the storm discharge. We have complied fully with the request and will continue to cooperate with Ofwat in the conduct of its investigation. Compliance with FFT has already been the subject of considerable management attention and in March 2022 we set up a task force within the wastewater team to ensure that we manage the risks effectively.

Our performance on external and internal sewer flooding has also been impacted by the storm events of early 2022. Despite this, we met our business plan target for minimising external sewer flooding, but did not meet our targets for internal sewer flooding.

Unfortunately, our rating in the EA's environmental performance assessment (EPA) has fallen from four stars to two stars. There are two factors behind this: first, a changing methodology with stricter performance measures and secondly an increase in the number of what the EA has classified as serious pollution incidents. The change in methodology has led to a fall in the ratings of a number of water companies and as a result there are now five two star companies and two one star companies. We are disappointed at this result and remain absolutely committed to improving our environmental performance.

The delivery of our capital programme has made excellent progress in the year and all regulatory commitments have been delivered in year two of the Asset Management Period (AMP). Financial performance on the programme is also strong with the year ending in a net capital outperformance position.

However, the tightening of drinking water and river water quality requirements set out by our regulators is increasing pressure on both our cost base and on our ambition to achieve net zero operational emissions by 2030. We have also experienced growing affordability and wider cost pressures, in particular with increases in materials and fuel prices.

Working with Yorkshire

As an anchor institution in Yorkshire, we see collaboration with the county's institutions as an important part of how we go about delivering our services. Where possible, we convene partnerships with stakeholders so that we can pool planning and resources to tackle issues we have in common such as flooding, resilience and climate change.

The partnership in Hull and East Riding, Living with Water, is now mature and has brought together Hull City Council, the East Riding of Yorkshire Council, Yorkshire Water and the EA, to plan both a strategic response to flooding and resilience and a joint operational response to incidents. Living with Water has now moved beyond the initial collaboration phase and is into project delivery with five sustainable, blue-green projects shortly to be delivered in the region.

In South Yorkshire, the Connected by Water partnership focuses on the Don catchment and involves the councils of Barnsley, Doncaster, Rotherham and Sheffield, as well as the Mayoral Combined Authority, Yorkshire Water and the EA. The flooding in 2019 was the catalyst for the creation of Connected by Water and the partnership has made very quick progress since its inception last year. In January this year the partnership launched its action plan for public consultation. This plan has four themes: responding to the climate emergency; SMART investment; technology and operational management; and engagement and community resilience.

Early actions emerging from the plan for early implementation include a source to sea nature-based solutions programme for the Don Catchment with the first of three projects focusing on the Upper Don. This will involve interventions to slow the flow of water on Sheffield's hills such as peatland restoration and the creation of ponds and wetlands. Another early deliverable is the creation of a South Yorkshire flood risk investment tool, which will bring together flood risk data and evidence from across the region to ensure that future investment provides the maximum flood risk benefit.

We are particularly pleased to have strong engagement from the Yorkshire Leaders Board in the development of our priorities for our business plan for the next periodic review covering the period 2025 to 2030. The Leaders Board brings together the Chief Executives of all the local authorities in Yorkshire and they are making a valuable contribution to our thinking on investment priorities for the next AMP. We will shortly be consulting with the Leaders Board and other Yorkshire stakeholders on how the whole price review process could better incorporate a strong regional voice, so that the county's priorities are considered as part of the secretary of state's strategic guidance to Ofwat.

This is very much in line with recommendations in the Government's National Infrastructure Strategy, published in 2020, which called for local and mayoral authorities to have a greater role in business planning for regulated network utilities.

River water quality

The environmental performance of water companies, particularly their impact on water quality in rivers and coasts, has been the subject of considerable attention from the public, non-governmental organisations (NGOs), Government and regulators. The main focus of this has been the use of storm discharges from combined sewer overflows and treatment works. Data from discharge monitors is now publicly available, and the frequency and duration of discharges is important to the public. There is a clear and strong demand for these to be reduced. In late March 2022, the Government published its high-level targets for a reduction in the use of overflows and it is clear that achieving these targets will result in a substantial investment programme in, at least, the next and following AMP.

At Yorkshire Water, we applaud the ambition of these targets and, with the rest of the industry, have pushed for regulatory changes which will enable progress to be made. However, we have asked the Government to consider how their proposals could be improved to mitigate the differential impact on customers in the North of England. Yorkshire Water and United Utilities have, for historical reasons, the largest numbers of storm discharges on our networks which means that over 80% of the cost of meeting the targets will fall on customers in the North of England.

Following the publication of the targets, we consulted with environmental stakeholders in Yorkshire and ensured their views were incorporated into our response. We are also working closely with them to deliver against our own plan to improve Yorkshire's rivers, which was published at the end of April 2022.

In late 2020, the River Wharfe at Ilkley was designated as the UK's first inland bathing water. Yorkshire Water supported the application for bathing water status which came about through the hard work and tenacity of the Ilkley Clean River Group (ICRG). Improvements in river quality can only come from partnership working and we are delighted to be working closely with the ICRG and other stakeholders including landowners and farmers to develop a plan to improve water quality in the Wharfe, first in and around Ilkley, and then throughout the catchment. Since the designation was granted we have been carrying out an extensive sampling programme to determine where Yorkshire Water needed to invest in its assets to deliver the necessary improvements. As a result, we are committed to spend £12m in this AMP to reduce storm discharges into the designated bathing water and to ensure that the final effluent of our plants upstream of Ilkley is treated to remove faecal bacteria.

Our customers tell us that they support further investment to reduce discharges to rivers and coasts, but we are also mindful of the extraordinary pressure many are experiencing on their household finances as a result of inflation including rising energy prices. We are therefore working to ensure that our investment plans for the future are kept as cost effective as possible to ensure that they are affordable for customers. Balancing the public and Government desire for more investment in the environment with the need to keep bills affordable will be a significant challenge for future price reviews and, along with other water companies, we look forward to working with Ofwat to find ways of striking the right balance.

Financial performance

Our revenue has increased year-on-year by £17.4m, largely due to allowed inflationary price increases and changes in consumption. We have experienced some significant cost pressures in the year leading to operating expenditure of £876.2m (2021: £859.7m). This increase is largely due to sharp increases in energy and weather-related costs. Energy expenditure was between £1.3m and £3.5m per month higher than expected for the last six months of the financial year.

These expense increases have resulted in adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) for the year of £581.3m (2021: £592.9m) and a loss before tax of £352.6m (2021: £17.5m profit). Adjusted EBITDA has been reconciled to loss/profit before tax in the **Alternative Performance Measures** section.

As a leadership team, we have been working hard to manage these cost pressures, with our business plan for the next financial year containing significant operating cost reduction measures. This work includes a significant focus on managing energy costs through forward contracts, further investment in solar power, and identifying renewable energy opportunities.

Looking ahead to the future

I am delighted to have joined Yorkshire Water and to be working alongside the great colleagues in the company who deliver water and wastewater services to the county day in and day out. It is clear that the company is a vital part of the social, economic and environmental fabric of Yorkshire, and we are committed to close working with our partners in the county.

My early priorities will be to focus on our customers and our delivery for them, compliance with our regulatory obligations, and efficiency of delivery to make work easier and safer for our teams. We know we need to improve our efficiency in order to keep bills as low as possible in the future and because we know that further investment is required to meet rising expectations, to help us decarbonise the business, and to deal with the effects of climate change.

Nicola Shaw

Nicola Shaw
Chief Executive Officer
15 July 2022

Our business strategy

We provide some of life's most essential services to the people and businesses of Yorkshire, playing a key role in the region's health, wellbeing, and prosperity. We do this by supplying water and wastewater services and being custodians of essential infrastructure and the natural environment.

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

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

Asset management period (AMPs)

Yorkshire Water, along with the other water companies in England and Wales, operates in five-year cycles known as AMPs. For each AMP we agree and work to a plan that is developed through extensive assessment, planning and customer engagement. The planning process is known as the 'Price Review'. These five-year plans are set in the long-term context of a 25-year strategic direction, our 'long-term strategy', which we are in the process of reviewing. The current reporting period covers 2020-2025 and is known as AMP7.

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

Our long-term strategy

Our long-term strategy sets out our purpose and how we intend to deliver it through our strategic goals – the **Five Big Goals**; the behaviours that we value; and the approach to governance. Our strategy is summarised in the diagram following.

Our purpose is clear, 'we're proud to play water's role in making Yorkshire a brilliant place to be – now and always'. Being proud to play water's role means that we provide essential water, wastewater and customer services to the people and businesses of Yorkshire, reliably and to a high standard. Making Yorkshire a brilliant place to be means that we strive to improve the region's health, wellbeing, and prosperity by supporting communities, protecting, and enhancing the environment, creating an amazing place to work, and ensuring our services are affordable. We carry this out in a way that meets the needs of everyone, of our customers, colleagues, and stakeholders, for today and for the future.

YorkshireWater

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

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

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

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

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

Strategic business review: The big changes we need to make and how
- Execution of the strategic business review
- AMP7 performance improvement plan

Governance & Board interaction: Holding management to account
- KPIs and governance
- Productivity, Financial, Operational, Regulatory

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

We make sustainable choices that seek to balance the needs of today with the needs of future generations.

Water is one of life's essentials and we are concerned about taking care of it in the right way for everyone, all the time. How we do this really matters: our services rely on the natural resources we take from and return to the environment; therefore, we need to protect and enhance Yorkshire's environment. How we transport and recycle water that has been used by our customers, the way we look after our land, our broader support to local communities and the partnerships we develop, will make a difference to Yorkshire.

Customers continue to prioritise high quality, uninterrupted services, meaning that service resilience is a priority. We need to plan carefully to ensure that we can not only deliver resilient services today, but that we can continue to do this in the future, despite the increasing pressures from climate change, population growth and increasing pressures on the environment, further information can be found in our **Love our environment** section. Our services impact and are impacted by environmental and community resilience and we look to enhance these in how we deliver our services. Our broader organisational resilience is critical to our ability to deliver our services into the future, and we continue our focus on financial resilience, cyber security and emergency planning.

As a result of the fast-changing external landscape, and increasing stakeholder expectations, we continue to evolve our long-term strategy. Over the last year there have been several significant changes in some of the external factors that impact on our organisation, our customers, stakeholder and partners. The impact of these changes is acutely felt by customers and communities in respect of the cost-of-living crisis and by businesses in increasing costs to deliver services. The need to maintain affordable services to customers and to deliver those services safely and efficiently is the focus of business-as-usual activities, our transformation programme and our AMP7 performance improvement plan.

Increasing political, regulatory and stakeholder expectations, particularly in respect of the environment have been seen through amendments to the Environment Act, resulting in stretching Environment Bill targets for the water industry and in the Environmental Audit Committee's inquiry into water quality in rivers.

Our strategic response is to continue to develop our plans to do more to benefit the environment, including our ambitious net zero operational carbon plans, commitment to monitor and provide transparent data on the operational of all our storm overflows and our plans to improve Yorkshire's rivers and coasts.

We have started preparing our plans for the next Price Review, which takes place in 2024 and covers the period 2025-2030 (AMP8). As part of this process, we will set out our plans for AMP8 in the context of a 25-year plan. Our strategic goals are under review and will be updated taking account of changing externalities and customer and stakeholder priorities. These will set the context for our refreshed long-term strategy and AMP8 delivery plan.

Purpose led decision making

At the heart of our strategy is the recognition that our core business fundamentally relies on financial, natural, and social resources. Whilst there are major challenges to the resilience of our essential water and wastewater services, we know how important it is that we maintain the trust of our customers and stakeholders by always acting with integrity and being open about our performance. To help us make sure that our decision-making fully considers these matters, we are using the concept of the Six Capitals to embed purpose-led decision making at the core of our business.

Our Six Capitals approach is designed to help us become more sustainable and resilient by considering value in the broadest sense. Capital is often thought of only as money, but in fact describes any resource or asset that stores or provides value to people. The Six Capitals, as summarised in the diagram below, are important to us as they help us measure the total value we deliver to Yorkshire through our work.

The **Six Capitals** approach helps us measure progress towards our strategic goals, ensures that purpose is at the heart of our day-to-day decision making, and provides a framework in which we can clearly communicate the impact we have on Yorkshire with customers and stakeholders. We have instigated a range of projects to examine our impacts and dependencies across the capitals, assessing a range of economic, environmental, and social attributes associated with our activities. These consider both our negative and positive impacts on society and the environment, and strengthen the evidence base that supports our decision making.

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

- Conducting an annual company-wide assessment of our total impact and value, which is published in a report called 'Our Contribution to Yorkshire' and reviews the 2021 reporting year. This is our third report of this type and builds on the previous versions using new techniques and data. The report shows the strong net positive contribution Yorkshire Water delivers for society, and it highlights further areas where we have risk and opportunity needing further attention. The report is available at **yorkshirewater.com/about-us/capitals/** The fourth report, reviewing the 2022 reporting year, will be published in October 2022.

- Continuing to apply the Sustainable Finance Framework (SFF), which we introduced in January 2019, applying the Six Capitals approach to monitor the impact of our operations and investments. We have raised to date £1,200m of debt through the framework, which we discuss further in the financial section of this Strategic Report. You can find more details about our SFF at **yorkshirewater.com/media/dbrc0hjo/investor-impact-report**

- Applying and embedding the Six Capitals assessment functionality that is integrated in our planning and optimisation system, the Decision-Making Framework (DMF). We used the tool to optimise and report the impact and value of our five-year business plan from 2020 to 2025, and we are now working hard to embed this across our business to help shape the design of every asset management solution.

- Using our DMF Six Capitals tool to enhance our understanding of the risk we face from climate change, including economic valuation of this risk. We explore this work in more detail in our **Love our environment** section.

- Developing a Six Capitals land planning tool that will support our new land strategy. This will ensure we realise the maximum value from our 28,000 hectares of land holdings across Yorkshire by protecting sources of water while delivering other benefits such as flood management, recreation, farming, wildlife, and carbon storage.

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

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

Six Capitals

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

Financial capital
Our financial health and efficiency

Manufactured capital
Our pipes, treatment works, offices and IT

Natural capital
The materials and services we rely on from the environment

Human capital
Our workforce's capabilities and wellbeing

Intellectual capital
Our knowledge and processes

Social capital
Our relationships and customers' trust in us

Our Five Big Goals

Putting people first

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

Being great with water

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

Love our environment

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

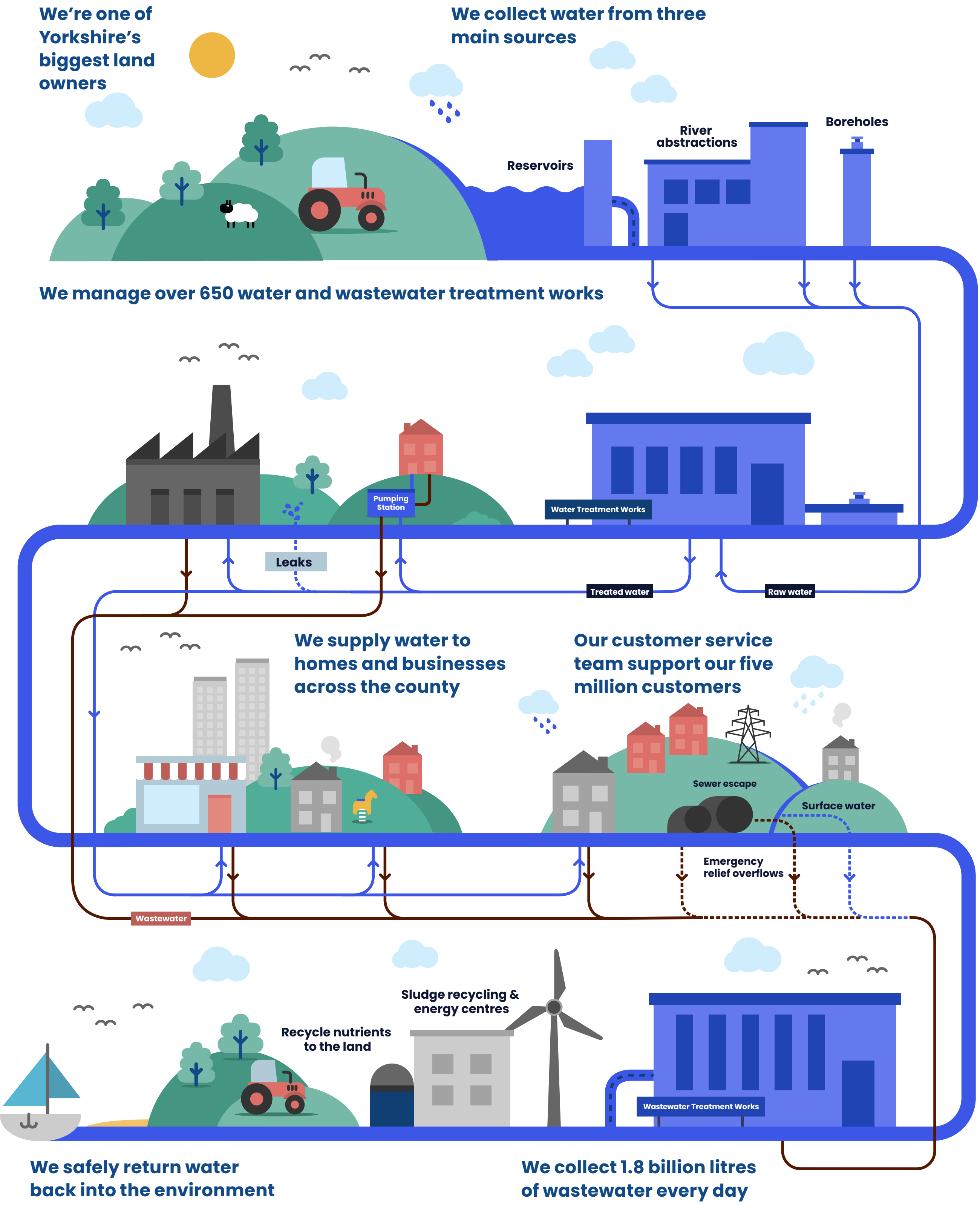
Being a great partner

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

Keeping services affordable

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

Our business model



In delivering our business model we strive to contribute towards the SDGs. Examples of how we do this are reflected throughout this Strategic Report.

Key Performance Indicators (KPIS)

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

We measure a number of financial and non-financial KPIs which are reported regularly internally, and which are linked to the variable pay element of our remuneration, as described in our **Directors' Remuneration Report**.

Outcome Delivery Incentives (ODIs)

2022: £14.9m ODI penalty

2021: £3.4m ODI penalty

Ofwat's performance mechanism for AMP7 tracks an annual ODI position, the annual penalty position was higher for this financial year largely due to operational pressures such as the impact of Storm Arwen. We are currently in discussions with Ofwat to finalise the penalty position in relation to significant water supply events and water supply interruptions. We have challenged the inclusion of events relating to Storm Arwen due to exceptional circumstances. If Ofwat accept our proposal the penalty position would reduce to £8.2m.

Further detail on our ODI performance and the underlying PCs is shown in the APR. ODIs and PCs are part of our five-year business plan. Our progress in relation to ODIs is reported monthly to the Board and the Yorkshire Water Leadership Team (YWLT). ODI performance also forms a substantial part of the performance measures in the annual bonus scheme. Further detail on this can be found in the **Directors' Remuneration Report**.

Adjusted EBITDA

2022: £581.3m

2021: £592.9m

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

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

Our Adjusted EBITDA has decreased in the year due largely due to increased operating cost pressures, particularly energy. A reconciliation to the statutory measure is included in our **Alternative Performance Measures** section.

Lost Time Injury Rate (LTIR)

2022: 0.24

2021: 0.21

The LTIR is calculated as the number of hours lost per 100,000 hours worked. Last year we achieved the lowest recorded LTIR ever in Yorkshire Water at 0.21, whilst there has been a marginal increase this year, the LTIR remains low. Health, safety, and wellbeing is paramount in all that we do, and we monitor the LTIR, along with other health, safety, and wellbeing metrics, at every Board meeting and monthly at YWLT meetings. LTIR is a metric used in the performance measures of the annual bonus scheme. Further detail on this can be found in the **Directors' Remuneration Report**.

Colleague engagement

2022: 72%

2021: 74%

Our colleague engagement score is based on company-wide engagement survey, known internally as Yorkshire Voice. The survey covers a number of areas to identify colleague sentiment and perceptions across the business. The surveys provide an overall score relating to colleague engagement. In 2022 the survey secured a 72% engagement rate (2021: 74%), whilst this is a reduction from prior year this still indicates strong colleague engagement.

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

Operational carbon emissions

2022: 94 kt CO_2e

2021: 97 kt CO_2e

Yorkshire Water has been a leading figure in the area of carbon emissions in the water industry since we first committed to reporting in 2005. As in the prior year, we are continuing to work with academia and the industry to develop scientific understanding on emissions from wastewater and sludge treatment. We are also working with other water companies on addressing challenges to achieving net zero.

This KPI is calculated using the industry's best practice methodology which is being continually refined through UK Water Industry Research, the research arm of Water UK. We use the latest version of the carbon accounting workbook (version 16) which incorporates an uplift to the greenhouse gas impact of wastewater treatment, to reflect changing scientific understanding. This year we have also refined our sludge measurement methodology, which has resulted in a further uplift in emissions. For detailed breakdown of emissions and energy use, please see the Operational Carbon section of the APR. Further detail in this report can be found in our **Love our environment** section.

Alternative Performance Measures (APMs)

Yorkshire Water uses a number of APMs to assist in presenting information in this report in an easily analysable and comparable form.

We use such measures consistently within the published interim Financial statements and our annual reporting, and reconcile them as appropriate. The Board believes the APMs used provide a meaningful basis upon which to analyse financial performance and position, which is helpful to the reader. These measures have been defined internally and may therefore not be comparable to similar APMs presented by other companies. The reconciliation of APMs has been included below, alongside a summary of why these metrics are important to the business:

Adjusted EBITDA:

Adjusted EBITDA is the primary measure used by management and the Board to assess the financial performance of Yorkshire Water as it provides a more comparable assessment of trading performance year-on-year. It is also a key metric used by investors to assess the performance of our operations.

Adjusted EBITDA is calculated as follows:

	2022 £m	2021 £m
(Loss)/profit before tax	**(352.6)**	17.5
Add back net interest charge (notes 7 & 8)	**594.9**	223.9
Add back depreciation and impairment of tangible assets (note 12)	**305.1**	298.6
Add back amortisation of intangible assets (note 11)	**28.4**	24.5
EBITDA including exceptional items	**575.8**	**564.5**
Add back exceptional items (note 6)	**5.5**	28.4
Adjusted EBITDA	**581.3**	**592.9**

Adjusted (loss)/profit:

Adjusted (loss)/profit excludes exceptional items and fair value derivative movements. This excludes volatile balances and provides a more stable view of profitability to management and is therefore a valuable metric to the business.

Adjusted loss is calculated as follows:

	2022 £m	2021 £m
(Loss)/profit before tax	**(352.6)**	17.5
Add back exceptional items (note 6)	**5.5**	28.4
Add back fair value movement on derivatives (note 8)	**369.6**	102.0
Adjusted profit before effects of taxation	**22.5**	**147.9**
Effects of taxation*	**(109.8)**	(31.2)
Adjusted (loss)/profit	**(87.3)**	**116.7**

* Effects of taxation represents the total tax charge (current and deferred tax) on adjusted profit. This is calculated by adjusting the total tax charge included in the profit and loss account as shown in note 9 to the **Financial Statements** for the deferred tax associated with the adjusting items noted above.

Adjusted net debt and gearing:

Net debt comprises cash and cash equivalents along with short and long-term borrowings with adjustments for balances excluded for the purpose of Yorkshire Water's financial covenant calculations. This gearing calculation takes the adjusted net debt as a percentage of the published Regulatory Capital Value (RCV). Management use these measures to monitor debt funding levels and compliance with funding covenants.
Net debt is a key metric used by debt rating agencies and the investor community as a key measure of liquidity and the ability to manage Yorkshire Water's current obligations.

Adjusted net debt is calculated as follows:

	2022 £m	2021 £m
Net debt (note 17)	**4,487.1**	4,366.3
Net amounts owed from group companies (note 17)	**941.3**	949.4
Fair value movements in amounts owed to subsidiary companies (note 17)	**(28.5)**	(89.5)
Unamortised issue costs (note 17)	**17.9**	15.5
Intercompany loans (note 17)	**(13.0)**	(16.3)
RPI bullet accrued (note 18)	**280.9**	229.5
Adjusted net debt	**5,685.7**	**5,454.9**

Gearing:

	2022 £m	2021 £m
Adjusted net debt (above)	**5,685.7**	5,454.9
RCV	**7,745.9**	7,024.3
Gearing	**73.40%**	**77.66%**

Further information can be found in the **Our financial performance** section of this report.

Our Five Big Goals

Putting people first

The main SDGs supported in this section are:

Health and safety

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

Our key measures

Measure	Units	2021 Actual	2022 Target	2022 Actual	2023 Target
LTIR	No./10,000 hours	0.21	0.27	0.24	0.3
Sickness absence rate	%	3.06	7	3.53	3.5
Process safety	Incidents	5	<12	0	<5
Leadership safety activities (eg: site visits)	No. activities	7,057	6,885	6,632	6,672

Last year, following an external assessment of our safety culture we implemented a revised health, safety, security and environment (HSSE) strategy based on people, plant and process, which has driven an improvement in our safety culture that is reflected in our HSSE performance.

Occupational safety

This year we have achieved our LTIR target, this is a slight increase on the previous year's performance and is represented by a majority of incidents being the result of slip, trip and falls. In order to maintain focus on the prevention of injury we also look to our near-miss incidents and those with high potential outcome to drive learning and improvement. In line with this, we have established Incident Review Panels and Learning Review Boards, that assess the quality of investigations and captures broader lessons to drive continual improvement.

Health and wellbeing

This supports goal 3 to ensure healthy lives and promote wellbeing for all

The sickness absence rate was ahead of the target for the year. Covid-19 has been effectively managed through the Covid-19 management group that has continually monitored and responded to the changes in guidance. It is still very difficult to estimate what is now 'normal', but given the easing of Covid-19 restrictions and the fact it is still endemic we have increased sickness absence forecasts to account for this.

We have observed the direct and indirect impact of Covid-19 on colleagues' wellbeing, with the majority of occupational referrals being related to mental and emotional wellbeing. In order to support our colleagues, we have continued to train mental health first aiders and provide specialist counselling support services to those colleagues who have required support. In addition, health campaigns and specialist support groups have been established to promote health lifestyles in line with public health agenda.

Process safety

The maturing of our approach to process safety continues and is reflected in our performance of zero process safety tier one and tier two incidents. Last year we established a five-point plan covering the (i) control and assessment of major process safety risks, (ii) competence of operators, (iii) implementation of leading process safety indicators, (iv) implementation of process safety management framework and (v) delivering a program process hazards review for legacy assets. Collectively this controls process safety risks throughout the lifecycle of the asset. This is overseen by the Process Safety Strategy Group chaired by the HSSE Director, who in turn reports annually to the Safety, Health and Environment (SHE) Committee.

Safety leadership

Safety is set by the tone from the top and one of the areas that is measured closely by the leadership team. Outside the measurable performance in this area reflected in the table above, we have delivered a Board and executive level workshop on safety culture and have established an executive level Committee for HSSE, chaired by the CEO to ensure that issues can be raised and resolved at a senior level. This complimenting the work of the SHE Committee.

Public safety

At the forefront of our mind is public safety, a wide area of activity which spans from when a customer calls one of our contact centres, when our colleagues are operating on public highways, and to when visitors attend one of our scenic reservoirs. In the past year we have established a Public Safety Strategy Committee that consists of senior leaders within the business to ensure that we are doing all we practically can to safeguard the public.

As such, the group looks at topics such as safeguarding vulnerable customers, ensuring our facilities have the necessary protective measures, as well as education and campaigns to inform the public of potential hazards. We currently are looking at developing leading performance indicators to measure and ensure that we are continuing to deliver.

Contractor safety

We have made great strides in our vision of 'One Yorkshire Water', with increased engagement with our contract partners both with our capital and service delivery world. We have established a regular cadence of meetings with our partners so they can share best practices with other parts of the business. In the last year we have made a focus on reporting and learning from incidents, so as to prevent future incident from recurring. We placed a specific lens creating clarity in relation to contract and vendor management to ensure that our partners understand our expectations in respect to safety and that our Yorkshire Water colleagues understand their commitments to ensuring that our partners operate safely.

Our approach to safety

In line with our safety strategy each year, we review our safety improvement plan so make sure we are driving continuous improvement through learning. The plan set out key milestone deliverables for focus areas such contractor safety, process safety, occupational health, occupational safety and security. This year we delivered all major milestones of the plan that in turn has contributed to our strong performance. In the coming year we will continue to focus on process safety and contractor safety and embed the work that has been done, whilst placing a greater focus on engagement with our colleagues to learn from them.

Our colleagues

Our key measures

Measure	Units	2021 Actual	2022 Target	2022 Actual	2023 Target
Staff turnover – voluntary leavers	%	5.02	<10.00	10.2	<10.00
Competency and progression – internal promotions and moves	%	15.31	15	18.48	16
Diversity & Inclusion – Proportion of workforce who are female	%	32.16	36	32.23	36

Working ethically and respecting human rights

8 DECENT WORK AND ECONOMIC GROWTH

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

Our human rights policy recognises international human rights, as set out in the Bill of Human Rights and the principles described in the UN Global Compact. The policy can be found on our website at: yorkshirewater.com/attachments/human-rights-policy. It is a fundamental policy of Yorkshire Water to conduct its business with honesty and integrity and in accordance with the highest standards of ethics, equity and fair dealing. Our Code of Ethics was relaunched in the year and includes our policies on anti-corruption and anti-bribery. This has been accompanied by mandatory online training for all of our colleagues to ensure everyone understands the ethical standards that we expect of our people. We have taken steps to assure there is no slavery or human trafficking occurring within our organisation or its supply chains. Our Living Wage accreditation ensures all employees are paid over and above statutory wage levels. We also embed contractual requirements throughout our supply chain activities and check compliance through a range of assurance controls, including the requirement that all suppliers will abide by our Living Wage Commitment. In compliance with the Modern Slavery Act 2015 we publish an annual statement on our commitment to the issue. Our latest statement can be found on our website at: yorkshirewater.com/about-us/our-policies/modern-slavery-act/

Ensuring responsibility throughout our supply chain

We are committed to promoting a supply chain that delivers the long-term provision of great value and highly resilient services to our customers. Our ambition is to work in collaboration with our suppliers to responsibly address current and emerging social, economic, and environmental challenges, both locally and globally. Poor labour practices have the potential to exist in all supply chains, both overseas and within the UK. All new supply contracts and purchase order terms oblige our suppliers to comply with the Modern Slavery Act 2015, including the abolition of human rights abuse in all its forms. We will continue to work with our supply chain to ensure compliance with relevant legislation and seek to improve labour practices. We partner with external experts to help us to understand the parts of our supply chain that represent the greatest risk, and work with them to gain assurance that poor practices are not in place.

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

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

Attracting great people and maintaining the skills we need

We recognise that our people are our most important assets and it is key to attract, retain and engage top talent with the skills we need to make our workforce resilient, to ensure our success, both now and in the future.

It is noted in the key metrics table that 2021 saw a lower turnover of staff which was largely due to the uncertainty around Covid-19, as restrictions have eased and with external economic pressures, we have seen an increase in employee turnover levels this year. However, the 2022 levels are more reflective of pre-pandemic rates. Our people strategy and supporting programme of change will transform the way we develop our people through a range of initiatives, developing talent programmes and rewarding our colleagues with great and flexible working environments, fair wage, and reward package.

In 2021 we have:

- 164 apprentices, 31 who have been brought in externally and the remaining 133 existing colleagues;
- 24 graduates over two cohorts currently in our programme;
- Taken the opportunity from the Government's 'Kickstart' scheme which provides funding to employers to create jobs for 16-25 year olds on Universal Credit. We currently have 26 individuals on this programme;
- Seven colleagues in our 'T-level' programme. The 'T-level' programme is similar to an apprenticeship, however, they spend most of their time in the classroom as opposed to learning on the job;
- Continued investment in social recruitment channels, utilising social media tools to attract a wider and more diverse talent pool, allowing us to reach candidates more readily and enable talent to understand our company culture. This improves our candidate pools and expands our talent pipelines;
- Continued use of online tools to assess and interview colleagues virtually;
- Continued on-the-job assessments for operational colleagues, which are aligned to the technical competency framework allowing us to develop, retain, recruit a skilled workforce;
- Continued operational front line and management onboarding and induction plans that provides critical skills and knowledge to help new colleagues succeed in their role. This has meant we can integrate new employees into the company and help them to understand the systems and procedures followed by the organisation. New employees settle down quickly in the new work environment and the support enables them to flourish in their role; and
- Continued with our commitment to diversity and inclusion with investment in various programmes, more detail of this is given in the Equality, diversity and inclusion section below.

Equality, diversity and inclusion

We are committed to providing an equitable, diverse, and inclusive (ED&I) working environment. This is integral to delivering our Five Big Goals and our vision of **'Putting people at the heart of everything we do'**. We know that an effective ED&I approach is imperative in maintaining successful performance and ensuring equity of opportunity amongst all existing and future employees.

Below we provide diversity statistics for the current and prior period:

Gender	Male		Female	
	2022	2021	2022	2021
Statutory directors	7 70.0%	9 81.8%	3 30%	2 18.2%
Senior managers	30 68.2%	27 67.5%	14 31.8%	13 32.5%
Remaining employees	2,856 73.8%	2,879 74.3%	1,012 26.2%	995 25.7%

Ethnicity	White		BAME		Not disclosed	
	2022	2021	2022	2021	2022	2021
Statutory directors	10 100%	11 100%	0 0.0%	0 0.0%	0 0.0%	0 0.0%
Senior managers	27 61.4%	29 72.5%	2 4.5%	2 5.0%	15 34.1%	9 22.5%
Remaining employees	2,274 58.8%	2,501 64.6%	187 4.8%	206 5.3%	1,407 36.4%	1,167 30.1%

This supports target 10.2 to empower and promote the social and economic inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

In note 4 to the **Financial Statements** we disclose figures relating to a total of 3,931 employees who were employed based on monthly averages throughout the financial year. The figures stated in the tables above relates to the number of employees at 31 March 2022. Both approaches are accurate and are provided in the format stated by the relevant regulatory requirements.

Like many companies in the water sector, historically we have had a predominantly white male workforce. We continue our focus on improving our diversity across genders, LGBT+, race, disability, social background and more, to better reflect the communities we serve. We are currently reviewing our targeted data-led approach, that underpins our strategy to better inform us on where we need to move the dial on ED&I. Examples of activities we are doing in this area are:

- We have recently appointed an experienced ED&I manager;
- We are reviewing our ED&I strategy and look to ensure ED&I is embedded in everything we do across our business;
- We have worked to integrate the improvements identified in the last review of our recruitment process to ensure it is supportive of difference and inclusion;
- Continuing to publish Our Workforce Diversity Report, as well as the Ethnicity and Gender Pay Gap reports. Together they capture in detail our data and the activities we have taken geared towards ED&I in our business;
- Our business disability forum has launched, and a clearer centralised process has been created to enable our people to quickly receive any support they need;
- We monitor progress, using quantitative and qualitative data to highlight where barriers exist, show the impact of our interventions, and make appropriate adjustments where needed. We also use employee surveys to evaluate initiatives, to assess if policies are working for everyone, and to provide a platform for feedback and improvements;
- We have continued our investment in our Leadership programmes and a commitment to ED&I education. We ensure that our leaders are upskilled on mental health and have mandated eLearning courses covering issues across ED&I including Unconscious Bias and Trans Awareness; and
- We recently introduced an auto-signature template which includes preferred pronouns, and four employees participated in a ten-week training program covering LGBT+ issues in the workplace.

Our programmes

This supports target 5.5 to ensure women's full and effective participation and equal opportunities for leadership

- Our Women in Leadership programme, for those future leaders looking to progress to senior leadership or operational roles – ten more women entered the programme in September last year. There is a strong network between the alumni, and 60% of attendees since 2017 have either moved up, sideways or improved their career prospects within the business.
- Our Black, Asian and minority ethnic (BAME) Leadership programme, for those future leaders looking to progress to a band three management role or above. We have had three cohorts completing the course so far since 2019, and 60% of our people from the 2019 cohort have either moved up or sideways within the business. These cohorts also form a strong network within the business.
- We work with the Trade Union Congress (TUC) and trade unions, to provide career support and employment to young people (age 16–25 on Universal Credit) as part of the Government's 'Kickstart' programme.

External relationships

These activities look to improve the attraction, recruitment, development, and promotion across all areas of diversity in Yorkshire Water and further drive inclusion:

- Business Disability Forum membership – which gives all our people access to an advice service with support for any matters around disability and provides managers with a range of support and guides to assist their teams with disability.
- Lighthouse Futures Trust Partner – which supports children and young adults on the autistic spectrum. We run supported internships for students with an autistic spectrum condition. In the first year, five out of the seven secured further opportunities within Yorkshire Water. We currently have eight people from the Lighthouse Trust who joined us in 2021 as interns and continue to enjoy their roles with us.
- We are a part of an employer's forum supporting internships and employment for students with autism across the region.
- Yorkshire Diversity Forum – with approximately 70 members, businesses from across Yorkshire come together on a quarterly basis to discuss best practice around ED&I. This allows us to benchmark progress against other organisations and explore what others are doing to adopt and adapt ideas where appropriate.
- We continue to participate and share in partnership learning within the Energy Utility Skills partnership and, together with other members, we are part of the wider inclusion commitment.
- We play a key role in the Leeds Anchor Institutions network and are part of the Social Mobility Business Partnership.

We will continue to proactively monitor and report on all this work. Our aim is to put people at the heart of everything we do, to create an environment that appreciates difference, is inclusive and where everyone can feel free to be their authentic selves.

Gender pay gap

We started reporting information on the gender pay gap in 2015. Since then, we have seen the development and implementation of The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 and we have published our gender pay gap data in line with the Regulations, as summarised below. The most recently published data is for the 5 April 2021 and is included for information below. Data for 5 April 2022 is expected to be published later in 2022. Further information about our gender pay gap and the action we are taking to address it can be found on our website at: yorkshirewater.com/careers/working-for-yorkshire-water/diversity-inclusion/

Pay and bonus gap

Year	Mean Hourly	Median Hourly	Mean Bonus	Median Bonus
2021	4.1%	5.7%	(3.4%)	0.0%
2020	(0.5%)	(0.3%)	(6.3%)	0.0%

Receiving bonus

Year	Females	Males
2021	88.3%	93.9%
2020	91.2%	93.5%

Pay quartiles

Year	Top Quartile		Upper Middle Quartile		Lower Middle Quartile		Lower Quartile	
	Female	Male	Female	Male	Female	Male	Female	Male
2021	22.9%	77.1%	24.1%	75.9%	21.5%	78.5%	33.0%	67.0%
2020	23.8%	76.2%	22.7%	77.3%	19.5%	80.5%	26.0%	74.0%

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

Both the mean and the median pay gaps in 2021 have seen an increase from the respective 2020 figures. A change in the demographics of some specific parts of the company, and the impact of the Covid-19 pandemic on payments included in the April 2020 data, are largely behind this increase in the gap. Although they have increased very slightly from 2020, they remain lower than those seen in most of the previous reporting years, and well below the national average.

Ethnicity pay gap

Our Ethnicity pay gap data for 2021 is summarised below:

	Mean hourly pay		Median hourly pay	
	2021	2020	2021	2020
General pay gap	3.6%	(8.8%)	9.6%	2.1%

In 2021, the mean ethnicity pay gap has narrowed towards equality of 0%, down from (8.8%) to 3.6%, but the median ethnicity pay gap has increased from 2.1% to 9.6%, with both the pay gaps favourable for white colleagues. Relative to the total number of colleagues across the population covered by the 2021 data and, who disclose their ethnicity, there is a proportionately greater representation of BAME colleagues in our most senior pay band and our most junior pay band. Conversely, this pattern of representation is reversed for the pay bands in between which covers the majority of the professional and senior management population. As a result of this, there is a difference between the mean and median pay gap figures for 2021.

There has been an increase in proportion of colleagues who have not disclosed their ethnicity and hence are not included in the pay gap calculations. This is predominantly due to a change in process for capturing diversity data for new starters. With the development of the broader approach to ED&I, this must help focus the business on reducing this gap based on a greater disclosure rate.

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

Our customers

We've continued to deliver on our Customer Experience strategy with the intent to become "one of Yorkshire's most customer and colleague valued organisations". This recognises that our household customers are unable to choose other water companies, and so should really value the experience when comparing us with other organisations they do choose to deal with.

The strategy also helps us deliver on Ofwat's measure of service, the Customer Measure of Experience (CMEX), which is an industry comparability measure of performance. This measure not only assesses a customer's service experience but is equally weighted with a broader survey of their overall perception of Yorkshire Water as a brand. This makes it even more imperative that we're living up to our customer expectations every day. Our final CMEX score has fallen compared with prior year and was one place behind our target. We are preparing a detailed insight review to understand how our performance can be improved.

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

This year we've focused on equipping colleagues across the business with the support they need to deliver on our promise to customers. This has included many improvements delivered through our agile change framework such as enhanced online payment, metering and account management journeys and developing our online incident map to show customers bursts and leaks that have already been reported to us. We have completed the redesign of the website to better help customers to find the information they need, and the work was awarded 'best use of digital in energy and utilities' at the Digital Impact Awards 2021.

We've also been investing in colleague capabilities by equipping them with the right skills and knowledge through our new promise training framework and by introducing a new operating model in our customer management centre aimed at being set up to recover customers when customer experience is not at the level we aspire to be at. Our billing centre (Loop) were awarded the 'gold' standard for Investors in People in 2021.

This supports target 9.1 to develop equitable access for all to quality, reliable, sustainable and resilient infrastructure

We have experienced higher than normal volumes of customer contacts in billing as customers are anxious about the cost of their bills in relation to increased consumption during the pandemic, as well as the rising costs of living. We've also seen high volumes of water and wastewater calls particularly around weather events such as the winter storms.

This increase has put pressure on both colleagues and our existing digital channels and reinforces the need for future investment in our digital customer experience to better manage the customer demand.

We have been unable to grow our Priority Services Register at the rate originally hoped due to issues with data sharing and General Data Protection Regulation (GDPR). Despite this, the Priority Services Register satisfaction score has outperformed its target, demonstrating that we are meeting the needs of those customers in vulnerability.

Developer Services have made significant progress with the performance transformation required to improve the Developer Services Measure of Experience (DMEX) score and provide a better platform for development growth in Yorkshire.

Whilst our DMEX ranking has dropped to 17th, we are in a strong position to Improve on this in 2023 and are working towards a target of 14th in the next financial year. In addition, our gap sites performance has improved to a position where we are on target for the PC.

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

- Delivering simpler customer journeys by introducing new standards as part of our business transformation programme and assurance framework, driving digital transformation with improved channel capabilities, and implementing a stronger incident response policy that prioritises vulnerable customer needs.
- Making a difference to customers through a new operating model in the customer management centre and embedding a performance excellence culture to drive focus on performance and efficiency.
- Supporting colleagues with the skills needed to deliver for customers through the next phase of our Promise Academy training plan.
- Being a strong advocate of our customers' needs, working closely with Consumer Council for Water (CCW), Water UK and our partners to collaborate on affordability, vulnerability and service issues.

Our key measures

Measure	Units	2021	2022		2023
		Actual	Target	Actual	Target
Customer Voice	Score	4.67	4.7	4.53	4.6
CMEX	Ranking	8th	9th	10th	9th
DMEX	Ranking	16th	16th	17th	14th
Priority Services Register	No. of customers on the register	77,395	>90,000	88,702	169,725
Priority Services Register	Customer satisfaction %	91	84	80	88
Gap sites	%	60	>83	82.8	>86

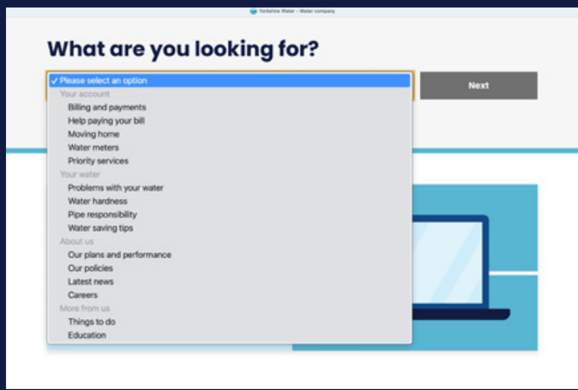
Best use of digital – website redesign

DIGITAL IMPACT AWARDS EUROPE 2021 WINNER

In 2021, we rebuilt the Yorkshire Water website with a focus on helping customers to find what they need from us with as little effort as possible. Most of our customers do not visit our website on a regular basis, so it is essential that the experience is simple, with prominent signposts and straightforward language. To achieve this, we rebuilt the navigation from scratch and carried out thorough accessibility testing to ensure the design was inclusive. We adopted a model of asking the customer why they've come to the website and then only showing them relevant information for that task.

Since launch, we've seen thousands of customers find their way to the right information or tool on our website every month, who would've otherwise resorted to calling us or reaching out on social media.

The work to improve our online experience was recognised at the Digital Impact Awards with a Gold Award for 'Best use of Digital from the Energy and Utilities Sector', a fantastic achievement that is testament to the improvements delivered for our customers.



4 QUALITY EDUCATION

This supports target 4.7 to ensure that all learners acquire the knowledge and skills needed to promote sustainable development

Communities

Supporting communities through education and volunteering

Our education programme supports delivery of our core business strategy, through provision of diverse content drawn from the breadth of services we provide. The programme provides key opportunities for us to engage with our customers from an early age, helping them to understand the value of what we do, learning about safety around water, and exposing them to new opportunities for their own futures.

As well as creating social value through education, these early interactions with our customers also give us multiple business benefits. These include helping us to build trusted relationships with students and their families, and to benefit from water efficiency and 'what not to flush' behavioural change. Sessions can also inspire them to forge careers, either directly in our workforce, or in roles that help to address skills shortages in the industry more broadly.

The programme has continued to evolve during the Covid-19 pandemic, and we now offer a range of face-to-face, virtual and online programmes to both primary and secondary audiences. We run many of our face-to-face sessions from our dedicated education centres at our treatment works and at our nature reserve at Tophill Low, giving students the opportunity to benefit from learning outside the classroom. Our treatment works programmes include learning about the value of water, the water cycle and our water and sewage treatment processes. Those at Tophill Low focus on the importance of water to wildlife and nature with our 'Life on the water' and 'Life underwater' sessions.

Since September 2021, our education team have also been working in partnership with Living with Water to build understanding across Hull and the East Riding about the threats and opportunities water brings to the region. The Living with Water Community Hub is a one-of-a-kind facility providing an inspiring and interactive space for schools, students and the wider community. This 'wet lab' is a hands-on space designed to educate people on water cycles and flood risk in the area. Our education sessions here include showcasing sustainable drainage solutions (SuDS), learning how to register for flooding alerts and staying safe during flooding events.

During 2022, our education programme reached a total of 21,354 students and adults and delivered 25,446 hours of education. Under the requirements for our education PC, where feedback was required from attendees, we reached 18,667 students and adults and delivered 22,576 hours of education. One highlight of the year was our virtual water safety day, where we delivered live virtual assemblies to over 8,000 young people and teachers. Water Safety live events are now embedded throughout our educational calendar alongside our popular 'Ask the Operator' events.

This year, we have also continued to expand our careers offering, providing live assemblies to schools across the region. October 2021 also saw the return of our Industrial Cadets work experience programme, which this year focused on leakage and water conservation.

As part of our Big Ambition to put people at the heart of everything we do, our 'Give Back Bring Back' policy allows colleagues up to four working days per annum to get involved in community-based volunteering. Our programmes focus on four main themes which are directly linked to our business: education, environment, customers in vulnerability and employability. This volunteering benefits not only the organisations and people we support, but also our colleagues as they get the chance to use their experience in new situations, develop new skills and learn about the communities we serve across the region.

6 CLEAN WATER AND SANITATION

This support targets 6.1 and 6.2 to achieve universal and equitable access to safe and affordable drinking water, sanitation and hygiene for all

Supporting WaterAid – Our long-standing charity partner

We continue to support WaterAid to help bring clean water, decent toilets, and hygiene to communities in Ethiopia. This year we have supported their 20 Towns Capacity Building Project which focuses on strengthening urban water, sanitation and hygiene capacity. Now entering its second phase, WaterAid Ethiopia continues to build on their foundations, currently reaching 44 small and medium-sized towns across four regions of the country. In January 2022, we were delighted to learn that our colleague, David Rose, who was instrumental in our work with the 20 Towns project, has been awarded the President's Award for Outstanding Contribution to WaterAid.

Over the past 12 months, whilst the majority of our fundraising activities have been curtailed due to the Covid-19 pandemic, we have taken the opportunity to explore new options for fundraising and linking our work to our Six Capitals reporting structure. This year, our WaterAid payroll giving programmes raised over £39,900 through the charitable giving of colleagues and past employees.

Bathing waters: coastal & inland

To build on our £110m AMP5 investment into improving bathing water quality on the Yorkshire Coast, Yorkshire Water is continuing to work in partnership with Scarborough Borough Council, East Riding Yorkshire Council and the EA as part of the Yorkshire Bathing Water Partnership.

In 2019 we launched our 'Do your bit' campaign in Scarborough South Bay and have over the last year, in preparation for the 2022 season, extended this campaign across Yorkshire's beaches. The campaign seeks to engages beach users and encourage them to get involved with keeping their coast beautiful.

'Fin the Fish', installed in partnership with Scarborough Borough Council and the University of Hull, is both a sculpture and receptacle for recycling plastic bottles. Fin is an integral part of enabling beach users to safely recycle their single use plastics, as well as encouraging them to safely collect disused plastics from the beach and make a 'my plastic pledge' to reduce single use plastics.

UK's First Riverine Bathing Water

In December 2020, the River Wharfe at Ilkley was designated as the UK's first riverine bathing water. Throughout the summer of 2021, we carried out a monitoring and modelling project to help us understand the water quality in the river and identify the different sources of bacteria which can impact on the bathing water.

We installed a number of water quality monitors within the river, a flow monitor and carried out bacteria sampling as well as working with local citizen science groups.

Based on our modelling results, we are working to apply enhanced disinfection measures to the final effluent at Grassington, Draughton and Beamsley sewage treatment works, much like the measures taken on the coast, to reduce the impact on water quality.

We have also upgraded the screening mechanisms at Rivadale View Storm Overflow which discharges into the bathing water. Further work is underway to look at rerouting the sewer network in some areas of Ilkley. This will reduce the number and volume of spills into the popular bathing water stretch. We have also been working with Bradford Council, the Yorkshire EA and the Integrated Catchment Solutions Programme (iCASP) to look at the infiltration of surface water into the sewer network from Ilkley Tarn.

Recently, we have also been carrying out misconnection surveys in a number of the local tributaries in Ilkley and Addingham to help identify some of the sources of bacteria.

A smart network pilot will also start in Ilkley later this year. This will trial using smart monitoring, analytics and control solutions to better understand the sewer network from homes to treatment works and once treated, discharges back into the environment.

Our Five Big Goals

Being great with water

The main SDGs supported in this section are:

Clean water

This supports target 6.4 to substantially increase water-use efficiency

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

The key measures for our water service are noted in the table below. In 2022, the water business has been impacted by seven named storms, with Storm Arwen having a particularly significant impact on water supply interruptions. Underlying performance remains strong with drinking water contacts ahead of target, and the drive for a 15% reduction in leakage successfully completed. CRI was impacted by a few high scoring sample failures, whilst unplanned outages (UPOs) were also higher than planned but maintained the trend towards upper quartile performance. Our performance against mains repairs benefited from improvements in process under the new Water Services Partnership which has performed well in its first year. Achieving reward on our supply pipe replacement commitment brought benefits to customers and leakage during difficult post Covid-19 operating conditions. The improved performance comes from the increased levels of investment in capital maintenance and maintenance activities of the water treatment and distribution assets, as well as improved processes for response and resilience.

Our key measures

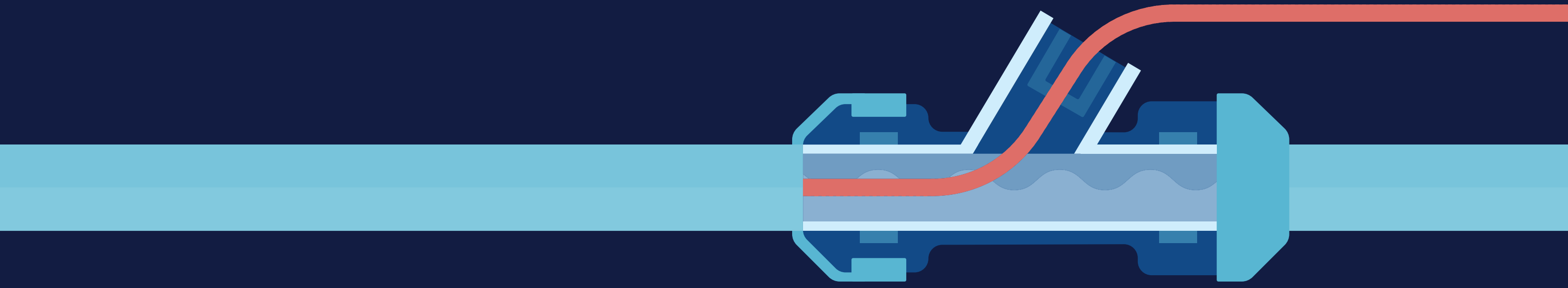
Measure	Units	2021	2022		2023
		Actual	Target	Actual	Target
Asset health – Mains repairs	No. of repairs per 1,000 km mains	215	<183.6	169.8	181
Asset health – Unplanned outage	%	3.87	<4.42	3.82	3.73
Leakage	% reduction	3.5	>7.4	7.9	>9.4
Drinking water contacts	No./10,000 properties	10.5	<10.6	10.9	<9.7
Drinking water quality (CRI)	Score	2.34	0	4.83	0
Water supply interruptions	Mins:secs	07:14	<6:08	10:38	<5:45

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

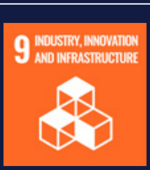
The forward plan has tight regulatory targets for all six measures. We are looking to meet the upper quartile threshold for performance set by Ofwat for UPO and CRI and continue the improvement in leakage across the remaining years of this five-year regulatory period. Significant effort has gone into improving our repair and maintenance performance on the distribution network as our current Water Service Agreement enters its final year. A successful tender process has created conditions for the new Water Services Partnership to further improve service and reduce cost of these activities, which are a significant part of our everyday operational response.

Management of our water resources saw supplies maintained at a healthy position throughout 2022, and also providing the ability to support local flood resilience activities in the Calder Valley.

Fibre in Water



Yorkshire Water has been selected to kickstart the fibre in water market in the UK, with funding from the Department of Digital, Culture, Media and Sport.



This supports target 9.4 and 9.5 to upgrade infrastructure to make sustainable, encourage innovation and upgrade technological capabilities

More than 99% of the UK population is serviced by an underground network of water pipes. Using this existing infrastructure to deploy fibre can provide a cost-effective solution for broadband providers in servicing hard-to-reach areas, whilst the fibre can also be used as a highly accurate leak detection sensor so we can benefit from finding and fixing leaks quicker and be reassuringly reliable for our customers.

Some of the key benefits of this project are as follows:

- It's a greener, quicker, and more cost-effective way of connecting fibre to communities and mobile masts without digging up roads;
- It can help us detect leaks and bursts quicker, operate more efficiently, and lower the carbon cost of drinking water; and
- It would also help us to reach our leakage goal.

Fibre cables have already been laid in water mains in other countries such as Spain, Israel, and the USA, but bringing together the telecoms and water industries through this innovative pilot would be a first for the UK. Our plan is to put the fibre cables into 'messenger pipes'. These pipes will protect the cables and make sure they don't touch the water. The first technology to do this passed testing for use in the UK in 2019, which ensures there isn't a detrimental impact to water quality or customer safety from the materials introduced. The first phase of the project will focus on the legal and technical considerations to make sure it's safe to proceed, before any technology is installed. If successful, fibre-optic cables will then be placed through 17 kilometres of drinking water mains between Barnsley and Penistone, and broadband companies would then tap into the network to deliver connections to up to 8,500 of our customers' homes and businesses along the route.

The project will last for up to two years and, if successful, will deliver a viable, replicable, and tested delivery model for fibre in water which could be rolled out across the UK and beyond.

Wastewater

This supports target 9.4 to upgrade infrastructure to make it sustainable

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

A number of improvements have been made in relation to wastewater performance, which is reflected in most of the measures reported below. Pollution incident numbers are, however, showing an increase, as a result of a change in methodology from the EA associated with third party power failures, and with incidents that are being now classed as "polluting" despite being permitted by the EA to discharge. Yorkshire Water has been discussing these changes with the EA for some time and recommends that greater consistency and clarity be introduced to pollution incident categorisation.

The EA have committed to review the position and have written to the sector with potential changes for 2023. Underlying performance with pollution incidents remains unchanged from 2021, and management are reviewing the pollution incident reduction plan (PIRP) to deliver further improvements in AMP7.

Sewer flooding has improved in Yorkshire in 2022, although it has fallen short of the annual target. This was a result of the three named storms that Yorkshire experienced in February, without which measures would be met. External sewer flooding remains ahead the regulatory target, whilst internal sewer flooding performance despite still improving is still an industry outlier and significant focus is being placed on improving performance to the industry average. The sewer network department has been restructured to allow greater focus on performance in 2023.

Our forward plan has tighter regulatory targets for all three measures again. Our wastewater area is looking to meet the upper quartile threshold for performance set by Ofwat for pollution incidents and continue the improvement across the remaining years of this five-year period. The new PIRP, coupled with greater incident learning and management focus should deliver improved performance. We are investing significantly in sewer flooding through our transformation programme, the benefits of this investment will begin to land in 2023 and will deliver longer term step change improvements. This investment includes 40,000 network loggers to monitor remotely the performance of the sewer network to allow proactive interventions.

Our key measures

Measure	Units	2021	2022		2023
		Actual	Target	Actual	Target
Pollution incidents	No. of incidents per 10,000 km sewer	24	<23.74	27.36	<23
External sewer flooding	No. of incidents per 10,000 km sewer	5,038	<6,809	4,578	<6,431
Internal sewer flooding	No. of incidents per 10,000 km sewer	3.34	<1.63	2.83	<1.58

Our Five Big Goals

Love our environment

The main SDGs supported in this section are:

7 AFFORDABLE AND CLEAN ENERGY | 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE | 10 REDUCED INEQUALITIES | 11 SUSTAINABLE CITIES AND COMMUNITIES | 13 CLIMATE ACTION | 15 LIFE ON LAND | 17 PARTNERSHIPS FOR THE GOALS

Catchment management

13 CLIMATE ACTION

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

Our estate covers around 28,000ha of land across Yorkshire, the majority of which surrounds our reservoirs in the west of the region. We manage this land primarily to ensure a reliable and clean supply of water for our customers, but also work with our farm tenants and other partners to provide further benefits for flood management, recreation, farming, wildlife, and carbon storage.

Examples of ongoing work in this area include expanding our woodland estate through an ambitious tree planting programme, restoring substantial areas of peatland, creating pollinator superhighways to improve wildlife diversity, and introducing biosecurity facilities at our reservoirs to counter the spread of non-native invasive species.

Nature-based solutions

Traditional hard engineering solutions are often associated with negative environmental impacts due to their high use of energy and raw materials. To ensure we are able to achieve our goal of net zero by 2030, we have begun to trial the use of nature-based solutions to treat wastewater and reduce the risk of flooding.

This year saw the opening of our first integrated constructed wetland at Clifton in South Yorkshire, which uses more than 24,000 plants to create an innovative, low-carbon approach to treat wastewater to a high standard before returning it to the environment. In contrast to a traditional treatment site, the wetland requires no onsite chemicals and has extremely low operational energy and carbon costs, in addition to delivering a net increase in biodiversity. We anticipate that this site will act as a template for similar nature-based solutions in future, with a further six treatment wetland projects now underway across the region.

We are also working to trial the use of nature-based solutions to reduce flood risk to downstream homes and businesses. For example, in collaboration with the National Trust and other organisations we have installed hundreds of 'leaky dams' in the Calder Valley in West Yorkshire. These small wooden structures act to slow the flow of water during storm events, which reduces downstream flood risk and can also help alleviate pressure on our wastewater network and the operation of storm overflows into watercourses.

Energy & Carbon

Reducing our energy use and associated greenhouse gas (GHG) emissions continues to be a priority for us as we work towards our target of net zero operational emissions by 2030. Our energy and carbon reduction efforts span all areas of our business, from increasing our own renewable energy generation capacity to encouraging a shift towards electric and more efficient company cars.

Our energy efficiency measures are focused on improving site efficiency for our major treatment processes and on improving pumping efficiency throughout the business. Pumping currently makes up a significant proportion of our electricity consumption and projects are underway to introduce newer technologies and optimise our control philosophies. The majority of our sites have smart meters allowing us to collate, analyse and optimise our electricity usage across the day and to circulate daily consumption reports targeted for specific sites. To complement our energy efficiency work, we aim to reduce the amount of electricity imported into our sites by maximising our self-generation capacity, particularly from our anaerobic digestion and combined heat and power (CHP) plant, with a multi-site solar programme under development. Our solar programme will start later this calendar year and we plan to have 28 sites in place by 2025.

We are continuing to work with academia and industry to grow our scientific understanding of emissions in the water industry and develop ways to improve our asset operations to minimise their emissions. Ongoing work over the past year on sludge digester optimisation with the University of York and on methane and nitrous oxide emissions with our strategic partners, Stantec, have been particularly promising. Another area we feel has great potential to reduce carbon emissions is the use of smart networks. These are interconnected devices such as smart customer meters, flow meters and acoustic monitors that together can improve our service to customers by reducing leakage and bursts and improving overall operational efficiency. In 2021 we finished a 12-month pilot scheme across Sheffield that involved approximately 3,500 smart meters. Over the duration of the trial, we reduced visible leaks in the trial area by 57% and reduced mains bursts by 28% compared to the year before the trial. Being able to pre-empt and target repair jobs also resulted in a 41% reduction in vehicle movements, leading to a saving of approximately 1,200 kgCO2e. We are now planning to expand the smart networks concept to other areas of Yorkshire and expect this to lead to further energy and emissions savings as a result.

You can read more about our net zero strategy on our website here: **yorkshirewater.com/environment/climate-change-and-carbon/our-carbon-strategy**. The key areas of our net zero approach are:

1. Carbon resilience;
2. Carbon reduction through efficiency;
3. Carbon reduction through renewables and green fuels;
4. Improving carbon storage; and
5. Forming key partnerships.

Table 1: energy performance

Fuel use, GWh		2021[1]	2022
Grid electricity		536	530
Renewable electricity* (generated and consumed)		81	93
Diesel		72	60
Gas Oil		30	34
Kerosene**		-	-
Natural gas		9	12
Petrol		2	2
Total		**730**	**731**
Intensity ratios	kWh per megalitre of water supplied	693	706
	kWh per megalitre of wastewater treated	605	630

* We are not currently able to report the amount of renewable heat that we generate and consume.

** Only trace amounts of kerosene are used.

[1] Prior year numbers have been restated to disclose renewable electricity generated and consumed separately, and to reflect our revised intensity ratio methodology.

We are continuing to work towards achieving our regulatory PC for operational carbon emissions set by Ofwat, which you can read more about in our APR for this year. This commitment requires a reduction in our operational emissions by a minimum of 12% by 2025 from a 2020 baseline. In order to ensure comparability with other organisations within the water sector, we use the water industry standard tool, the Carbon Accounting Workbook, to calculate our emissions. We expect this workbook to be made publicly available in due course. We also obtain external verification over our input data to the workbook, aligned with the ISO14064 greenhouse gas reporting standard. Our reporting approach uses both 'location-based' and 'market-based' methodologies. Under a location-based approach, we use standard emission factors published by the UK Government or other bodies. Under a market-based approach, we use supplier-specific emission values which reflect our procurement decisions. We purchase all our grid electricity on a certified zero-carbon tariff, which means under a market-based approach these emissions do not contribute to our carbon footprint as they are backed by renewable sources. For the first time this year, we also purchased green gas certificates, equivalent to our natural gas use, backed by certified UK-based renewable sources.

7 AFFORDABLE AND CLEAN ENERGY

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

Scope 1 emissions are those we directly release to the atmosphere, for example from burning fossil fuels on our sites, driving fossil fuel powered company vehicles, and releasing gases during treatment processes. In line with the Carbon Accounting Workbook, this does not currently include emissions from our land.

Scope 2 emissions are those indirectly released to the atmosphere through our purchase of electricity, primarily to pump and treat water and wastewater.

Scope 3 emissions are other indirect emissions. In line with the Carbon Accounting Workbook 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.

Our GHG emissions and energy performance for the 2022 financial year are detailed in the tables below, as well as last year's performance data for comparison.

Table 2: GHG emission performance

Measure	Units	2021[1]		2022	
		Market-based	Location-based	Market-based	Location-based
Scope 1	kt CO_2e	87	87	86	88
Scope 2	kt CO_2e	0	125	-	113
Scope 3	kt CO_2e	10	21	8	18
Total GHG emissions	kt CO_2e	**97**	**233**	**94**	**219**
Intensity ratios	kg CO_2e per megalitre of water supplied	6	183	73	171
	kg CO_2e per megalitre of wastewater treated	119	216	228	212

[1]Prior year numbers have been restated to (i) reflect the latest version of the water sector Carbon Accounting Workbook; (ii) reflect our revised intensity ratio sludge measurement methodologies; and (iii) to reflect transmission and distribution losses under the terms of our certified zero-carbon tariff.

Note that the figures listed above are calculated using the relevant emission factors for the corresponding year. For our regulatory PC target of 12% reduction between 2020 and 2025, we use fixed emission factors and methodologies to show the reduction against our baseline attributable to performance gains, rather than as a result of changes to the carbon intensity of the underlying grid. Further details of our PC can be found in our APR, at: yorkshirewater.com/about-us/reports/ Greenhouse gas emissions from combustion of biomass and biomass-derived products for the year are 64 kt CO_2e (2021: 44 kt CO_2e).

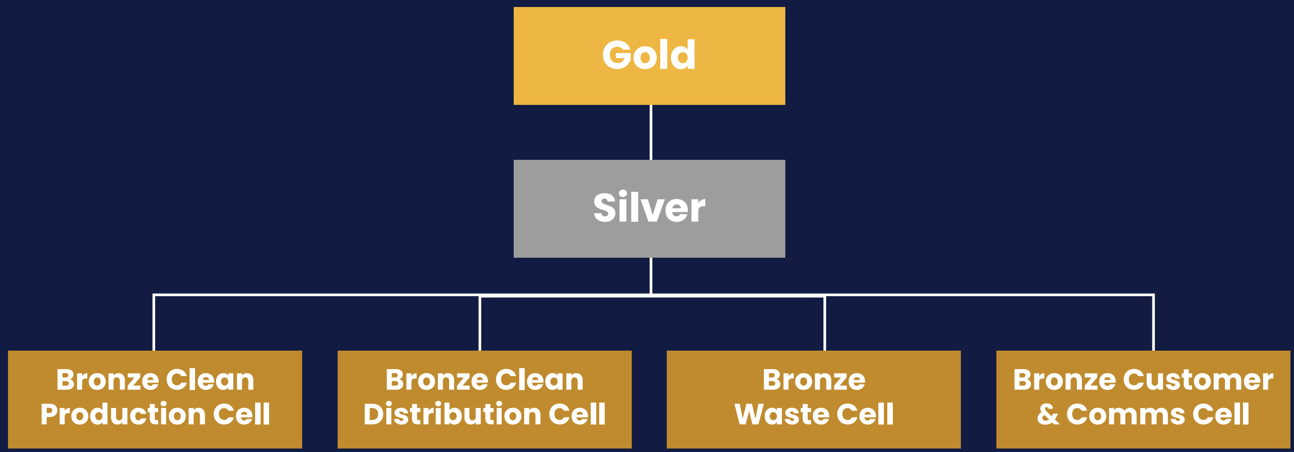
Climate change resilience

In recent years the prevalence of significant storm events disrupting utility services within Yorkshire has increased. Between November 2021 and March 2022 several storms (Storm Arwen, Barra, Malik, Corrie, Dudley, Eunice, and Franklin) impacted the region with high winds and heavy rainfall. The risk to water and wastewater service as a result of these storms included loss of drinking water supply, sewer flooding, pollution and treatment work compliance. Prior to Storm Arwen in November the Integrated Planning and Central Control (IPCC) function initiated the Company Incident Management Plan (CIMP). The severe weather risk was escalated and managed as per our CIMP between Thursday 25 November and Wednesday 8 December to ensure we prepared, responded, and recovered to the best of our ability. The following diagram illustrates the structure of our CIMP framework for severe weather risk.

During this period, 17 Silver and multiple Bronze meetings were held; the coordinated multi-channel response meant that risk could be dynamically managed, and resources prioritised to recover service as quickly as possible.

An essential part of our CIMP is to reflect and learn from any incident and ensure continuous improvement to increase future resilience. Post Storm Arwen, a debrief was held with lesson identified and clear actions documented. The actions from this debrief are currently being progressed and have already led to a review of our incident management plans and procedures.

With the increased frequency and intensity of these storm events due to climate change, the need to respond and recover quickly has led to the strengthening of the wastewater central control function. Within IPCC this has also meant an increased focus on horizon scanning to better prepare for severe weather risks, and the use of telemetry and data to understand the performance of our assets helps to provide insight to enable central risk prioritisation and incident response.



Disclosing our climate change risks and strategy

As early adopters of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) recommendations, we recognise the scale of the climate emergency and its current and future impact on our ability to maintain our services. Our disclosures set out how Yorkshire Water assesses and manages its priority climate risks and opportunities, and how these are governed and reported.

Our most significant climate risks arise from drought, flooding and transitioning our business to net zero. Addressing these risks are a challenge for any business, but as we provide a life critical service to five million customers, the regulatory environment in which we operate presents additional complexity. We need to deliver significant infrastructure investment into our long-life asset-based, high energy-use business at a price Ofwat determines our customers can afford – and we need to do this whilst also responding to rising drinking water quality and environmental standards, many of which have significant carbon impacts.

Governance

Climate-related risks are included in our principal and corporate risk register (see Managing risks and uncertainties) which is reviewed regularly by the Board. A risk appetite has been set specifically for climate and the Board monitor risk against this using agreed key risk indicators. As climate is so significant to Yorkshire Water, the Board's oversight of climate-related risks and opportunities spans several Board committees as well as featuring on the agenda of the main Board. Climate risks are also incorporated into our long-term viability analysis, which is assessed every year by the Board.

The Public Value Committee has primary responsibility for our climate strategy, including our adaptation response and our transition to net zero. This includes consideration of the short, medium and long-term risks and opportunities that we face in relation to climate, given the significant impact of climate change on our services to the public as our key stakeholders. For example, its consideration of the risk of drought and flooding includes oversight of our Water Resource Management Plan (WRMP) and our Drainage and Wastewater Management Plan (DWMP).

The Audit and Risk Committee oversee our risk appetite, tolerance, and strategy, as set out in the Managing risks and uncertainties section.

This has identified 'climate change and carbon transition' as a principal risk for Yorkshire Water and noted its interconnectivity with several other principal risks. The Committee also oversees adherence to our Sustainable Finance Framework, which has specific use of proceeds categories for investment in renewable energy, energy efficiency, clean transportation, and climate change adaptation.

The Safety, Health and Environment Committee and its remit over all our environmental impacts, includes consideration of Yorkshire Water's cultural approach to the environment and embedding the desired culture into decision making across the business. It also advises the Board on tone at the top on all environmental matters. Greenhouse gas emissions by their very nature are inherently a part of this, but so are the changing climate's impact on extreme weather and its contribution to pollution incidents, and internal and external sewer flooding events.

The Nomination Committee oversees the adequacy of the Board and leadership team skill set, leads the process of Board recruitment, and makes recommendations on Board appointments. During the financial year, this has included appointments of Vanda Murray, Russ Houlden and Nicola Shaw all of whom bring experience, knowledge, and skills in relation to climate change.

The People and Remuneration Committee determine the policy for directors' and senior leaders' remuneration. They are responsible for the rules and application of the Executive Incentive Plan (EIP), as a discretionary benefit for all directors and senior leaders. Operational carbon performance constitutes one of the 11 key performance measures upon which reward under the EIP is based.

Alongside this, Yorkshire Water management's role in assessing and managing climate-related risks and opportunities includes embedding climate into our core business strategy, risk management processes and business plan.

This year this has led to us:

- Developing our carbon strategy, setting out our plans to meet net zero operational emissions by 2030.
- Improving our land carbon model to increase our understanding of greenhouse gases emitted and sequestered by our land.
- Updating our corporate flood risk assessment, creating a new visual database to hold all our information about above ground asset flood risk.

- Carrying out a baseline assessment of our customers attitudes towards and knowledge around climate change.
- Embedding climate at the heart of our PR24 planning.

The overarching risk of 'climate change and carbon transition' is owned at executive level by Chris Offer, Director of Strategy and Regulation. Ownership of achieving our net zero targets has transferred to Nicola Shaw from May 2022.

For more information, please see the Governance section.

Strategy

Physical risks

13 CLIMATE ACTION

This supports targets 13.1 to strengthen resilience and adaptive capacity to climate-related hazards and natural disasters

As a water company we are highly dependent on weather and the natural environment for our core services so we have a long track-record of working to understand, in detail, what our weather and climate-related risks are and aligning our strategy accordingly.

We have undertaken detailed climate change modelling assessing the risks to our ability to supply drinking water since the 1990s and have over ten years history of research into the impacts of climate change on the rest of the business.

Our most recent company-wide climate change risk assessment has informed our third Adaptation Report to Defra.

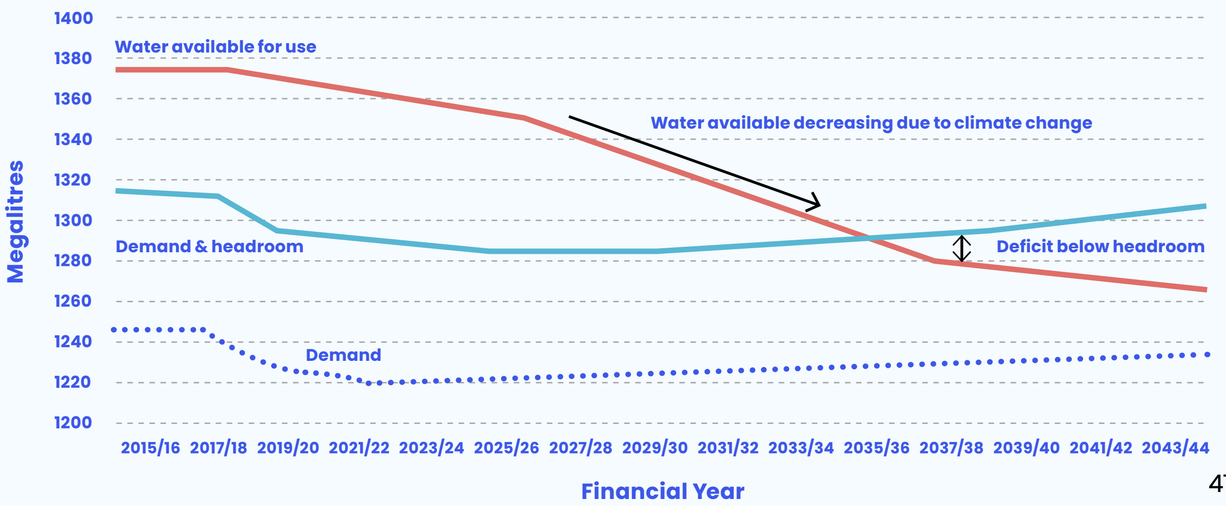
This report, published in October 2021, contains detailed information about how we assess and manage the following:

- Risks to public water supply from droughts and low river flows;
- Risk of sewer flooding in a storm;
- Risks to public health from poor water quality;
- Risks to infrastructure from river, surface or groundwater flooding;
- Risks to infrastructure from coastal flooding and erosion;
- Risks to bridges and pipelines from high river flows, bank erosion or subsidence;
- Risks to natural capital; and
- Risks from cascading impacts.

Our risk assessment considers different time horizons depending on the risk and the availability of risk data. For example, we have modelled our risk of drought and sewer flooding now, in the 2050s and the 2080s. Our Adaptation Report is available online here: yorkshirewater.com/media/51fczixc/adaptation-report-summary.pdf

We have carried out detailed modelling to understand our risk to our two core services (drinking water and sanitation) using the latest available climate change datasets. Our current WRMP (WRMP19) was published in 2019 and covers in detail the investment we will make in the current business planning period from 2020-2025, placing this investment in a 25-year context looking out to 2045.

The diagram below shows the baseline supply demand forecast for 2015-2045 from WRMP19 which this investment plan responds to.



Water resource plans take a balanced approach to risk and, in line with the methodology published by our regulator, use the high emissions scenario from UK Climate Projections 2009 (UKCP09) along with population forecasts and predicted changes to our economy to model future water supply and demand.

WRMP19 is based on a smart sample of 23 of the 10,000 climate model runs available from UKCP09 covering a temperature rise of between 1.6 and 5.3 degrees by the 2080s and predicts a supply deficit volume range, allowing us to adjust our strategy and planning accordingly. Our current WRMP provides our customers with resilience to a one in 500 year drought.

We are also developing a regional pan-company water resource plan in collaboration with Northumbrian Water and Hartlepool Water. This plan will be published in 2023 and looks out to 2085, assessing the risks to future water supply up to a one in 500 year drought.

On the wastewater side, we welcome the industry-led change to place wastewater and drainage planning on the same long-term planning basis as water resources. DWMPs are being developed by all water companies, ours was published on our website in June 2022. These plans model the impacts of climate change, population growth and urban changes such as the increasing trend to pave over front gardens, reducing the amount of permeable surface area and increasing the pressure on our sewer network.

Our sewer network has historically been designed to cope with everyday rainfall up to a 1 in 30 year event. However, increasing urbanisation; climate change; and customers flushing wipes, fats, oils, and greases into our sewers means that the risk of our network flooding is growing. DWMPs aim to understand and manage these challenges over a 25-year timeframe. Our plans for investment to manage the risks identified in our DWMPs will be set out in our next business plan in 2025. Across the 335 wastewater treatment works' catchments assessed, our model predicts a 47% increase in the number of residential properties at risk of internal sewer flooding between 2020 and 2050. This is driven by the impact of future climate change on rainfall along with population growth and urban creep.

As part of our strategic response to flood risk, our Living with Water partnership in Hull and East Riding has progressed well. During the year we have also launched a similar partnership, Connected by Water, focusing on the Don catchment in South Yorkshire. More details can be found in the **Being a good partner** section.

We focus our response to physical climate risks to understand and manage our short, medium, and long-term risks, embed resilience into how we operate, and ensure strong emergency planning and incident management capabilities. We regularly practice for disasters and civil contingencies with local, regional, and national stakeholders including those relating to widespread flooding and power cuts. We are also introducing BS65000 (organisational resilience) compliant policies and procedures. A key indicator of our supply resilience is our ability to maintain services despite these events. This year we have managed services through several major storms including Storms Arwen, Barra, Malik, Corrie, Dudley, Eunice, and Franklin – all of which caused severe power disruption and extensive flooding across the region.

Transition risks

13 CLIMATE ACTION

This supports targets 13.3 to improve institutional capacity on climate change mitigation

Alongside other members of Water UK, we set out our ambition in 2019 to meet net zero operational emissions by 2030. Our principal transition risk is that we may not be able to transition to a net zero operating model at the pace required at a cost the business can afford.

Key contributory and associated financial risks we have identified are:

- Failure to deliver our operational carbon and capital carbon PCs;
- Failure to account for 'locked in' carbon in investment decisions;
- Downward cost pressures leading to insufficient or delayed investment in climate mitigation (and adaptation);
- Business decisions being made for financial, commercial and/or operational reasons without due consideration of carbon impact;
- Evolving science for process emissions creating measurement and performance uncertainty which could lead to failure to meet our operational carbon PC and/or net zero ambitions;
- Failure to accumulate sufficient greenhouse gas sequestration assets by 2030 to 'offset' our residual emissions; and
- Exposure to market price for REGOs and RGGOs (and offsets should we be unable to accumulate sufficient sequestration assets internally).

We have taken steps towards managing these risks including setting out a strategy to achieve net zero operational emissions, embedding climate at the heart of our PR24 planning, accounting for carbon in our investment decision making and developing carbon training. However, our ability to finance our transition at the pace required is highly dependent on Ofwat's response to the climate crisis in future price reviews.

Our net zero strategy focuses on aligning the target with core business decision making; choosing renewable energy and low carbon fuels; electrifying our fleet vans and cars; supporting innovation and new technology; and extending our tree planting and peatland restoration. You can read more about our carbon ambitions and emissions here: **yorkshirewater.com/environment/climate-change-and-carbon/**

Risk management

Our long-term plans for identifying, assessing and managing climate-related risks to our core services of providing drinking water and safely removing and treating wastewater are described above.

We also carry out a significant amount of other risk assessment activity which feeds into our various corporate risk control processes, which is described in detail in the **Managing risks and uncertainties** section in this report. Our company principal risk register contains 11 risks, many of which are related to weather and climate. For example, risks arising from drought and sewer flooding both feature in our principal risk profile.

In addition to oversight by the Board, these risks are each owned by a member of our executive team and are reported against on a quarterly basis, with action plans put in place if risks stray outside of the corporate appetite.

For more detail about our risk and assurance procedures please see **Our principal risks** section. Further details on the processes for assessing and managing our physical climate risks are disclosed in our Adaptation Report at the link above.

Metrics and targets

The key metrics we use to manage our climate-related risks and opportunities are primarily those prescribed by Ofwat. The majority of these have a financial incentive or penalty associated with them.

We have a suite of PCs with associated ODIs that are closely linked to our resilience to physical climate risks relating to both water and wastewater services. These metrics help show how we are managing the impact of weather and climate on customers and the environment and therefore how well we are managing our physical climate risk.

Another notable measure of our resilience to climate change is a long-standing absence of major interruptions to water and wastewater services. Customers in Yorkshire have had no restrictions to their public water service since the drought in 1995. However, the widespread power outages during Storm Arwen led to some customer outages which also affected several of our water pumping stations. This is discussed further in our Being great with water section.

Incentive and penalty exposure for 2021 and 2022 (actual) and remainder of AMP7 (maximum) for the PCs most closely linked to physical risks are as follows:

	Incentives*					Penalties*				
	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m
Water supply interruptions	–	–	6.2	5.9	5.6	(0.9)	(5.5)	(21.1)	(21.6)	(22.0)
UPO	–	–	–	–	–	–	–	(11.7)	(12.1)	(9.3)
Internal sewer flooding	–	–	5.9	5.5	5.1	(9.0)	(10.1)	(18.7)	(24.1)	(30.0)
Pollution incidents	0.2	–	4.4	4.2	3.7	–	(2.5)	(7.9)	(7.7)	(6.7)
Treatment works compliance	–	–	–	–	–	–	–	(52.5)	(52.5)	(52.5)
Significant water supply events	–	–	1.7	1.7	1.7	(10.0)	(7.4)	(7.5)	(7.5)	(7.5)
External sewer flooding	17.0	17.6	23.0	22.2	21.5	–	–	(11.6)	(10.9)	(10.2)
Bathing water quality	–	–	0.6	0.6	0.6	–	(2.5)	(5.4)	(5.4)	(5.4)
Surface water management	–	–	–	–	0.1	–	–	–	–	(0.1)
Living with water	–	–	–	–	–	–	–	–	–	(21.4)
Total	**17.2**	**17.6**	**41.8**	**40.1**	**38.3**	**(19.9)**	**(28.0)**	**(136.4)**	**(141.8)**	**(165.1)**

* Some ODIs are uncapped. Therefore, we have modelled our incentive and penalty exposure using the Monte Carlo method. For consistency, we have reported the P10 and P90 values for incentives and penalties respectively, across all ODIs, unless more reliable information exists to indicate actual outcomes may lie outside of these parameters. Note: the above metrics represent a subset of the full suite of PCs and hence the actuals penalty/reward figures above will not reconcile to the overall ODI performance figure.

As well as our ambition to achieve net zero operational emissions by 2030, we also have several ODIs closely linked to our transition performance. This includes those where successful performance would have a positive impact on the amount of greenhouse gases, we emit from energy use and/or water treatment.

This trend of climate related ODIs is also expected to continue in future AMPs, though details of commitments, measurement methodologies and levels of ambition may change.

We have also paid a climate change levy of £4.0m (2021: £4.2m) in the year.

Further details on our energy and greenhouse gas metrics, targets and performance can be found in our **Energy and carbon** section.

Incentive and penalty exposure for the current year (actual) and remainder of AMP7 (maximum) are as follows:

	Incentives*					Penalties*				
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Operational carbon	0.3	0.5	1.3	1.3	0.7	-	-	(2.2)	(2.7)	(3.3)
Leakage*	0.1	0.2	14.0	13.7	13.2	-	-	(12.6)	(8.2)	(7.6)
Repairing or replacing customer owned pipes*	-	0.1	1.5	1.5	1.6	(1.3)	-	(1.5)	(1.6)	(1.7)
Per capita consumption*	-	-	13.3	13.1	13.0	(1.6)	-	(8.6)	(7.7)	(7.2)
Water recycling*	-	-	0.1	0.1	0.1	-	-	(0.1)	(0.1)	(0.1)
Total	**0.4**	**0.8**	**30.2**	**29.7**	**28.6**	**(2.9)**	**-**	**(25.0)**	**(20.3)**	**(19.9)**

* These ODIs are also a response to physical risk, linked to the risk of drought highlighted by our WRMP. Note: the above metrics represent a subset of the full suite of PCs and hence the actuals penalty/reward figures above will not reconcile to the overall ODI performance figure.

Our Five Big Goals

Being a good partner

The main SDGs supported in this section are:

This supports targets 17.16 and 17.17 to enhance the global partnership for sustainable development and encourage and promote effective public-private and civil society partnerships

Partnership working with Yorkshire's institutions and communities is a central part of our strategy. Throughout the pandemic we have worked particularly closely with local authorities, and we regard ourselves as a public service which happens to be privately owned. As an anchor institution we recognise that collaboration with other anchors of the region's economy and social fabric means that we can maximise our impact and contribute to the inclusive growth of the region. If the region grows, by extension, this creates opportunity for Yorkshire Water to grow.

At a strategic level we have engaged with the Yorkshire Leaders Board to ensure it plays a significant role in the delivery of our business plan for the next price review. The Leaders Board brings together the leaders and Chief Executives of Yorkshire's local and mayoral authorities, so this engagement delivers on the aspiration of the National Infrastructure Strategy for regional elected bodies to help set the priorities for water utilities. The early stages of this process have been very positive, and it has quickly become clear that investment in our network is an important enabler for the growth ambitions of local authorities, particularly with regards to house building. As work on the plan develops further, we expect this engagement to continue and to deepen.

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

Living with water

At a sub-regional level, our most mature partnership, Living with Water, in Hull and East Riding, has now been in place for four years and has provided tangible benefits in improving flooding resilience and incident response. On a tactical level, the four partners, Yorkshire Water, the EA, Hull City Council and East Riding of Yorkshire Council, now collaborate very effectively in planning for and responding to extreme weather incidents. This coordination and the deployment of new blue-green assets (water retention areas) have helped to ensure that Hull has not flooded during the numerous named storms of recent years. On a more strategic level, the Living with Water partners have developed a city water resilience approach and a joint blue-green vision for the city which will be the framework within which future flood resilience investment will be delivered.

Connected by water

This supports targets 15.3 and 15.5 to restore degraded land and soil, reduce the degradation of natural habitats and halt the loss of biodiversity

In 2021, we worked with four local authorities: Barnsley, Sheffield, Rotherham, and Doncaster, as well as the South Yorkshire Mayoral Combined Authority and EA, to form Connected by Water. This is a South Yorkshire alliance which draws on our experience of collaboration in Hull and aims to build flood resilience in the River Don catchment and respond to the climate emergency. The drive for the creation of the alliance came from the impact of the 2019 floods in the catchment and from a clear realisation that resilience needed to be managed on a catchment wide basis, with a single strategic plan and aligned investment from all the partners.

Connected by Water opened a consultation on its action plan in January 2022. This plan is built around four themes: responding to the climate emergency; smart investment; technology and operational management; and community engagement and resilience. The consultation received a very positive response, and the final version of the plan will be published later this year. Discussions are underway with the West Yorkshire Mayor – Tracy Brabin, and other local authorities to replicate this model in the Aire and Calder catchments.

Land anchor network

This supports target 6.5 to implement integrated water resources management at all levels

Yorkshire Water is the second biggest landowner in Yorkshire, and we have known for some time that the management of our landholdings has a significant part to play in water quality, climate response and adaptation and nature recovery. Realising that anything we can achieve on our own will be magnified by collaboration with other institutional landowners, we convened the Yorkshire Land Network to facilitate collaboration in all these areas.

The Network has been supported by the large private estates such as Devonshire, Wentworth and Fitzwilliam, and the Duchy of Lancaster as well as Crown Estates, Church Commissioners, the National Trust and Forestry England. The network has already made good progress in collaborative projects on recreation and is looking to focus on joint land use projects over the next 12 months.

Other partnerships

As part of our Working With Others PC, over the past year we have invested £267,000 in nine projects in partnership with other organisations to tackle our shared challenges. This has unlocked a further £11m of external funding. Examples of projects we have been involved in include:

- Multi-million-pound flood risk management schemes in Otley and Sheffield, which have removed surface water from our network and created new wildlife and public amenity spaces, including daylighting a previously culverted section of watercourse.
- Installation of a new flood education centre at Wilberforce College in Hull through our Living with Water partnership.
- Collaborating with other water companies to support national drought resilience by assessing the biosecurity risks of transferring water across England.

Our Five Big Goals

Keeping services affordable

The main SDGs supported in this section are:

This supports target 1.2 to reduce the proportion of people living in poverty in all its dimensions according to national definitions

We are committed to eradicating water poverty in Yorkshire. The 'Direct Support to Customers' PC aims to provide bill support to our most financially vulnerable customers. We have continued to overperform this measure by exceeding our targeted support on Water Support, our social tariff designed for customers on low incomes, and Resolve, our payment matching scheme for customers in arrears. The voids measure aims to maximise the number of properties billed and is designed to ensure billed income is maximised resulting in lower bills for all customers in future years.

The weighted average voids performance for the full year significantly exceeded target because of changes implemented on identification of occupied properties, this allowed Yorkshire Water to identify and charge more customers. Our performance is now at the 2025 Ofwat-targeted level and ahead of plan.

This supports target 10.4 to adopt social protection policies, and progressively achieve greater equality

In the coming year our customers are anticipated to face growing affordability issues through higher energy bills, rises in National Insurance contributions and rising interest rates. We will continue to offer meaningful financial support to our most financially vulnerable customers. Support will continue to come from our established help schemes through increases in the number of financially vulnerable customers' bills reduced through social tariffs or water meters.

Households across the country have been impacted by rising costs of living, with double digit headline inflation and annual food bills set to increase this year. Yorkshire Water has responded to the cost of living increase, with an additional £15m from the company's shareholders available for support with bills through to 2025. It brings total support for customers to £115m across the five-year AMP. Building on improvements to our voids services, we plan to again exceed the targeted level within the FD next year. Performance at this anticipated level will continue to ensure billed income is maximised, resulting in lower bills for all customers in future years.

Our key measures*

	Units	2021	2022		2023
		Actual	Target	Actual	Target
Voids	%	4.73	≤4.33	3.78	≤4.15
Direct Support to Customers	No. customers	61,406	≥69,000	80,778	≥75,000
Customers agreeing we are "value for money" in an independent survey by the CCW	%	82	81	79	83

* In the prior year Gap sites was reported as a key measure within this section. Last year's APR process resulted in revised reporting definitions of this measure and it no longer being a measure of customer affordability and one of Developer services performance. We have therefore removed this measure from our key measures.

Section 172(1) statement

Yorkshire Water is a privately owned company providing an essential public service.

We live and work in the communities in which we operate, and the vast majority of our employees are also Yorkshire Water customers, as are their neighbours and often their extended families. This creates an even greater responsibility not only to have 'regard' to our key stakeholders, as required by section 172 of the Companies Act 2006, but to always be aware of how our actions impact upon them, both now and in the long-term.

This is reflected in our purpose – 'we're proud to play water's role in making Yorkshire a brilliant place to be – now and always' and our ambition 'to put people at the heart of everything we do'.

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

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

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

We are committed to thinking about the long-term in our decision-making and our impact on Yorkshire, now and always. The decisions we make now will have long-term implications for Yorkshire, particularly in relation to the long-term availability of water which is clearly impacted by the environment, climate change and the demographics and usage habits of the communities we serve.

Focus on the environment – the River Wharfe

The environment is central to all we do at Yorkshire Water. Our approach to the environment affects not just the quality of our water and the amount of water that we may have in the future, but also the people in our communities who want to enjoy the water outdoors as part of their daily lives.

As detailed earlier in this Strategic Report, the River Wharfe in Ilkley is the first designated inland bathing water in England and presents a significant opportunity for Yorkshire Water to work with stakeholders to deliver improvements to river quality, through traditional investment, deployment of nature and community-based solutions and the use of smart technology. The Board has heard a lot about the work ongoing in Ilkley during the year and a number of Board members have visited the site themselves to learn first-hand about the proposed approach. This has influenced much of the Board discussion and the approval of the required investment with a view to learning from this scheme to then roll out the same approach in other areas of Yorkshire to ensure more of our communities can benefit from this work.

At least twice a year the Board considers long-term trends, risks, and opportunities through a 'horizon scan' which is presented to and discussed by the Board. The Board also receives other updates on long-term trends through various Board workshops and deep dives and has considered the long-term strategies for both carbon and energy during the year at the Public Value Committee.

Within the business, the work on horizon scanning feeds into the longer-term strategy for the business, which in turn informs the annual business plan and key decisions being made day-to-day in the business. We publish a WRMP at regular intervals which sets out how we plan to maintain a secure supply of water to all of our customers over the next 25 years. The Board has oversight of the drafting of this plan. The latest version of this plan can be found at **yorkshirewater.com/about-us/resources/water-resources-management-plan/**. The Board has also considered long-term risks and opportunities as part of the scenario planning for our long-term viability (LTV) statement. Each year the Board receives information on the different scenarios considered and challenges the assumptions made to ensure that the scenarios are appropriate and comprehensive..

How does the Board consider stakeholders in its decisions?

Colleagues
The Board receives regular insight into the views of colleagues from the Colleague Engagement Forum, which meets a few weeks prior to each Board meeting. There is an open invitation to all Board members to attend any of the meetings, with nine of the 13 directors who were members of the Board during the year attending at least one Forum meeting in the year under review. The Forum is made up of colleagues from across the business, representing all areas of the organisation, and the agenda is set based on key items due to be discussed at the Board or topics suggested by the Forum members. Forum members are encouraged to be as open and candid as possible and the minutes are made available on our intranet after each meeting.

We also carry out a colleague engagement survey which seeks to understand how our colleagues are feeling about multiple topics. This includes the opportunity to comment on any of the questions being asked.

Focus on our people – The Colleague Engagement Forum

Our Colleague Engagement Forum has met six times during the year and there is always at least one Board director present, with an average of two Board members attending the meetings during the year.

The purpose of the Forum is to provide a direct voice for colleagues to the Board. The Board members at each meeting get to hear directly from the Forum, plus the discussions are carefully minuted and the minutes circulated to the Board with a standing agenda item at each Board meeting to consider the feedback from the Forum.

During the year a 'fix the basics' programme ran which was a direct response to feedback from the Forum, and sought to remove the 'red tape' that can prevent improvements being made quickly across the business to improve efficiency and provide better customer service.

The Forum also had several discussions on post Covid-19 ways of working, and informed the approach adopted across the business for the return to the office.

Our survey in late 2021 had 3,260 responses, including many comments which were summarised and shared with the Board for information. This information has fed into Board discussions on a number of different topics.

Customers and communities
The Board receives monthly performance updates on customer metrics and receives updates from our Director of Customer Experience at each Board meeting. Customer experience and community engagement have also been considered in more depth at the Public Value Committee, which has spent time in the year focusing specifically on our ongoing work in Ilkley in relation to the River Wharfe as a designated bathing water, as well as the reporting of 'Our Contribution to Yorkshire' which will be published in the autumn. 'Our Contribution to Yorkshire' provides customers with insights into how we are contributing to the local economy, the environment, and the community.

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

A new approach to vendor management within Yorkshire Water was discussed in detail at the SHE Committee. The Committee challenged the accountability and responsibility in relation to this and spoke directly to some vendor managers to ensure the new approach was fully understood and operating effectively.

Two partners also attended Committee meetings during the year to enable the Committee members to hear first-hand the experience of working with Yorkshire Water from a health and safety perspective, and how Yorkshire Water might improve its approach to better support suppliers and partners in their work.

Other stakeholders
As a water and sewerage company and an anchor institution in Yorkshire, we have a broad range of stakeholders from a variety of backgrounds, including local authorities, customer bodies, landowners, government departments, environmental bodies, regulators, trade unions and other utility companies.

We have a Corporate Affairs team within the business which is responsible for handling our relationships with our key stakeholders, and which reports regularly to the YWLT and Board on these relationships and the key messages being received from the different stakeholder groups.

Focus on our suppliers and partners – Partnership for Yorkshire

In November 2020 we launched 'Partnership for Yorkshire' which signified a new delivery model for our capital delivery programme. This approach has continued and gathered momentum during the year under review.

The model adopts the 'Project 13' approach and is designed to drive quality, safety, sustainability, innovation, and efficiency whilst putting people at the heart of everything we do. We are doing this by moving away from a transactional model for our infrastructure projects, and instead working with partners, advisers, and suppliers in a more integrated and collaborative way, focusing on the needs of the ultimate user and emphasising the delivery of outcomes rather than outputs.

To do this we have had to think longer-term to define the outcomes we want from our infrastructure projects and make changes within our business to ensure we have the right governance, operating model, and capabilities in place to support this approach.

The Board has been fully supportive of this change since its initial proposal and continues to receive updates on how this is progressing, including directly from others within the Partnership for Yorkshire.

This enables the YWLT and Board to consider stakeholder interests when making decisions, both on a day-to-day basis and at a more strategic level. A number of the YWLT members, including the executive directors, are directly involved in the relationships with key stakeholders and are therefore able to bring first-hand knowledge of the thoughts and concerns of these stakeholders back to discussions at both the YWLT and Board.

Our shareholders

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

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

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

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

A reputation dashboard is shared with the Board on a quarterly basis which sets out stakeholder sentiment and customer perception. We have a Code of Ethics which sets out the ethical standards which are expected of all those working on behalf of Yorkshire Water. This was relaunched during the year following approval from the Board and is accompanied by an e-learning module which is mandatory for all colleagues every year.

Focus on the environment – Connected by Water – connectedbywater.co.uk

One of the key considerations in relation to the environment is the impact of flooding on our communities. During the year, in response to this, 'Connected by Water' was launched, which is a South Yorkshire alliance of Yorkshire Water, local councils and the EA, working together to build flood resilience. This follows on from our internationally recognised alliance in Hull and Haltemprice called 'Living with Water'. The Board visited Living with Water in 2019 and the learnings from this have been key in the decision to seek similar models elsewhere within our region.

The plan for the alliance began after floods devastated South Yorkshire in 2019 and communities were evacuated from their homes and businesses and infrastructure were severely disrupted.

The partners are working together to build a plan around the four main themes of:

- responding to the climate emergency;
- smart investment;
- technology and operational management; and
- communication, engagement and building resilience.

The partnership plan was open to public consultation until 11 March 2022, as we wanted our customers to provide feedback on the plan. We have also run workshops for colleagues across the business to help create the plan and we continue to provide updates to colleagues through our Intranet.

Our financial performance

The main SDGs supported in this section are:

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

Our key measures

	2022	2021
Revenue Income receivable for services provided	£1,118.5m	£1,101.1m
Operating profit Gross profit less operating expenses and exceptional expenses	£242.3m	£241.4m
Adjusted EBITDA Earnings before interest, tax, depreciation, amortisation, and exceptional items – Reconciled to Operating Profit in KPI section above	£581.3m	£592.9m
Capital expenditure The amount spent to acquire, maintain, and enhance assets and infrastructure	£434.1m	£448.3m
Adjusted net debt[1] As defined by our financial covenants	£5,685.7m	£5,454.9m
Lowest of our class A ratings[2] The lowest of our ratings from the major credit reference agencies	Baa2	Baa2
Gearing[3] The ratio of covenanted net debt to the published RCV	73.40%	77.66%
Regulatory Capital Value[4] The regulated valuation of Yorkshire Water	£7,745.9m	£7,024.3m

1. There has been a change in net debt metric compared with the prior period. Following a review of KPIs, the KPI gearing calculation disclosed above has been updated to use covenant net debt as the primary focus rather than regulatory net debt. Net debt defined by our covenants takes net debt per note 17 of the **Financial Statements** and adjusts for various accounting adjustments. Please see our **Key performance indicators** section for the full reconciliation. This is how our regulators assess our performance and hence is the metric most closely monitored by management. The regulatory net debt reported as a key metric previously was £4,366.3m as at the 31 March 2021.

2. Ofwat previously monitored Yorkshire Water's Moody's Corporate Family Rating and S&P's Class A Issue Rating. As at 31 March 2021, the Moody's Corporate Family Rating (Baa2) was the lowest of those monitored. In May 2021, the Moody's Corporate Family Rating was withdrawn and subsequently, Ofwat advised that future monitoring would include the Moody's Class A Issue Rating alongside S&P's Class A Issue Rating. As at 31 March 2022, the Moody's Class A Issue Rating (Baa2) was the lowest of those monitored.

3. There has also been a change in the gearing calculation compared with the prior period. Following a review of KPIs, the KPI gearing calculation disclosed above has been updated to use the ratio of covenant net debt to RCV as the primary focus rather than regulatory net debt, see Key performance indicators section for more details. Regulatory gearing for the year ended 31 March 2021, as previously reported, was 77.17%. This is in line with Ofwat's KPIs for the water industry, definitions available at: **owfat.gov.uk**

4. Yorkshire Water have queried the inflation mechanism used by Ofwat for calculating RCV. It is, therefore, possible that the RCV reported above will change after the reporting date. The latest RCV can be found at **owfat.gov.uk**

Below we review our financial performance:

- The movement in revenue is largely due to allowed inflationary price increases and changes in consumption. Whilst there were variations for household and business customers caused by ongoing home-working and restrictions due to Covid-19 impacting consumption, the net impact of these variations overall was small.
- Operating costs continue to be tightly managed. Operations have experienced various pressures on expenses in 2022, as a result of severe storms, unforeseen increases in electricity and chemical costs, and additional provisions for household bad debts due to the expected increased pressure on household income.
- Exceptional costs of £5.5m includes costs of £10.5m relating to a strategic review of our business processes to identify efficiencies and provide a step change in operational performance; offset by £3.0m insurance income relating to extreme weather events in prior years; and £2.0m income relating to deferred consideration receivable following the final true-up of the sale on the non-household retail customer business in the year ended 31 March 2020.
- Overall, the net impact of the above movements is a decrease to adjusted EBITDA of £11.6m and an increase to operating profit of £0.9m. A reconciliation between adjusted EBITDA and the statutory measure can be found earlier in this Strategic Report.
- Net interest payable has increased to £594.9m (2021: £223.9m). This was predominantly a result of adverse fair value movements in the current financial year, coupled with an increase in RPI. The total fair value movements are a net £369.6m expense (2021: £102.0m expense). See **Managing financial risk** later in this section for more detail.
- We are therefore reporting a loss for the financial year for 2022 of £368.6m (2021: £11.1m profit). This represents an adjusted loss of £87.3m (2021: £116.7m profit). A reconciliation between this and the closest statutory profit measure can be found earlier in the Strategic report in the **Alternative Performance Measures** section.
- We have revalued infrastructure assets as at 31 March 2022 based on the value in use. The revaluation increased the asset value by £901.8m (2021: £217.0m uplift) which has been reflected in the revaluation reserve. Refer to note 12 in **Financial Statements** for more detail.

Delivering and governing our investment programmes

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

This supports target 9.1 to develop quality, reliable, sustainable and resilient infrastructure, to support human wellbeing

Our Business Investment Committee (BIC) governs the delivery of our investment programmes. Capital additions for 2022 were £434.1m (2021: £448.3m) (see note 12 to the Financial Statements). Our investment programmes help us maintain and enhance our operational efficiency and the resilience of Yorkshire Water's infrastructure. We are increasingly focused on how we ensure the most sustainable investment choices.

Our Programme of investment supports the delivery of service level performance improvements required to meet our stretching targets. Our single largest programme which will deliver our Water Industry National Environment Plan (WINEP) commitments is underway and early benefits have been realised.

Managing and governing our borrowing requirements

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

Our operations and investments are financed through a combination of retained profits, long-term debt instruments, finance leases and bank facilities. Any new funding is raised in the name of the appropriate group company and subject to relevant debt covenants. Within the conditions of the Whole Business Securitisation (WBS), explained in **Our corporate structure** later in this Strategic Report, funds raised may be lent to or from Yorkshire Water on an arm's length basis.

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

During the year, we:

- Repaid £145m of US private placement notes, £95m of bank facilities and £40m of finance leases;
- Renewed a liquidity facility in March 2022 at £90m with six banks, which is required as a standby facility to cover Yorkshire Water's operating and maintenance cost obligations; and
- Replaced an existing liquidity facility provided by banks, required to cover Yorkshire Water's debt service obligations, with a £170m rolling five-year evergreen debt service reserve guarantee issued by Assured Guaranty UK Limited.

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

To date, £1,200m of debt financing has been raised in accordance with our Sustainable Finance Network (SFF), which aligns the company's financing with its long-term strategy and values as discussed earlier in this Strategic Report. The majority of Yorkshire Water's debt will continue to be issued in accordance with this framework, with reporting aligned to our innovative Six Capitals approach to give stakeholders an insight into the impacts of the company and its investments.

Total borrowings, including amounts owed to other group companies, were £5,546.9m as at 31 March 2022 (2021: £5,513.6m) and adjusted net debt was £5,685.7m at 31 March 2022 (2021: £5,454.9m). The maturity profile of our borrowings and further detail on net debt are set out in note 17 of the Financial Statements. As at 31 March 2022, Yorkshire Water's RCV, which is one of the components for setting customers' bills, was £7,745.9m (2021: £7,024.3m).

Senior net indebtedness to RCV (Senior RAR or gearing) is a key covenanted gearing ratio within Yorkshire Water's financing arrangements, and gearing levels are monitored and forecasted on a regular basis. On a covenanted basis at 31 March 2022, Yorkshire Water Financing Group's (YWFG) (being Yorkshire Water Finance Plc, Yorkshire Water and Yorkshire Water Services Finance Limited) Senior RAR was 73.40% (2021: 77.66%). These metrics are fundamental to discussions with investors and is our covenant number, therefore a key performance indicator for the business. A reconciliation of this percentage to the closest statutory measure can be found in the **Alternative Performance Measures** section earlier in this Strategic Report.

Managing financial risk

Treasury operations are governed by guidelines for the management of interest rate risk, foreign exchange risk, exposure to fluctuations in the rate of inflation and the use of financial instruments. A broad portfolio of debt is maintained, diversified by source and maturity, designed to ensure there are sufficient funds available for operations. Treasury policies and procedures are incorporated within our financial control procedures.

The long-term sustainability of the company's financing is of primary importance. Levels of debt and associated measures, such as gearing and interest cover, are monitored frequently and forecast against levels defined in financing documents and those needed to protect the company's credit ratings. These forecasts take account of future expectations and stress-case scenarios relating to future business performance, future regulatory price determinations, economic conditions, and market conditions. We have provided more information about credit ratings later in this section.

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

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

Yorkshire Water's revenues are partly linked to the underlying rate of inflation measured by the retail price index (RPI) and partly linked to the rate of inflation measured by the consumer price index including owner-occupiers' housing costs (CPIH) and is therefore subject to fluctuations in line with changes in both RPI and CPIH. In the absence of any management action, negative inflation could potentially lead to a breach of gearing limits, however this risk is mitigated by Yorkshire Water maintaining levels of inflation linked debt and being a counterparty to inflation linked swaps.

For inflation linked swaps, following cessation of the London Interbank Offered Rate (LIBOR), receipts are now based on the historical Sterling Overnight Index Average (SONIA) for an interest period, and interest is paid at fixed amounts plus RPI. Movements in RPI are also applied to the nominal value of inflation linked debt and swaps to determine additional amounts to be paid either at maturity or during the life of some inflation linked swaps. Therefore, the impact of RPI and CPIH reductions on income and RCV is mitigated by reduced interest charges and lower value of inflation linked debt used in calculating gearing as a percentage of RCV.

The maturity dates of the company's portfolio of inflation linked swaps ranges from 2026 to 2063. With long-term interest rate expectations continuing, the swaps held by the company gave rise to a negative fair value at 31 March 2022 of £2,482.1m (2021: £2,199.7m), this is reflective of expectations that long-term interest rates will continue to rise. See note 18 of the Financial Statements for more details on the financial derivatives held by the company. The transition of swaps referring to LIBOR for interest receipts or payments were transitioned to SONIA before the cessation of LIBOR in January 2022.

Another financial risk includes the exposure to commodity price risk, especially energy prices. The aim is to manage this risk by fixing contract prices where possible and operating within an energy purchasing policy that is designed to manage price volatility risk. As at 31 March 2022, Yorkshire Water had fixed over 70% of its wholesale energy costs for AMP7, including 100% for the 2022 year, through a combination of forward contracts and energy swap transactions.

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

Credit ratings

Yorkshire Water and its financing subsidiaries have credit ratings assigned by three rating agencies. These provide an external view on creditworthiness for our debt investors. The latest published ratings are as follows:

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

On 14 April 2021, S&P published an update and affirmed its ratings whilst changing its outlook to stable from negative.

On 9 June 2021, Fitch published an update and affirmed its ratings with an unchanged stable outlook.

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

On 19 November 2021, Moody's published an update and affirmed its ratings whilst changing its outlook to stable from negative.

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

Corporation and other taxes

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

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

We do not use artificial tax avoidance schemes or tax havens to reduce the Kelda group's tax liabilities. All active companies in the Kelda Holdings group are wholly and exclusively resident for tax purposes in the UK.

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

A copy of the tax strategy adopted by the Yorkshire Water Board is publicly available at: yorkshirewater.com/about-us/tax/. It provides further detail on our approach to tax risk management and governance arrangements.

Corporation tax

The accounting tax charge included in these statements of £16.0m (2021: charge of £6.4m) is due to:

- A charge of £6.6m (2021: charge of £15.4m) regarding payments, both accrued for 2022 and adjustments in respect of prior periods, to other group companies to compensate them for the surrender of tax losses to Yorkshire Water. Yorkshire Water has no tax charge in respect of amounts payable to HMRC as taxable profits are reduced to £nil by capital allowance claims and the offset of group losses as noted above. Further details are provided in note 9 to these Financial Statements; and
- A charge of £9.4m in relation to the non-cash movement in our deferred tax provision (2021: credit of £9.0m).

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

The 2022 and 2021 movements in deferred tax are due to:

- Timing differences between when capital assets are depreciated for accounts purposes versus tax depreciation; and
- The effects of changes in the fair value liability of the company's inflation linked swap portfolio (explained below). Increases or reductions in the fair value liability of the company's inflation linked swap portfolio represent an increase or reduction in the net interest the financial markets expect will be payable on those inflation linked swaps in future years. Changes to the fair value of the liability are not tax deductible under UK tax regulations as tax deductions are only available as and when the future interest payments are actually paid. The increase in the fair value of the inflation linked swap portfolio will therefore create an accounting cost which is not subject to taxation until the interest is paid and therefore creates a timing difference. The fair value of the inflation linked swap portfolio can fluctuate significantly and there will be a consequential impact on the deferred tax provision.

For 2022 only, a significant part of the deferred tax charge relates to the increased corporation tax rate of 25% from April 2023. Deferred tax balances must be recognised at this higher rate compared to the current rate of 19%.

Our effective tax rate for the year ended 31 March 2022 was -4.5% (2021: 36.5%) calculated by comparing the company's loss before tax of £352.6m and total (current and deferred) tax charge for the year of £16.0m. This is mainly due to the recognition of the future 25% tax rate which impacts the company's deferred tax balances. A full reconciliation of the company's tax charge for the year is contained in note 9 to the Financial Statements.

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

Our total tax contribution

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

	2022 £m	2021 £m
Taxes, duties, and rates included in operating costs and a cost to Yorkshire Water		
Business rates	60.1	58.6
Employer's National Insurance Contributions (NICs)	15.7	14.3
Climate Change Levy*	4.0	4.2
Abstraction licences and direct discharges	11.9	12.1
Fuel duty	1.3	1.5
	93.0	**90.7**
Taxes, duties, and rates included in operating costs, remitted on behalf of employees		
Employee's Pay As You Earn (PAYE)	24.9	21.3
Employee's NICs	11.8	11.1
	36.7	**32.4**
Total taxes, duties and rates included in operating costs and a cost to Yorkshire Water	**129.7**	**123.1**
Taxes, duties, and rates arising from Yorkshire Water's activities and collected on behalf of HMRC		
Business customer Value Added Tax (VAT)	28.8	25.2
	28.8	**25.2**
Total tax contribution	**158.5**	**148.3**

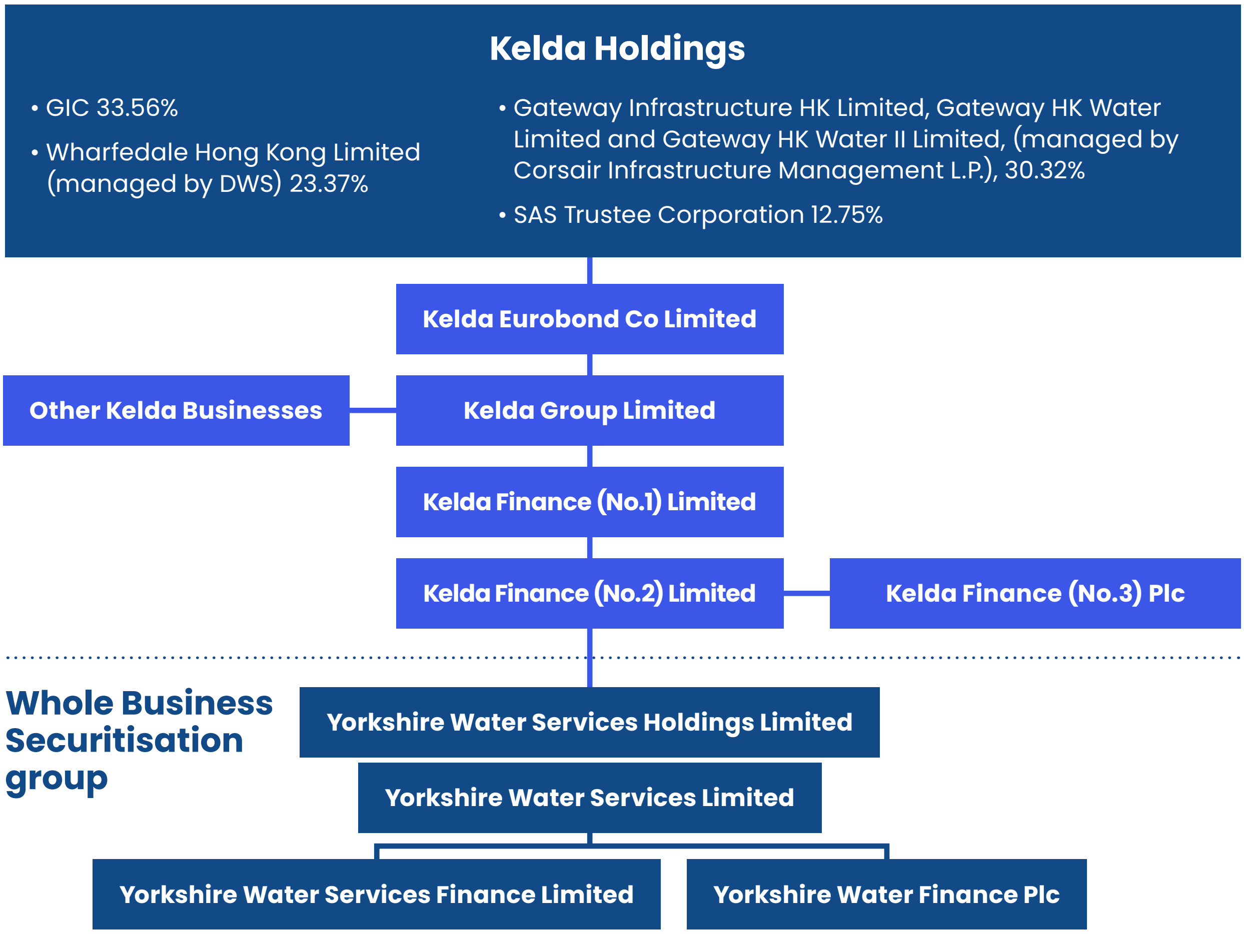
* Please see our Love our environment section for further information on the financial impact of climate change.

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

Our corporate structure

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

Kelda group corporate structure at 31 March 2022



Whole Business Securitisation (WBS)

Yorkshire Water has had a well-established financing structure, known as a WBS, since 2009. The WBS enhances the creditworthiness of Yorkshire Water by setting strict rules that demonstrate to lenders the company is a safe and reliable business in which to invest. Lenders are therefore more prepared to lend to Yorkshire Water at lower rates which is in the long-term interest of customers.

This WBS works by placing a protective ring-fence around Yorkshire Water's business which includes the way it operates, the way it trades with other group companies outside the WBS and the way it finances itself.

The protections include limits on borrowings, dividends, and the ability to lend money to other Kelda companies. The protections also require profits to more than cover the amount of interest that Yorkshire Water pays.

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

Managing risks and uncertainties

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

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

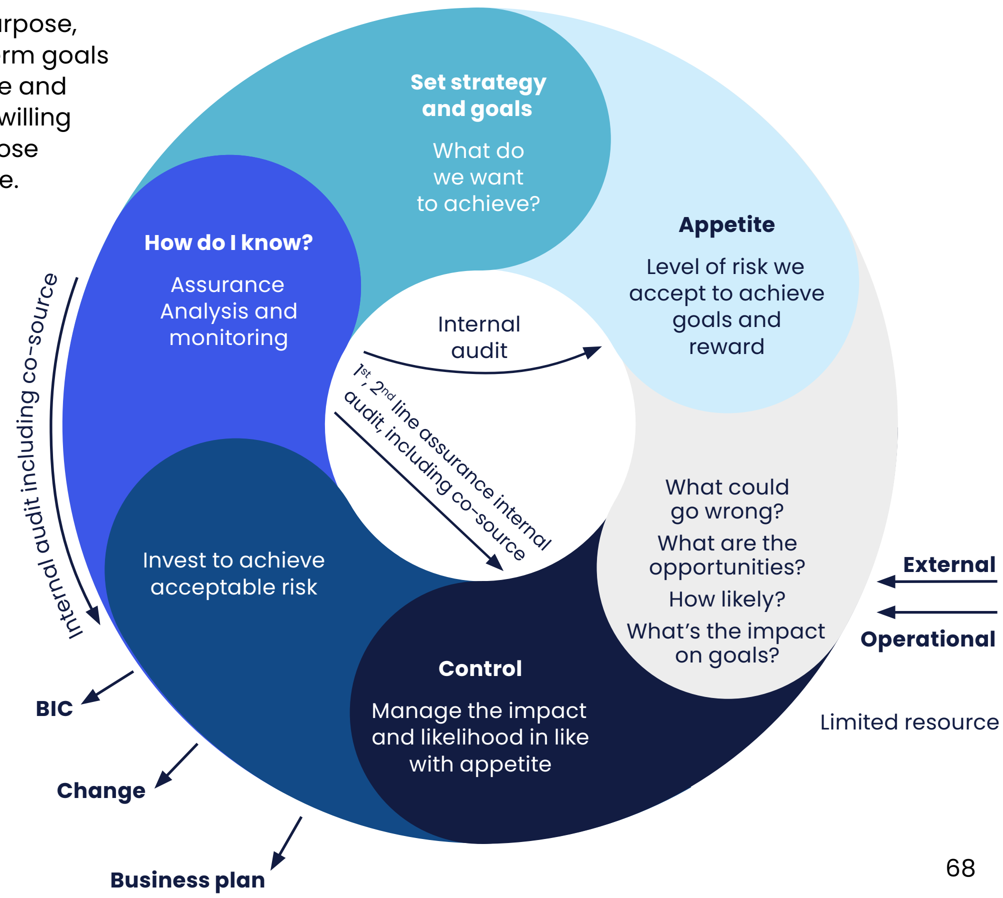
Our risk management framework

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

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

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

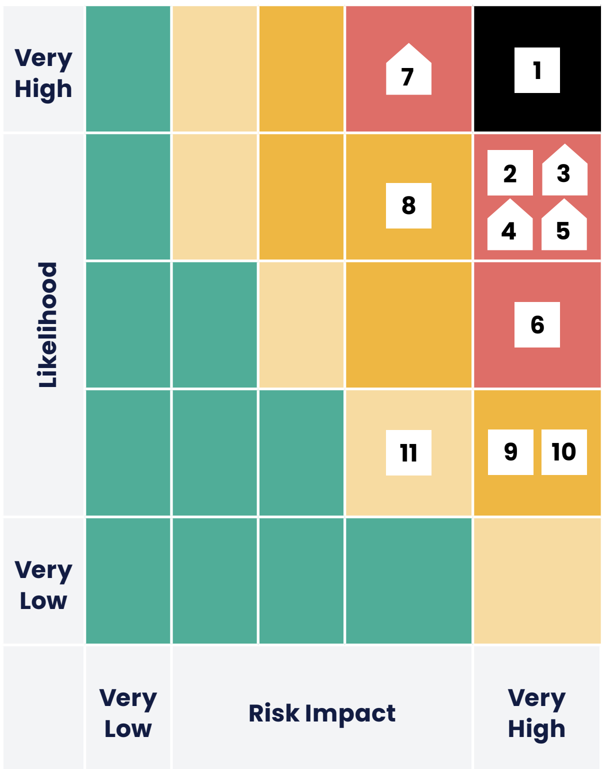
Our coordinated assurance programme tests the design and operation of our control framework and the delivery of plans, recommending improvement actions where needed. The Audit and Risk Committee maintains oversight of the achievement of actions as well as the quality of the risk and assurance processes.



Our principal risks

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

The heat map plots our current risk exposure after controls have been applied, by impact and likelihood. To be prudent, for aggregated risks such as cyber security, it shows the worst case individual risk score. The table over the following pages describes each of these risks in more detail, alongside our approach to mitigation and the change over the past year. These principal risks have also been considered in our assessment of financial resilience, as shown in our LTV statement.



Key for heat map

Risk has increased

Risk is unchanged

Risk has reduced

The impact of Russia and Ukraine

Our strong risk management processes enabled us to swiftly map the potential impact of the myriad of potential threats arising from the Russian invasion of Ukraine, and shape mitigation, monitoring arrangements and triggers for escalation. Severe but plausible scenarios have been considered as part of the LTV assessment, and business continuity exercises. There are four key strands to our response:

- The wellbeing and workforce impacts arising from the humanitarian crisis;
- The impact of economic uncertainty and inflationary pressures on financial resilience and business plans;
- The resilience of the supply for critical operational products, most notably chemicals; and
- Security including cyber-resilience, as well as protection of water quality and supply.

During the year, an exercise has been performed by management to ensure compliance across the business with sanctions imposed as a result of the invasion.

We have not identified the situation in Ukraine as a separate principal risk but recognised its potential to accelerate our principal risks.

Our principal risks

1. Cyber security

We may fail to keep our key business systems or data secure due to a malicious attack or failure of cyber security. Sensitive data could be released in breach of the Data Protection Act, GDPR or Environmental Information Regulations (EIR).

Our Security Steering Group monitors the delivery of our information security policy and procedures. It is committed to the continuous improvement of our cyber controls and culture. The General IT Control (GITC) Framework automates and embeds security controls, particularly over access. We are improving the resilience of our infrastructure through targeted investment. We regularly test our back-up and recovery procedures. There is ongoing training, development, and communication for all colleagues to improve our security culture and compliance. A range of information and cyber security projects are further improving the control environment, to maintain GDPR compliance, Network Information Systems Directive and other external standards.

2. Environmental protection and flooding

We may harm the water environment through unsafe abstraction or discharge leading to pollution, or failure to adapt to flood inundation of our assets.

Our pollution incident reduction plan has focused on improving day-to-day compliance with our ISO9001 and ISO14001 assured operational procedures. We operate a risk-based prioritisation process for the maintenance and replacement of our assets. We monitor the effectiveness of our asset management through a number of asset health measure. In 2022, we have improved our proactive maintenance programme. We are ISO55000 certified demonstrating that we follow best practice. We have well established business continuity plans and use our corporate incident management process to respond and recover. We have invested to protect our vulnerable assets from flooding and work actively with the EA to reduce the impact of flooding for others where we can.

3. Political, regulatory, or statutory change

We may fail to adapt quickly to externally driven political and regulatory change.

This rise in this risk reflects the increasing regulatory engagement with the water sector and the real-time working arrangements. Our Corporate Affairs and Regulation teams lead our engagement with policy makers and the water sector to ensure the needs of our customers are understood. This provides early visibility of regulatory and statutory change allowing a timely response. We have also enhanced our approach to scanning the horizon for early sight of potential change. Our network of legislation champions helps senior managers ensure business processes are compliant with statutory and regulatory obligations and allows an agile response to change. A suite of cross-business training and development promotes awareness of new obligations.

4. Financial sustainability and economic uncertainty

We may be unable to access funding at acceptable market rates due to market uncertainty or a downturn in our credit rating.

This risk has risen due to the increased volatility in our economic working environment and the impact of inflationary pressures. The Board has approved treasury policies to manage this risk. Financial restructuring programmes are providing headroom, to support resilience. Our five-year plan identifies our financing requirements. We are committed to maintaining our credit ratings and we manage our expenditure and funding accordingly. The BIC oversees all capital expenditure, and the annual business plan and budget is set in line with the plan. We maintain clear financial policies and procedures. Arrangements are in place to support customer affordability and managing customer debt.

5. Customer experience and stakeholder trust
We may not consistently meet the expectations of our customers by failing to deliver on our commitments.

We recognise and seek to meet the increasing expectations of customers. Our customer experience strategy was created with our customers so that we understand and capture what is important to them. We continue to capture customer views to inform our plans through our Customer Forum and online Customer Panel consultation. Meeting customer expectations is at the heart of our transformation plan and our daily performance management and prioritisation processes. Our operational policies and procedures align to the achievement of customer service objectives. We continue to improve our support to customers in vulnerable circumstances. We are committed to eradicating water poverty in Yorkshire. We have reviewed our processes in light of the impact of Covid-19 on customers' ability to pay.

6. Organisational transformation
We may fail to achieve the transformation required to meet our customer expectations and achieve our objectives.

We significantly enhanced our Enterprise Change capability in 2022. We have a monthly Change Board which oversees the successful delivery of the Change portfolio. This is supported by an Enterprise Change function which has a clear framework to ensure that business design meets our customer needs, and the totality of the Change programme delivers the expected benefits.

7. Climate change and carbon transition
We may fail to deal with the impacts of climate change, extreme weather conditions and population growth on the resilience of our water resources and the integrity of our assets

We face extreme weather events with increased frequency. We perform extensive modelling to understand what our weather and climate-related risks are and align our strategy accordingly. In addition to the steps to improve resilience noted above, we are introducing policies and procedures compliant with BS65000 (organisational resilience). We are collaborating to develop resilient low asset solutions and ways of working, most notably by the Living with Water partnership in Hull and East Riding and Connected by Water partnership in South Yorkshire. We have taken steps towards managing our transition risks by setting out a strategy to achieve net zero operational emissions, embedding climate at the heart of our PR24 planning, accounting for carbon in our investment decision making and developing carbon training. We continue to improve our renewable energy generation through our bio-resources and solar programmes whilst reducing our energy use through new technology. More detail on our response to climate risk can be found in our Disclosing our climate change risks and strategy section.

8. Public and colleague safety and wellbeing
We may fail to protect the safety, health and wellbeing of our colleagues, contract partners and customers leading to harm.

The safety, health and wellbeing of our colleagues, contractors and customers is our top priority. We are proud of our safety performance this year and our outturn against annual targets. However, we are not complacent. We are working hard to improve it further, with a focus on process safety and learning lessons. Health and Safety matters are prioritised at all meetings of YWLT and the Board. The Health and Safety Committee drives a focus on continually improving controls. We remain committed to our ten life-saving rules across the business, improving our safety behaviours. A Covid-19 safe management procedure operated through the year, taking a cautious but flexible approach based on risk assessments. We continue to invest significantly in colleague wellbeing, including mental health, with sector leading initiatives including access to GPs and physiotherapy, diabetes training and mental health first aider training.

9. Enough clean, safe drinking water
A problem with our system could cause a failure to meet the level or quality of water our customers need

We undertake detailed water resources planning and carefully monitor demand, raw water quality and asset availability to meet our customers' needs. We use our flexible grid network to move water across Yorkshire to where it is needed. We operate a risk-based prioritisation process for the maintenance and replacement of our assets. We monitor the effectiveness of our asset management through asset health measures. We have improved our proactive maintenance programme. We are ISO55000 (asset management) certified, demonstrating that we follow best practice. We have well established business continuity plans and use our corporate incident management process to respond and recover.

10. People: talent, culture, succession, and retention
Our plans may fail to ensure we have the talent and culture to achieve our objectives both now and in the future.

We put people at the heart of everything we do. We have demonstrated commitment to our core behaviours through our response to the pandemic, focusing on clear, regular communication as well as colleague wellbeing. As part of our broader transformation programme, we are running a suite of initiatives aimed at reviewing our culture, the embedding of our Big Ambition and developing and implementing new frameworks to support performance and leadership development, capabilities and talent. The programme is well under way and will continue throughout AMP7.

Our HR policies and procedures are published on our Intranet. These will be reviewed and revised (where necessary) to ensure they both align to appropriate legislation and support our Big Ambition.

11. Governance, conduct and organisational resilience
We may not achieve the standard of conduct and reporting expected by our stakeholders.

We are committed to reporting clearly, openly, and accurately to all our stakeholders. Our coordinated internal and external assurance regime provides confidence to our leaders, customers, and regulators that we achieve this. We have re-established our values and expected behaviours to meet customer needs with integrity. We continue to promote our Speak Up policy and investigate and learn from all issues raised. We have reviewed our Code of Ethics with the Board and are cascading the requirements through the business. We have clarified our risk governance and responsibilities, to provide a clear line of sight to the Board. We are aware of the White Paper on the Corporate Governance Code and the potential for a new regulator. We are mapping the impact and assessing the risk, including our supply chain. We are confident that we have foundations for a positive response.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Going concern and long-term viability

Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence over a period of at least 12 months from the date of approval of the Financial Statements.

For this reason, they continue to consider it appropriate to adopt the going concern basis of accounting in preparing the Financial Statements. See note 1 of the **Financial Statements** for full going concern considerations.

Long-term viability

The Board has assessed the long-term viability (LTV) of the company, taking account of the current position, the potential impact of the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions. Based on this assessment, the Board has a reasonable expectation that the business will be able to continue in operation and meet its liabilities as they fall due over the eight-year period to March 2030. This takes the company through the AMP7 regulatory period (2020-25) and further to the end of AMP8 (the regulatory period 2025-2030).

To make this statement the Board has assessed viability using the company's strategic planning process, which includes the risks associated with the impact of climate change, economic uncertainty and recent global events.

Assessment period

The Board has considered the appropriate length of time over which to provide the viability statement. In making their assessment, they have taken account of the balance between timescale and robustness of analysis. The period appropriate for a regulated entity is dependent upon where Yorkshire Water is within the regulatory cycle at the point of assessment and the extent to which information is available on the direction of the subsequent AMP. An eight-year timeframe falls within our current strategic planning horizon and our whole business resilience framework and associated assessments. The strategic plan and modelling of scenarios reflect the directors' best view of future prospects.

As Yorkshire Water is now at the end of the second year of the current regulatory cycle and there is reasonable information available that can be considered for AMP8, a time period of eight years is considered the most appropriate. The assumptions used in arriving at the AMP7 and AMP8 forecasts are based upon the best information available at the time of writing.

Furthermore, our viability assessment is intrinsically linked to our strong risk and assurance process. As part of Yorkshire Water's approach to defining risk appetite, each year the Board reviews the financial and operational plans to ensure that recent decision making has been consistent with the desired levels of risk.

Our approach to long-term viability

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

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

Risk assessment (steps 1-3 on the diagram)

Our process for identifying the full range of principal and emerging risks faced by the company is detailed in **Our principal risks** section and reflects the output of Yorkshire Water's regular and ongoing risk management assessment. This extensive risk assessment covers:

- A detailed and comprehensive horizon scan of the external risks that affect the sector as a whole, as well as risks specific to our company and their impact;
- A characterisation of the full range of risks, stresses and shocks which could impact the company over the short, medium and long term, such as financial risks, operational risks, climate risks and regulatory risks;
- Consideration of the people, talent and retention policies and practices that support the company's long-term success;
- Consideration of the impacts of cyclical coronavirus outbreaks and deteriorating economic uncertainty may have on the key risks, and our ability to mitigate these;
- All liabilities including pensions, exposure to revenue variation, cost-shocks and other threats which may result in the downgrade of credit ratings; and
- How the combined impact of the corporate and systemic shocks or stresses could combine and manifest to drive vulnerability and exposure in our system (e.g. the corporate risks combined column on the following scenario table demonstrates this in action).

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

We believe that the suite of 22 scenarios that we have considered encompasses the full spectrum of potential risks, and we have sought to benchmark the severity of these scenarios against both actual significant events in the past and other scenarios used within the industry, such as those prescribed by the Competition and Markets Authority (CMA) and Ofwat. In 2022, we have also signposted to new PR24 long-term scenarios as a we begin the process of applying Ofwat's long-term strategic guidance. At a summarised level the severe but plausible scenarios are shown in the table on the following pages:

Ofwat long-term scenario categories	Principal risk summary	No.	Severe but plausible scenario	Key scenario assumptions (High scenario)	Frequency assumed	Estimated Totex impact range £m*
Climate	Environmental protection and flooding. protection and flooding.	1	Severe WWTW consent failure at key WWTW works due to loss of operational controls.	Heightened risks if capital delivery initiatives are unable to improve operational controls as expected. Assumes resulting odour control challenges at WWTW sites may continue.	Annual impacts may occur for all eight years.	£1m-£4m
		2	Pollution, internal and external sewer flooding incidents including one-off significant pollution events.	Capital programme pressures increase due to regional and national change in sentiment above agreed Final Determination (FD). Assumes a significant one-off pollution fine during the eight-year period. Also assumes Yorkshire Bathing Water Partnership will continue to work in collaboration to ensure focus on designated waters under the revised Bathing Water Directive (RBWD).	Internal and external flooding events continue annually for all eight years. One-off significant pollution event in FY25.	£8m-£37m
		3	Inability to enhance Natural Capital and reduce flooding in Hull, Leeds and Sheffield.	The new partnership model may struggle to invest to planned programme due to delays in ability to secure appropriate level of buy-in from community stakeholders.	Annual impacts may occur for all eight years.	£2m-£4m
Climate	Climate change and carbon transition.	4	Multiple annual widespread flood inundation / coastal inundation / significant flood events (e.g. those which occurred in 2007/2015/2020).	Flood inundation of strategic installations or multiple, less strategic installations with coastal, pluvial or fluvial causes. Heightened threat of opex impacts due to increasing extreme weather. Sea levels may rise by at least 0.3m, even if we meet international targets to stay below 2°C. Flood design guidance from EA and local planning policy remains appropriate. Uncertainty in flood risk impacts as new EA flood maps due 2024.	Annual impacts may occur for all eight years.	£5m-£13m
		5	The inability to transition to a net zero operating model, at the pace required, at a cost the business can afford.	Climate transition threats and uncertainty may mean additional impetus and transition risk investment may be required to achieve Yorkshire Water's 2030 commitments. Assumes there will be increasing policy, legal, market and reputational pressures to transition to a full net zero operating model.		£2m-£4m

Ofwat long-term scenario categories	Principal risk summary	No.	Severe but plausible scenario	Key scenario assumptions (High scenario)	Frequency assumed	Estimated Totex impact range £m*
Climate	Climate change and carbon transition (continued).	**6**	Severe winter followed by thaw and short-term storm impacts which also impact other critical infrastructure which we rely on.	Storm Arwen ODI penalties impact Yorkshire Water at end of AMP7. Asset resilience outages continue to be experienced during storms. 6–14% more rainfall during the winter months and heightened threat of high winds; leading to intermittent power outages (e.g. brown-outs), or short-term dips in voltage or frequency of supply.	Multiple storm events for all eight years. One-off significant event ODI penalty impacts end of AMP7.	£2m-£13m
Demand & abstraction reduction	Enough clean, safe drinking water.	**7**	Multi-year dry spring / summer leads to severe drought.	The 21st century has been warmer than the previous three centuries. 14-28% less rainfall during summer months. Associated dry weather pumping and abstraction costs may be incurred annually.	Annual impacts may occur for all eight years.	£1m-£2m
		8	Significant supply interruption – Inability to supply and treat water in Yorkshire (1650mld demand in an emergency situation).	Significant supply emergency event occurs every year with a 1,650 mega litres per day demand. Increasing risk of pumping, tankering and maintenance resources.		£1m-£2m
		9	Major widespread water quality contamination events.	Assumes extreme contamination from raw catchment sources or ingress may combine with run to waste threats at water treatment works.		£1m-£3m
Wider Scenarios	Public and colleague safety and wellbeing.	**10**	Major fire, explosion or process safety event.	Assumes risk is maybe present despite threat levels being very low likelihood and controls as low as reasonably practicable.	Annual events occur for all eight years	£2m-£5m
		11	Prolonged Covid-19 pandemic transition and recovery.	Covid-19 global pandemic may continue every winter for next three years in the UK. Potentially impacting critical resources during winter, including risk of future local lockdowns.		£2m-£5m
		12	Major Public Safety Incident at a Yorkshire Water asset.	Extreme public safety event including challenges on Yorkshire Water land or our at Yorkshire Water reservoirs.		£0m-£1m

Ofwat long-term scenario categories	Principal risk summary	No.	Severe but plausible scenario	Key scenario assumptions (High scenario)	Frequency assumed	Estimated Totex impact range £m*
Wider Scenarios	Customer Experience and stakeholder trust.	**13**	Severe or continuous critical asset / service failure leading to poor or reduced customer experience (impacting C-MEX, DMEX).	Accelerating customer and stakeholder demand may Impact beyond asset capacity leading to resilience challenges. Additional demands maybe placed on catchments and water supply systems to perform beyond designed capacity leading to financial pressure above planned investment.	Annual events occur for all eight years.	£1m-£4m
Discretionary Scenario	People: Talent, culture, succession and retention.	**14**	A lack of organisational people capacity and capability.	Increased resource risk assumed as skilled workers may be enticed from the sector, leading to lack of appropriate skills and competencies to transform the business.	Annual events occur for all eight years.	£2m-£6m
Technology	Cyber security.	**15**	Significant IT outage / cyber breach.	Scenario assumes conflict in Ukraine and resulting sanctions increase risk of cyber threats. Analysis per National Cyber Security Centre (NCSC) data and insurance sector loss events assume likelihood of cyber risk very high. Assumes severe 1-3 month service outages with multiple events.	Annual events occur for all eight years.	£4m-£11m
Wider Scenarios	Political, regulatory or statutory change.	**16**	Supply Chain Disruption – extended impacts into AMP7 and 8 due to EU exit and regulatory change threats. e.g. Environment Act, farming rules for water.	Regulatory volatility of the water industry up to general election. EU exit supply chain, disruption issues (e.g. trade sanctions) may continue into AMP8. Regulation may not adapt quickly enough to match demands. Unfunded cost pressures for new obligations. Supply chain shortages and resource security pressures result in increased commodity prices.	Annual events continue for first four years of the eight-year period.	£0m-£1m
Wider Scenarios	Governance, conduct and organisational resilience.	**17**	Failure to comply with regulatory or statutory obligations, including the impact of a material prosecution or penalty.	Significant financial penalty or uninsurable event leads to a prosecution or regulatory penalty due to malicious or accidental breach of business policy, legal or regulatory obligations.	Annual impacts may occur for all eight years.	£2m-£5m

Ofwat long-term scenario categories	Principal risk summary	No.	Severe but plausible scenario	Key scenario assumptions (High scenario)	Frequency assumed	Estimated Totex impact range £m*
Wider Scenarios	Financial sustainability and economic uncertainty.	18	Inability to deliver the FD regulatory obligations / requirements in AMP7.	FD proves to be more challenging to deliver than originally planned on submission. Any period unable to access capital markets to raise finance during the period will be shorter than 15 months. Assumes national challenges with loss of resource capacity post-pandemic continue.	Annual impacts may occur for all eight years.	£1m-£2m
		19	Macro-economic and geo-political uncertainty leads to inflation, funding and liquidity impacts compounding further supply chain disruption.	Economic slowdown. The impact on the global economy of sanctions on Russia and loss of key commodities from Ukraine result in lower economic growth in the UK economy, leading to lower revenue from our non-household customers. Worst-case scenario assumes a negative outlook into mid AMP8; Driving uncertainty in financial projections.		£14m-£34m
		20	Operating cost pressures.	Bank of England assumptions of inflation reach around 10% in 2022 and then fall in 2023 closing to 2% in 2024. Higher energy and chemical prices into early AMP8, prices returning to pre-crisis levels in the mid AMP8. Programme of asset sales dependent on external market. Challenges materialise due to property income and national business rates re-valuation.		£15m-£37m
		21	Capital expenditure delayed delivery or reduced outperformance in remainder of AMP7 into AMP8.	PR24 FD reflects business plan submitted to Ofwat. Unfunded additional construction required to meet national levelling up agenda. Significant challenges delivering pace of innovation due to economic pressures on framework partner community nationally.		£10m-£26m
Discretionary Scenario	Organisational transformation.	22	Failure to achieve AMP8 business readiness and our portfolio of organisational change.	Business does not achieve full suite of delivery of benefits identified through business change programmes. Includes transformation of legacy technology to enable a great customer experience.	Annual impacts may occur for all eight years.	£3m-£7m

*Please note the figures shown are based upon estimated monetary values provided from both our corporate risk owners register and supplemented via subject matter expertise, including historic actual data (since privatisation) where similar events may have occurred and can inform our analysis.

Each individual risk included within the scenarios in the table is assigned a potential cost impact by the business unit cost owners, together with a probability assessment of each individual risk occurring. These costs and probabilities for each risk included within the 22 chosen scenarios above are then combined to provide an overall expected cost impact for each of the 22 scenarios, for each year of the eight-year period assessed, split between operating costs and capital costs.

The cost impact of each scenario is then added together to provide a total potential cost impact assuming all 22 scenarios were to assume simultaneously. The likelihood of all 22 scenarios occurring simultaneously in one year is considered very unlikely, not least because there is an element of duplication between some of the scenarios. On this basis, when determining three severe but plausible scenarios to run as part of our LTV assessment, we have applied probability factors to the total cost impact of all 22 scenarios to determine high (80% probability), medium (60% probability) and low (40% probability) risk scenarios, each with an expected cost impact over each year of the eight-year assessment period. Each of these cost scenarios represent a significant increase on the levels of expenditure included within our base plan, as illustrated in the table to the right.

In addition, we have included a further scenario that applies an additional operating cost pressure to the high scenario to reflect recent experience of cost inflation. This additional cost pressure has also been carried forward into AMP8 to reflect the current uncertainty in relation to PR24.

Further to the four Yorkshire Water specific scenarios considered, we have also adopted the two sensitivities considered by the CMA as part of their financeability assessment within the PR19 appeal, to provide a total of six scenarios.

The table below summarises the average annual cost impact in AMP7 of each of these scenarios on a RoRE basis and also as a percentage of our total cost allowance:

	Yorkshire Water Low	Yorkshire Water Medium	Yorkshire Water High	Yorkshire Water Extreme	CMA Totex	CMA ODI
% Totex	7.3%	11.0%	14.7%	17.7%	2.0%	3.7%
RoRE	1.1%	1.6%	2.2%	2.6%	1.0%	0.3%

The table highlights the considerable severity of the scenarios considered by Yorkshire Water, which are more extreme than those considered by the CMA, or actually experienced by Yorkshire Water in any year since privatisation.

We have also looked at the frequency and impact of previous examples of scenarios for Yorkshire Water, and across other water companies. We have concluded that the above procedures and analysis produce a severe but plausible challenge to the ongoing health of the company, but that this level of risk management is viable, given the strength of Yorkshire Water and mitigating actions that would be taken by management in the event of scenarios occurring (as detailed later in this section). The additional cost included within the most severe scenario is considerably more severe than any cost shock actually incurred since privatisation.

Stress testing (steps 4-7 on the diagram)

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

These sensitivities have then been applied to our base business plan over the next eight years to enable us to determine whether the business has sufficient headroom to absorb these potential risks. When considering the impact of the stress testing sensitivities, we have applied the downside risk for the Yorkshire Water specific scenarios in four years out of the eight-year period being assessed (two years in AMP7 and two years in AMP8) which is considered very prudent and unlikely to occur. This is considered a prudent approach as the expected value method assumes that all major risk scenarios occur on an ongoing, albeit risk adjusted, basis. More usually one event would occur and would be mitigated before the next event occurred. The CMA scenarios have been applied across all eight years on a consistent basis with the method adopted by the CMA.

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

- Our current business plan for the current financial year and the rest of AMP7 through to 2025, updated for our latest debt issuance and the most recent economic assumptions for interest rates and inflation; and
- Our consideration of the company's prospects to the end of AMP8, which includes the next price review process (PR24) covering the period 2025-2030. Given the uncertainty in relation to the PR24 process at the time of writing we have considered a range of outcomes for AMP8. In making this assessment we have taken account of Ofwat's statutory duty to secure that companies can finance the proper carrying out of their functions.

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

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

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

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

Securitised financing arrangement

Yorkshire Water, its immediate parent company and its two financing subsidiaries constitute the YWFG and are all party to the financing documents that underpin the securitised debt platform used to finance Yorkshire Water activities and investments.

The financing documents establish a contractual ringfence that complements and enhances the licence ringfencing conditions. Also, it means the YWFG has a consistent package of covenants which it must comply with, where no secured creditor is put in a more favourable position than any other, e.g. an ability to call an event of default and carry out enforcement action independently of other creditors.

This package of covenants is extensive and includes a number of creditor protections that ultimately benefit customers, particularly during periods of financial stress. These protections provide the opportunity to address issues proactively before they become critical and prevent Yorkshire Water being able to secure finance. There are information undertakings that require the biannual publication of pre-defined covenant certificates and investor reports.

Covenanted credit metrics are reported for forecasts over the remainder of an AMP as prospectively as well as historically since privatisation.

Specified trigger events are included in the financing documents as early warning signs of possible stress on the YWFG. A trigger event would result in actions required to be taken by Yorkshire Water with the intention of putting the business on a stable footing and avoid a default. If a default should occur, then there is an automatic 18-month standstill period, during which secured creditors agree not to take enforcement action. This standstill period can only be ended by a resolution or waiver of the default, a special administration order or a vote by the secured creditors to proceed to enforcement.

In addition, Yorkshire Water is required to have committed liquidity facilities to provide a robust mechanism for payment of interest costs during a standstill period. This provides creditors the comfort to allow a standstill period to be used to seek a resolution for a default. Our LTV testing focuses on the default trigger levels within these covenants.

Note 18 to the **Financial Statements** sets out more information on the group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit and liquidity risk.

Liquidity facilities

At 31 March 2022, Yorkshire Water has available committed credit facilities as follows:

- £560m revolving credit facility provided by a syndicate of eight banks, due to expire in October 2023, of which £157m was drawn;
- £170m debt service reserve liquidity guarantee from Assured Guaranty that runs to March 2027 and Yorkshire Water can request it is extended annually to maintain the five year term; and
- £90m 364-day liquidity facility to cover operating and maintenance expenditures, provided by a syndicate of six months and renewed annually in March.

The two liquidity lines are essentially standby arrangements and would only be used when Yorkshire Water has no other available liquidity. The facility sizes are assessed annually to cover a year's interest costs and 10% of operating maintenance spend in accordance with requirements of the securitised financing arrangements.

In addition, we are required to set aside 1/12 of our annual interest bill each month into a debt service account, which can build up before major settlements on debt and swaps.

Within the stress testing conducted we have assumed new debt would be raised to fund the additional costs incurred.

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

In the event that new debt could not be raised, due to external market factors, there is adequate capacity within the current liquidity facilities to fund the additional costs included within the LTV scenarios in any year.

Stress testing results and mitigating actions

The financial modelling demonstrates that when the six stress testing sensitivities are applied to our base plan Yorkshire Water remains above the default level on both its interest cover (ICR) and gearing covenanted ratios.

When the lowest point of the AMP8 range is also considered Yorkshire Water remains above the default level on its covenanted ratios.

All of the above stress testing assumes that the additional costs associated with the scenarios are incurred in full in every year considered, without any mitigating actions being considered.

In reality there are a number of mitigating actions that could be implemented by management to reduce the impact of these scenarios in the year of an event and to ensure there would not be a cumulative impact in subsequent years, which include:

- Managing liquidity by temporarily reducing working capital through collection of overdue amounts receivable and negotiation of longer credit terms with suppliers where available.
- Re-profiling of capital programme expenditure.
- Insurance proceeds – Yorkshire Water's insurance policy provides cover which could offset some of the costs incurred.
- Consideration of a number of co-ordinated actions designed to avoid a covenant trigger breach, including further transformation, alternative lower cost solutions, further cost reduction programmes, selective disposal of assets, or other commercial actions.
- Debt or swap restructuring exercises, as successfully implemented by Yorkshire Water throughout the last AMP.
- Retention of dividends.
- Classification as exceptional costs – material one-off cost events would potentially be classified as exceptional, excluding them from covenant calculations.
- Introduction of further capital into Yorkshire Water through the issue of additional debt (at shareholder risk) within group companies above Yorkshire Water.
- Introduction of equity from shareholders, under some extreme circumstances.

In the event that the mitigating actions above failed to prevent a breach of one of the trigger levels within our covenants, then the protections within our securitised structure detailed above would apply. These protections have been specifically designed to reduce the risk of default, enhancing the long-term viability of the company.

In addition to considering the impact of the scenarios on our covenants, we have also considered the potential impact on our credit ratings.

It is difficult to say with certainty what the impact would be on credit ratings as the metrics tested form a small part of any overall ratings assessment conducted by the agencies. Other factors would also come into the metrics assessment such as: trend, average performance across the AMP, reason for cost shock, management response, mitigations put in place, and the exceptional nature of the shock.

The stress testing conducted shows that Yorkshire Water's key ratings agency metrics would be below the target levels for its current rating, without any of the mitigating actions detailed above being considered.

As noted, whilst the testing indicates that certain metrics could be below the target level for Yorkshire Water's existing rating this does not automatically mean the rating will be downgraded, particularly as mitigating actions have not been considered.

If there were to be downgrades to existing ratings that led to a breach of our licence conditions then this would be comparable to a trigger event within our covenants as detailed above as it would result in a distributions lock-up.

The target levels tested for key metrics are trigger levels (which would trigger initial creditor protections under the terms of the securitised financing arrangements) and not default levels.

Stress testing conclusion

The testing above confirms that Yorkshire Water remains within the default levels of its covenants under all scenarios considered without any mitigating factors being considered. In the event that any of the risks were to materialise in one year, appropriate mitigating actions would be put in place to reduce the impact in the year of event, and to ensure there would not be a cumulative impact in subsequent years and the company's investment grade rating could be maintained.

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

In assessing the viability of Yorkshire Water, the Board has taken account of:

- The detailed financial projections developed as part of the planning process, which include the best available information about AMP7 and AMP8;
- The downside sensitivities and stress testing linked to the risk management process described above;
- Yorkshire Water's robust solvency position, including its likely ability to raise new finance in most market conditions; and
- The strength of mitigations available and the stability which exists under the regulatory model.

Taking account of this information, the Board has concluded that there is a reasonable expectation that Yorkshire Water will be able to continue in operation and meet its liabilities as they fall due over the assessment period.

Assurance

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

Governance

Corporate Governance Statement

I am pleased to present the Corporate Governance Statement for the year ended 31 March 2022.

As a water utility we provide an essential public service to our local community. We are very aware of our obligations to our shareholders and other stakeholders, including our customers, suppliers, local authorities, regulators and to the environment, on which we are dependent for our water resources now and in the future. We always want to do the right thing and be open and accountable at all times, operating with exceptional governance so that our stakeholders can rely on us.

This report describes how we have applied good governance principles in the way in which our Board and its supporting committees operate. It includes information on how we have complied with the UK Corporate Governance Code, the Ofwat Board Leadership, Transparency and Governance Principles, and the Wates Corporate Governance Principles for Large Private Companies.

During the year we have undertaken an externally facilitated Board evaluation, and we include the feedback from this in this report. I am pleased to report that this found that our Board and committees continue to be effective and we show particular strength in our Board dynamics and the way in which our Board meetings are managed, which is key to maintaining good governance at Board level. Further information on the findings from our Board evaluation review are later in this section.

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

Vanda Murray
Chair
15 July 2022

Board of directors

Committee Key:

AR = Audit and Risk Committee
N = Nomination Committee
PR = People and Remuneration Committee
PV = Public Value Committee
SHE= Safety, Health and Environment Committee
Bold = Chair

Vanda Murray OBE, Independent Non-Executive Chair

Appointed: Vanda joined the Board as Independent Non-Executive Director on 1 July 2021, stepping up to become the Chair of the Board on 1 September 2021.

Skills and experience: Vanda is a Fellow of the Chartered Institute of Marketing and has extensive experience of corporate leadership in both executive and non-executive roles. From 2001 to 2004 she was Chief Executive of Blick plc, a FTSE quoted company, where she doubled the value of the business before it was acquired by The Stanley Works Inc. She was also Managing Director of Ultraframe plc between 2004 and 2006. Vanda was appointed OBE for Services to Industry and to Export in 2002.

Other roles: Vanda is Non-Executive Chair of Yorkshire-based Marshalls plc and is the Senior Independent Director and Chair of the Remuneration Committee at Bunzl plc. She is a Non-Executive Director at Manchester Airports Group, where she chairs the Remuneration and Corporate and Social Responsibility Committees. Vanda is also the Chair of Kelda Holdings Limited.

Committee Membership: N PR SHE PV

Scott Auty, Non-Executive Director

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

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

Other roles: Scott is also a Non-Executive Director of Kelda Holdings Limited, a Supervisory Board Member of Dutch waste management company Attero Holdings BV and a Non-Executive Director of the Spanish bioethanol producer Vertex Bioenergy SL.

Committee Membership: N PR SHE

Liz Barber, Chief Executive Officer

Appointed: Liz joined the Board as Group Director of Finance and Regulation in November 2010, stepping up to become the CEO in September 2019. Liz retired from the Board on 6 May 2022.

Skills and experience: Liz joined the company from Ernst & Young LLP where she held several Senior Partner roles, including leading the firm's national water team and the assurance practice across the North Region. Liz had been with Ernst & Young since 1987 and in that time worked with some of the largest companies in the UK. Liz specialised in delivery of services to the water industry, including several water companies and UK Regulators. Liz is a Fellow of the Institute of Chartered Accountants in England and Wales.

Other roles: Liz was the CEO for Kelda Holdings Limited until 6 May 2022. Liz is also a lay member and Deputy Pro-Chancellor of the University of Leeds, a Non-Executive Director of Cranswick PLC and Chair of the Yorkshire and Humberside Climate Commission.

Committee Membership: N SHE PV

Andrew Dench, Non-Executive Director

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

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

Other roles: Andrew is a Non-Executive Director of Kelda Holdings Limited and several other boards, including Teréga (Gas transportation and storage, France), Duquesne Light and Power (Electricity transportation and distribution, US), Greenko (Renewal generation, India) and Raffles Infra Holdings Limited (Infrastructure investment, Asia).

Committee Membership: AR PR N

Russ Houlden, Non-Executive Director

Appointed: Russ joined the Board as a Non-Executive Director in January 2022.

Skills and experience: Russ is an Operating Partner at Corsair Infrastructure, a business unit of Corsair Capital. Russ brings a wealth of financial expertise and water industry experience to the Board, having been the CFO of United Utilities Group PLC for ten years until July 2020. During his time at United Utilities, he was also Chair of the Financial Reporting Committee of the 100 Group from 2013 to 2020. Prior to his role at United Utilities, he was the CFO of Telecom New Zealand from 2008 to 2010 and Finance Director of Lovells from 2002 to 2008. Until 2002 he held a variety of divisional Finance Director positions in ICI and BT.

Other roles: Russ is a Non-Executive Director of Kelda Holdings Limited. He is also an Independent Non-Executive Director at Babcock International Group PLC and an Independent Non-Executive Director and Chair of the Audit Committee at Orange Polska SA.

Committees: PR N PV

Chris Johns, CFO

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

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

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

Committee Membership: None

Andrew Merrick, Independent Non-Executive Director

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

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

Other roles: Andrew is a Non-Executive Director of Market Harborough Building Society, a Trustee Director of The Nell Bank Charitable Trust and a Director of Ilkley Lawn Tennis & Squash Club Limited and its subsidiary, ILTSC Events Limited.

Committee Membership: AR N SHE PV

Ray O'Toole, Senior Independent Director

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

Skills and experience: Ray has spent the majority of his career in the transport sector, including as Group Chief Operating Officer and UK Chief Executive for National Express plc for ten years until 2010. This included responsibility for a fleet of 20,000 buses and coaches, nine rail franchises and 40,000 staff, with operations in Spain, the USA, Canada, and the UK. He started his non-executive career whilst at National Express as a member of the Board of the British Transport Police Authority. From 2011 Ray served as a Non-Executive Director and member of the Safety Committee of the Office of Rail and Road until he was appointed as Chief Executive of Essential Fleet Services Limited from July 2015 until February 2017. Ray has a background in mechanical engineering in addition to bringing his skills in safety and strategy.

Other roles: Ray is the Non-Executive Chair and Chair of the Health, Safety and Environment Committee of Stagecoach Group plc.

Committee Membership: AR N **PR** SHE

Dame Julia Unwin, Independent Non-Executive Director

Appointed: Julia joined the Board as an Independent Non-Executive Director in January 2017.

Skills and experience: Julia brings to the Board a wealth of experience from the voluntary, commercial, and public sectors as well as from regulatory environments. She was the Chief Executive of the Joseph Rowntree Foundation for a decade until 2016. She has regulatory experience having served on the Boards of the Housing Corporation, the Charity Commission and she was Deputy Chair of the Food Standards Agency. Through her engagement with consumers, regulation and public policy, Julia brings a deep understanding of the interests of customers and individual communities to the Board as well as a specific knowledge of the demographics of the Yorkshire region and of poverty, vulnerability, and disadvantage.

She has worked extensively on issues to do with developing social value. In May 2019 Julia received a Lifetime Achievement Award from the Chartered Management Institute and was appointed a Dame in the 2020 New Year Honours list for her contribution to civil society.

Other roles: Julia is a Non-Executive Director of Mears Group Plc and is the Chair of the Board of Governors of York St John University. She is the Inaugural Chair of the Smart Data Foundry, Edinburgh University.

Committee Membership: N PR SHE **PV**

Andrew Wyllie CBE, Independent Non-Executive Director

Appointed: Andrew joined the Board as an Independent Non-Executive Director in September 2017.

Skills and experience: Andrew was Chief Executive of Costain Group PLC for 14 years up until May 2019. He was also a Non-Executive Director of Scottish Water from April 2009 to April 2017. Andrew has an MBA from the London Business School, he is a Chartered Engineer, a fellow of the Royal Academy of Engineering and was President of the Institution of Civil Engineers in 2019. Prior to joining Costain Group PLC, Andrew worked for Taylor Woodrow where he was the Managing Director of the construction business and a member of the Group Executive Committee. Andrew was awarded a CBE for services to engineering and construction in the 2015 New Year Honours list.

Other roles: Andrew is a Non-Executive Director of Persimmon PLC and BMT Group Ltd and undertakes a variety of independent advisory roles.

Committee Membership: AR N PR **SHE**

Other directors during the year

The following directors also served on the Board for the periods shown during the year. More information on their skills and experience can be found in our 2021 ARFS:

Anthony Rabin
Independent Non-Executive Chair
to 1 September 2021.

Nevil Muncaster
Chief Strategy & Regulation Officer
to 31 July 2021.

Mike Osborne
Non-Executive Director
to 27 October 2021.

Post year end appointment

After the year end we announced the retirement of our CEO, Liz Barber with effect from 6 May 2022, and the appointment of our new CEO, Nicola Shaw, from 9 May 2022. Nicola brings with her extensive experience in regulated infrastructure businesses and has an excellent track record in driving efficient delivery whilst also improving customer service and colleague engagement. Most recently Nicola was the UK Executive Director for National Grid and was previously the Chief Executive of High Speed 1 and a Director of First Group. She is currently a Non-Executive Director of International Airlines Group.

Board length of service

Director	Appointment	Tenure as at 31 March 2022
Independent Non-Executive Chair		
Vanda Murray	July 2021	9 months
Executive directors		
Liz Barber	November 2010	11 years 4 months
Chris Johns	June 2020	1 year 10 months
Independent non-executive directors		
Andrew Merrick	June 2019	2 years 9 months
Ray O'Toole	June 2014	7 years 9 months
Julia Unwin	January 2017	5 years 2 months
Andrew Wyllie	September 2017	4 years 6 months
Investor non-executive directors		
Scott Auty	September 2017	4 years 6 months
Andrew Dench	September 2017	4 years 6 months
Russ Houlden	January 2022	3 months

Leadership team

The YWLT is responsible for the effective day-to-day management of the company. The members of the YWLT as at 31 March 2022 were:

Liz Barber, CEO

Responsibilities: Liz had overall responsibility for the day-to-day management of the business and the implementation of the purpose, vision, and values of the organisation until her retirement on 6 May 2022.

Skills and experience: Liz's skills and experience are set out in the Board of directors section. More information on the skills and experience of Liz's successor, Nicola Shaw, can also be found in the Board of directors section.

Chris Johns, CFO

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

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

Zoe Burns-Shore, Director of Customer Experience

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

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

Neil Dewis, Director of Water

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

Skills and experience: Neil joined Yorkshire Water in 2001 and has held a number of positions in our Regulation, Strategy and Customer Experience business functions. He was responsible for creating and shaping the Service Delivery business unit and helping to deliver improved performance year-on-year before being appointed Business Transformation Director in 2018, moving to his current role in January 2019. Neil has a passion for sustainable landscape management and is a Chartered Water and Environment Manager with a background in Environmental Science. He is a Non-Executive Director of WaterRegsUK.

Richard Emmott, Director of Corporate Affairs

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

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

Andy Haywood, Chief Information and Technology Officer

Responsibilities: Andy is responsible for technology across the group, which includes oversight of our technology strategy and delivery. Andy is responsible for our Technology (TEC) comprising Technology, Business Change and Data.

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

Mark Horrobin, Chief Transformation Officer

Responsibilities: Mark joined Yorkshire Water in April 2020 and is responsible for the delivery of our transformation programme and for business change across the group.

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

Jenni Morris, Chief People Officer

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

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

Chris Offer, Director of Strategy & Regulation

Responsibilities: Chris joined Yorkshire Water in July 2021 and has oversight of the long-term strategy of the business and all matters relating to regulation. This includes over-seeing the regulatory Price Review and how this fits into the long-term business plan and strategy for the business. Oversight of the strategy includes considering long-term factors such as climate change, global megatrends, the political landscape, and social, economic and technological trends. Chris is responsible for our Sustainability, Resilience, Asset Strategy and Policy and Regulation teams.

Skills and experience: Chris joined Yorkshire Water in July 2021, having previously spent time with Ofwat and 14 years with Affinity Water. At Affinity Water he was responsible for regulatory strategy, business planning and leading a number of cross-organisational functions including economic regulation, water quality, health and safety, public affairs and communications. His experience includes commercial, economic, and financial modelling, business change and transformation, cost-benefit analysis, regulatory reporting and compliance as well as asset management and investment planning. He started his career as an economist working for Ofgem, followed by several years as a consultant for Mott Mcdonald Water Utilities division.

Ben Roche, Director of Wastewater

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

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

Kathy Smith, Company Secretary

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

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

Richard Stuart, Director of Capital Delivery

Responsibilities: Richard joined Yorkshire Water in June 2021 as our Director of Capital Delivery. He is responsible for overseeing the delivery of our capital investment across our water and wastewater assets. This investment ensures we meet our regulatory commitments and enables us to continually improve the health and performance of our assets.

Skills and experience: Richard is a Chartered Civil Engineer and Fellow of the Institution of Civil Engineers. He joined us from Costain Group PLC where, as Highways Sector Director, he had responsibility for a portfolio of contracts providing technology integration, consultancy, complex project delivery and maintenance services to Highways clients. Richard's role included developing the sector strategy and business plan, as well as overseeing sales and contract delivery. He has successfully delivered programmes and projects for infrastructure owners such as National Highways, Network Rail and TfL.

Mark Taylor, Director of HSSE

Responsibilities: Mark joined Yorkshire Water in October 2020 and leads the functions responsible for health, safety and wellbeing across the group, as well as public safety, physical security and the governance of environmental protection.

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

Appointment and replacement of directors

The Articles of Association allow the Board to appoint a new director at any time; however, the appointment is also subject to approval by investors who hold 60.6% of the share capital of the ultimate parent company, Kelda Holdings Limited. This is consistent with the practice of a listed company where the shareholders would approve an appointment at the next Annual General Meeting (AGM). As a private limited company, we do not hold an AGM and therefore directors are not subject to annual re-election by the shareholders.

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

Commitments of the Non-Executive Chair

Vanda holds a number of other positions on company boards. She is a Non-Executive Chair of Marshalls plc, the Senior Independent Director at Bunzl plc and a Non-Executive Director at Manchester Airports Group. Vanda manages her commitments carefully and ensures that she is always available to Yorkshire Water whenever required. The Board is content that Vanda has sufficient time available to offer the focus and dedication to Yorkshire Water that her role requires.

Independence

The Board reviews the independence of the independent non-executive directors each year; considering their tenure, relationships and circumstances as well as considering the behaviour of each director at Board meetings and whether or not they contribute to unbiased and independent debate. All of the independent non-executive directors and the Non-Executive Chair were independent upon appointment and the Board believes that all remained wholly independent in the year under review in relation to the criteria set out in Provision 10 of the UK Corporate Governance Code, subject to the specific circumstances noted in the box below.

Independence of Ray O'Toole

In March 2022 a fund managed by DWS Infrastructure announced an offer for Stagecoach Group plc, of which Ray O'Toole is the Chair. It was then confirmed post year end that the offer had been successful. Scott Auty, who represents DWS Infrastructure on our Board, is also a Board member of the company acquiring Stagecoach Group plc. This acquisition therefore impacts upon the independence of Ray O'Toole under the definition in the UK Corporate Governance Code.

The Board considered this when the offer was announced, and implemented some additional controls to avoid any potential conflict of interest in the year under review. These included Scott abstaining from any votes relating to the remuneration or reappointment of Ray, and Ray abstaining from any Board votes that were not unanimous in order to ensure there could be no undue influence exerted as a result of the potential conflict.

Now that the acquisition has been confirmed post year end, Ray will continue on our Board as a Non-Independent Non-Executive Director. The Nomination Committee will consider the appropriate next steps over the coming weeks.

Compliance

The UK Corporate Governance Code

Yorkshire Water is a private limited company and does not have listed shares. Despite this, the Board chooses to report its compliance with the UK Corporate Governance Code on an annual basis as it wishes to comply with best practice and to be fully transparent in the way in which it operates.

The Board considers that it has complied with all the principles of the UK Corporate Governance Code throughout the year ended 31 March 2022, with the exception of the following provisions:

- **Provision 11** – this principle requires that at least half the Board, excluding the Chair, should be independent non-executive directors. We have not complied with this provision during the year due to the presence on our Board of three investor directors who represent our shareholders and are therefore not independent. We have found having investor directors on our Board extremely beneficial so that we can hear shareholder views first-hand and ensure that our shareholders have a full understanding of the opportunities and challenges facing the business. It also enables the business to operate as if it is a separate entity, as required by the Ofwat Board Leadership, Governance and Transparency Principles.
- **Provision 18** – this provision relates to the annual re-election of directors by shareholders at the AGM. As a private limited company, we do not hold an AGM and therefore this provision does not apply.
- **Provision 24** – this provision requires the Audit Committee to consist entirely of independent non-executive directors. Our Audit and Risk Committee has a majority of independent non-executive directors but also has an investor director, who we believe provides useful challenge and insight to the Committee.
- **Provision 32** – this provision requires the Remuneration Committee to consist entirely of independent non-executive directors. Our People and Remuneration Committee has a majority of independent non-executive directors but also has three investor directors, which means we receive insight from investors when making remuneration decisions, as well as ensuring our investors hear first-hand about the people-related matters considered by the Committee.
- **Provision 36** – this provision requires that our remuneration schemes promote long-term shareholdings by executive directors in order to align the interests of executive directors with long-term shareholder interests. As a private company our shares are not publicly traded, and shares are not offered as part of our remuneration schemes. Instead, our shareholders are represented on our People and Remuneration Committee and therefore have direct input to ensure that the structure of our remuneration schemes aligns the interests of executive directors with those of our shareholders.

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

The Ofwat Board Leadership, Governance and Transparency Principles

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

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

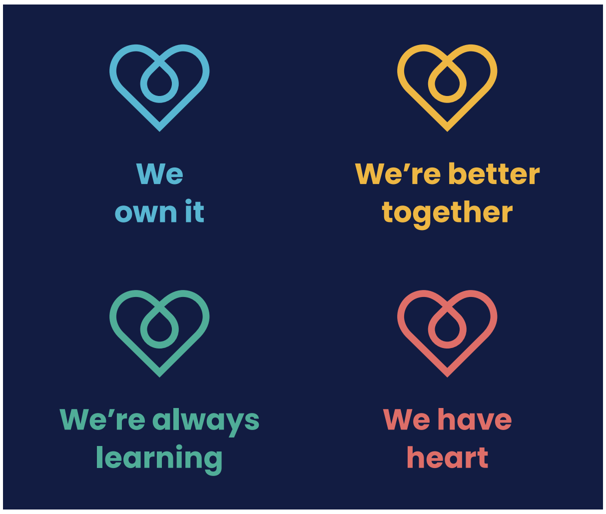
The regulated company Board establishes the company's purpose, strategy, and values, and is satisfied that these and its culture reflect the needs of all those it serves.

Setting our purpose, vision, and behaviours

We launched our purpose, ambition and values back in March 2020, following a significant piece of work with our colleagues, customers, directors, shareholders and other stakeholders. The Board was heavily involved throughout this process and gave approval to the final version prior to its launch. Our purpose is 'we're proud to play water's role in making Yorkshire a brilliant place to be – now and always' our vision is 'to put people at the heart of everything we do'.

We have four desired behaviours that seek to ensure that the right culture is achieved across the business:

Our Behaviours



During the year we have launched our Yorkshire Water Code of Ethics which provides further support to colleagues on how to ensure that they are always doing the right thing and where to go for help and advice if they are faced with an ethical decision as part of their work. This was reviewed and signed off by the Board prior to launch and has been accompanied by mandatory online learning for all colleagues to ensure that they have understood the Code of Ethics and how it applies to them.

The Board has also been closely involved in the setting of our strategic vision during the year, with individual Board members participating in discussions around the strategy and information being supplied to the Board at regular intervals on how the strategy was being developed, including information on external dynamics and long-term considerations. This culminated in a Board workshop in September 2021 at which the strategy was presented, discussed and approved. Our strategic vision focuses on service, resilience and growth alongside being a trusted company.

Embedding our purpose, ambition, and behaviours

In 2019 we set up the Colleague Engagement Forum as one of the ways in which the Board can hear first-hand from colleagues from across the business. At least one non-executive Board member attends each meeting and often more. Minutes from each meeting are circulated to the Board and there is a standing agenda item at each Board meeting to discuss the key messages being received from the Forum.

Forum members are free to raise any matters at the Forum and there are also scheduled agenda items to discuss key topics on which the Board would like to receive feedback. The Forum meets six times each year and also met the Board for an informal lunch during the year to talk one-on-one about anything that they wish to communicate to the Board. The Forum gives the Board great insight into the culture of the organisation and the extent to which the purpose, ambition and behaviours are embedded in the business and the strategy understood.

The Board also gains insight in the culture of the business through the Yorkshire Water Voice survey results, which are fed back in detail to the Board via the People and Remuneration Committee, including a summary of the comments received from colleagues through the survey.

The Board also seeks to find out how it feels as a key supplier working with Yorkshire Water and has invited two key suppliers during the year to attend the Health, Safety and Environment Committee to receive feedback first-hand on their experience of working with Yorkshire Water and how this might be improved. This also helps the Board to understand how the desired culture and behaviours are embedded in our interactions with key suppliers.

Our purpose, vision and behaviours has become firmly embedded across our organisation with colleagues often referring to our vision in their comments on our intranet and in their responses to the Yorkshire Water Voice survey. Our colleagues also recognise when other colleagues consistently exhibit our core values with hundreds of nominations received each year under our employee recognition programme.

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

How our Board operates

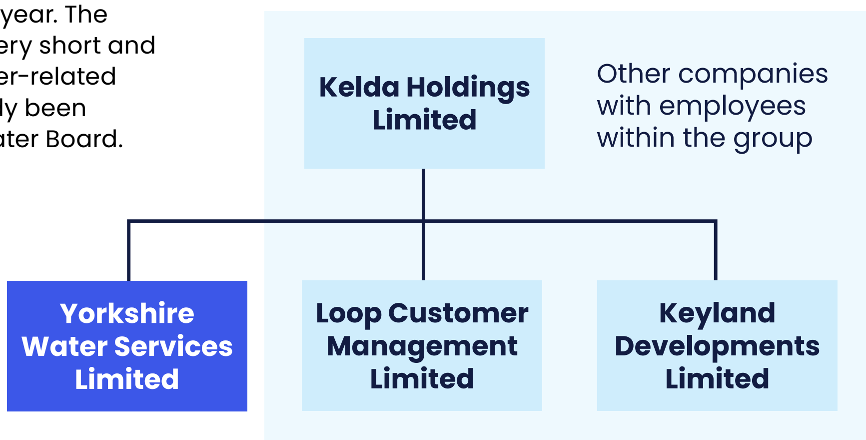
Yorkshire Water is part of a group of a companies and has an ultimate parent company, Kelda Holdings Limited which is owned by our shareholders.

The Board of Yorkshire Water recognise the importance of ensuring that Yorkshire Water operates as a separate company and that t he Board is able to make decisions that are in the best interests of the company rather than being influenced by what might be best for the group. This is achieved in a number of ways:

- We have shareholder representatives on the Yorkshire Water Board, which means that three of our four shareholders are decision makers on our Board, which vastly reduces the need for decisions to be referred to the ultimate parent company. All of the Yorkshire Water directors have legal and fiduciary duties to promote the success of the company for both current and future members, which is something our investor directors are acutely aware of so decisions are always made from the perspective of Yorkshire Water rather than the wider group. In addition we have four independent non-executive directors on the Yorkshire Water Board who have no connection with the ultimate parent company and therefore can ensure that decisions are made solely in the best interests of Yorkshire Water.
- From a practical perspective the Yorkshire Water Board has full responsibility for all aspects of the business. The matters reserved for the Board of Kelda Holdings Limited only require limited decisions to be referred to Kelda Holdings and in practice this is simply done for verification. Kelda Holdings Limited has never over-turned a decision made by the Board of Yorkshire Water and it is highly unlikely that this would ever happen given the presence of the investor directors on the Yorkshire Water Board.
- The Kelda Holdings Board met only briefly on four occasions during the year. The meetings are typically only very short and rarely focus on Yorkshire Water-related matters as these have already been discussed at the Yorkshire Water Board.

Most of the decisions made by the Kelda Holdings Board relate to matters specific to Kelda Holdings itself or other companies within the group, outside of Yorkshire Water. These are particularly those with employees, as shown in the simplified group structure to the right. During the year there were 12 decisions made by the Kelda Holdings Board, only three of which were directly related to Yorkshire Water. These are highlighted in **bold** below:

- Approval of the Code of Ethics and tax strategy for the group companies outside of Yorkshire Water;
- **The reappointments of Andrew Merrick and Andrew Wyllie as independent non-executive directors of Yorkshire Water**;
- The appointment of Vanda Murray as Chair of Kelda Holdings Limited;
- Approval of the ARFS for Kelda Holdings Limited;
- Approval of the proposed approach to the transfer of LIBOR arrangements to SONIA on the group financial instruments outside of Yorkshire Water;
- **The reappointment of Deloitte as the external auditor for the group;**
- Approval of the Modern Slavery Act Statement to be published on the Kelda Holdings website;
- Approval of a series of steps to enable the dissolution of a non-regulated group company;
- Approval of the refinancing of bank facilities within a non-regulated group company; and
- Approval of the FY23 budget for the group companies outside of Yorkshire Water.



Why does the Board of Kelda Holdings verify some decisions that impact on Yorkshire Water?

We refer some matters to the Board of Kelda Holdings for verification as we believe this reflects best practice in relation to certain decisions. These are things such as the appointment of independent non-executive directors, changes to executive remuneration and the appointment of our external auditor. These decisions are always recommended by the Board of Yorkshire Water first so nothing is referred to Kelda Holdings that is not already approved by Yorkshire Water; this helps to ensure that referral to Kelda Holdings does not give our shareholders undue influence. The verification by Kelda Holdings provides a further layer of scrutiny from the five directors who are on the Kelda Holdings Board but not on the Board of Yorkshire Water, which helps to ensure that Yorkshire Water is not able to appoint unsuitable directors or an auditor which is not sufficiently independent from the business, for example. In a listed company this control comes from such decisions having to be put to shareholders in an Annual General Meeting.

Decisions in relation to dividends

As a privately owned company providing a public service it is essential that we have clear and transparent controls in place in relation to any dividends that we pay. All dividends paid by Yorkshire Water are solely decided by the Board of Yorkshire Water. The Board of Kelda Holdings Limited is only able to approve dividends being paid by Kelda Holdings Limited and makes no decisions in relation to dividends being paid by Yorkshire Water. The dividend policy for Yorkshire Water is set every five years as part of our Price Review and approved by Ofwat. Further information on our dividends for 2022 has been included in the Other Disclosures section.

Dividend policy

Our dividend policy explicitly states that distributions will only be made after an appropriate financial resilience analysis has been undertaken, that dividends will be adjusted to reflect and recognise company performance and benefit sharing from service and efficiency performance, and states the continuing need for the investment of profits in the business and the funding of employee interests. The policy ensures that delivery for customers and colleagues is not just considered but factored into any amounts that are to be paid out as dividends. Whenever a dividend is considered by the Board, a paper is prepared for the Board's consideration, which sets out the purpose of the dividend and how it complies with the dividend policy. During the year, the Board of Yorkshire Water has approved the payment of £52.6m in dividends.

The dividend policy is to:

- Determine a base dividend from a set yield applied to regulatory equity derived by reference to the company's actual capital structure. This base dividend is assumed to grow annually in real terms and with CPIH during AMP7, which recognises the management of economic risks and capital employed;
- Adjust the base dividend to reflect and recognise in-the-round company performance and benefit sharing from service and efficiency performance particularly performance against relevant targets set in the determination of price limits; the continuing need for investment of profits in the business and the funding of employee interests;
- Consistently calculate dividends in accordance with the policy for any dividend payments made in AMP7 and to ensure they are justified in relation to the factors outlined above; and
- Ensure there are sufficient profits available for distribution in the foreseeable future and the company remains financially resilient, following the payment of a dividend, when considering the undertakings and financial covenants that are part of Yorkshire Water's financing arrangements.

When approving dividends to be paid in a financial year, the Board assesses both company performance to date and that expected for the whole of an AMP to determine the total dividends that could be paid for the whole AMP. As such dividend payments are considered within the longer-term context of the business and not just on the basis on the last 12 months and explicitly considers the ability of the business to be able to deliver into the future given the proposed dividend.

For the 2022 financial year the Board considered a number of factors prior to approval of dividends including: delivery of PCs that incorporate incentive based rewards and penalties for AMP7, circumstances where performance has not met targets, the ongoing EA and Ofwat investigations into environmental performance where the company remains actively engaged with these regulators to resolve questions around past performance and made investments to tackle recent issues, and the ability to maintain financial resilience through the remainder of AMP7 in line with the review of long-term viability.

Dividends of £52.6m were paid in the year (2021: £45.2m): none of which were available to the shareholders of Kelda Holdings Limited (2021: nil), Yorkshire Water's ultimate parent company, as they have continued to support the company's financial resilience since AMP6.

These dividends included distributions of £29.4m (2021: £35.1m) that did not impact the company's liquidity position or its distributable reserves as they were returned immediately to the company in the form of interest receipts on intercompany loans. No dividends have been proposed post year end in relation to 2022 (2021: £nil).

Handling conflicts of interest

Each of our directors is subject to the obligations in relation to conflicts of interest that are set out in company law. Our Board members are all experienced directors and receive regular reminders of their statutory obligations. Our Board has investor directors, as well as executive and independent non-executive directors, and we place great importance on ensuring we maintain the right balance in the boardroom, so that the effectiveness of the Board is not undermined by conflicted interests. We have a standing agenda item at each meeting for conflicts of interest.

If any of our directors believed that they were conflicted in any way, then this would be declared and appropriate action taken, such as excluding them from decisions where they may be conflicted. No conflict situations have arisen during the year under review but we have taken steps to ensure a potential future conflict situation has been appropriately handled. This is explained further in our **Leadership team** section.

Ensuring long-term focus

Our long-term strategy looks 25 years ahead and takes into consideration the long-term forecasts for Yorkshire in many areas such as population growth, water consumption and climate change.

The five-year Business Plan is aligned to this longer-term strategy when it is drawn up and reviewed by the Board. Each year the Board receives 'horizon scanning' information which sets out external matters to be aware of over the longer-term. The Board also considers the long-term viability of the business and makes a statement on this, considering various scenarios across the current and next AMP. Further information on this can be found in the **Strategic Report**.

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

Our approach to transparency and governance

Our corporate strategy which was approved by the Board during the year, sets out our goals around growth, resilience and service. The whole strategy is underlined by our desire to be a trusted company.

We recognise our position as a regional monopoly and we know that this makes it essential that our customers are able to trust us, as our household customers do not have the option to move to another supplier if we do not meet their expectations. We seek to be transparent and ethical in all that we do. We have taken a number of steps to improve our transparency over recent years, including the launch of our Code of Ethics as mentioned earlier in this section. The Code sets out our expectations of everyone representing Yorkshire Water, at any level and provides a framework to help when someone faces a difficult ethical decision. The Code was developed with the help of some of our Board members and was reviewed and approved by the whole Board prior to launch.

Our Public Value Committee focuses on the social purpose and public accountability of the business, our role as an anchor institution in Yorkshire and the key role we play in the health, wellbeing, and prosperity of the region. Part of the focus of the Committee this year has been to look at how we report on our public value both internally and externally and how we assure the information we are reporting.

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

Variable pay

The measures used in calculating variable pay for executive and senior colleagues are set out in the Directors Remuneration Report. Over 75% of the measures are customer, community or environment-related to ensure that our executive director and senior colleague goals are aligned with those of our key stakeholders. There is, therefore, a clear correlation between delivering for customers, community and the environment and any variable payments made, which are transparently set out in our Directors' Remuneration Report each year.

Assurance of information

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

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

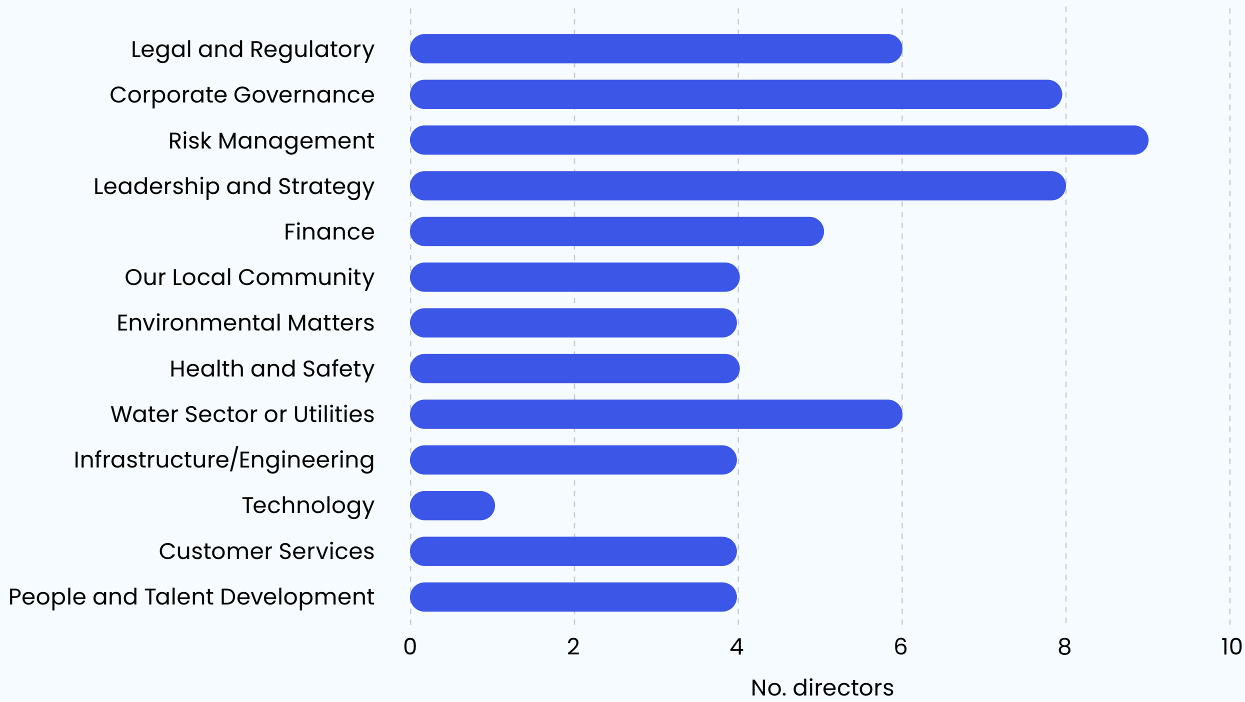
Ensuring an effective Board

We undertake an annual Board evaluation to consider the effectiveness of our Board. In 2022 this has been an externally facilitated evaluation, undertaken by Lintstock Ltd (Lintstock), who are entirely independent from Yorkshire Water. The results of this and our goals for the coming year are described in our Strategic Report.

Further information on how the Board fulfils its duties in relation to stakeholders, including colleagues, customers and communities, can be found in our Section 172(1) report.

In all that the Board does we seek to apply one of the 'five S's' of corporate governance. These are strategy, stewardship, support, stretch and scrutiny and reflect the five modes in which the Board operates at different times. This has been helpful in ensuring that the Board does not always operate in one mode but performs a different function depending on the nature of what is being considered, which in turn helps to enhance the effectiveness of the Board. We arrange training for Board members where necessary to enhance knowledge in specific areas and arrange site visits where appropriate to enable Board and Committee members to see operations first-hand to enhance understanding, such as the Safety, Health and Environment Committee visit to Scammonden Reservoir in November 2021.

We maintain a Board skills matrix which looks at the skills and experience of each of our Board members, and is used to identify any potential gaps in the expertise and experience that we have on the Board.



This helps us to ensure we maintain a balance of the skills and experience that we need now and may need in the future. The matrix is reviewed by the Nomination Committee and used when we undertake recruitment to ensure the role profile for any vacancy reflects the needs highlighted by the matrix. The graph below shows a summary of our Board skills matrix.

The matrix shows that the current Board is least skilled in technology and digital matters. In response to this our Audit and Risk Committee has had regular updates in the year on cyber risk, and a workshop is planned later in 2022 to consider technology and the impact of digital developments on our industry.

We are aware that our current Board does not reflect the diversity of the community that we serve from both a gender and ethnicity perspective. We aim to comply with the recommendations of the latest update from the Parker Review in March 2022 and the FTSE Women Leaders Review, published in February 2022, as soon as we are able. We always take these recommendations into account when recruiting to the Board, and a Board Appointments Policy is in place which ensures a consistent and fair approach to recruitment is always undertaken. The fundamental objective of recruitment remains to ensure that the best candidate for the role is appointed, but we actively work with recruitment consultants to ensure we review a diverse range of candidates to ensure all are given an equal opportunity for the role.

We have provided a report from each of our Board committees as part of this ARFS, which sets out the work that each Committee has done during the year, the purpose of the Committee and the areas for which each Committee can be held accountable. We have gone beyond the governance requirements of having an Audit, Remuneration and Nomination Committee to also have Public Value and Safety, Health and Environment Committees to enable Board members to spend additional time in these areas, focusing on specific matters in detail and providing assurance in these areas to the Board. We continue to keep the Terms of Reference of each Committee under review to seek to optimise its effectiveness.

The Wates Corporate Governance Principles for Large Private Companies

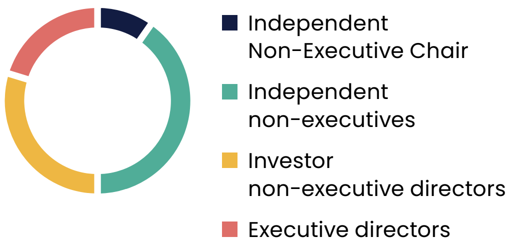
The above principles were published in December 2018 and are a voluntary code for private companies.

These contain six principles relating to purpose and leadership, Board composition, director responsibilities, opportunity and risk, remuneration and stakeholder relationships and engagement. The Board has reviewed these principles and considers that it complies with all six. Further information on how the Board operates in each of the six areas identified is contained throughout the Strategic Report and in this Directors' Report.

Leadership

Our Board composition

As at 31 March 2022, the Board comprised the following:



Board committees

The Board has established and delegated specific responsibilities to Audit and Risk, Nomination, People and Remuneration, Safety, Health and Environment, and Public Value Committees. Each committee reports back to the Board after each meeting to ensure that the whole Board is aware of the matters considered by the committees.

Each committee has its own report which sets out the role of the committee and how it has operated during the year under review.

How the Board operates

The Board had six scheduled meetings in the year, with two additional ad-hoc meetings held to review and approve the detailed Business Plan for the year and the business case for our ongoing Transformation programme.

Attendance at the meetings is shown in the table below. During the year we have met face-to-face whenever possible in accordance with the Covid-19 restrictions in place at the time. When necessary Board, committee and workshop meetings have been held remotely by video conference. Usually our scheduled meetings are preceded the evening before by an informal meeting over dinner, allowing more time to debate issues in depth, again this has been held where possible during the year.

In addition, the Board met for workshops during the year to consider specific matters in greater depth. In the year under review five of these workshops were held to consider such topics as strategy development, cyber security, transformation, financial resilience and our people-related programmes.

The Board agenda is set for each meeting by the Chair, with input from the executive directors and the Company Secretary. In addition, any of the independent non-executive directors or investor directors can request a matter to be added to the agenda at any time. Monthly reports on operational performance, customer experience, financial performance, people matters, governance, compliance and health and safety are circulated to the Board members regardless of whether or not a Board meeting is scheduled.

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

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

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

Attendance at Board and committee meetings

Director	Board	Audit and Risk Committee	Safety, Health and Environment Committee	Nomination Committee	People and Remuneration Committee	Public Value Committee
	No./max	No./max	No./max	No./max	No./max	No./max
Vanda Murray	5/5	–	3/3	2/2	3/3	4/4
Anthony Rabin	4/4	–	–	2/3	2/2	1/1
Scott Auty	8/8	–	3/3	3/4	5/5	–
Liz Barber	8/8	–	3/3	3/4	–	4/4
Andrew Dench	8/8	6/7	–	3/4	5/5	–
Russ Houlden[1]	1/2	–	–	1/1	1/1	0/1
Chris Johns	8/8	–	–	–	–	–
Andrew Merrick	8/8	7/7	3/3	4/4	–	4/4
Nevil Muncaster	4/4	–	–	–	–	1/1
Ray O'Toole	8/8	7/7	3/3	4/4	5/5	–
Mike Osborne	5/5	4/4	1/1	3/3	–	2/2
Julia Unwin	8/8	–	2/3	3/4	4/5	4/4
Andrew Wyllie	8/8	7/7	3/3	4/4	4/5	–

[1] Russ Houlden missed the meetings held just days after his appointment due to a prior commitment.

Training and development

The Board receives regular updates on governance-related matters and more formal training where appropriate. Potential training needs are discussed as part of individual performance evaluations, plus each director is given the opportunity to flag any additional training requirements as part of the annual Board evaluation process. New directors joining the company are given a broad and comprehensive induction to the business consisting of site visits, meetings with key personnel and detailed information relating to the business, as well as any training specifically required in relation to the duties of directors and their role on the Board.

Business model and KPIs

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

Reappointment of the external auditors

Deloitte LLP has advised of their willingness to continue in office and have confirmed their continued independence. Deloitte LLP was appointed as external auditor in 2018, following a robust competitive tender process which resulted in a change of auditor. Following consideration of the relationship with the external auditor, the Audit and Risk Committee has recommended to the Board that Deloitte LLP is re-appointed, and it has been resolved to re-appoint them. They have provided an independent audit opinion on these accounts which can be found in the Financial Statements section. In line with best practice, our current Audit Partner, Jane Boardman, will step down from the audit following the publication of this ARFS and will be replaced by another Audit Partner who is entirely independent from Yorkshire Water.

Board evaluation

We reported last year on the Board evaluation that we undertook in 2021 and the areas for additional focus that were identified through that evaluation. The table below sets out these areas and the progress made during the year:

Area for additional focus	Progress in 2022
Ensuring a greater focus on operational matters, including site visits where possible and greater interaction with a broader cross-section of colleagues, to make up for some of the missed interactions in the year under review.	Due to the ongoing impact of Covid-19 throughout much of the year under review, the Board has been unable to undertake as many site visits as it would have liked. The SHE Committee paid a visit to Scammonden Reservoir towards the end of 2021 and further site visits are now built into the forward plan for 2022/23. Further information on this has been included in the SHE Committee report.
Making greater use outside of the Boardroom of the experience of the independent non-executive directors and investor directors, in helping with mentoring and colleague development for high-potential individuals.	Many of the Board members have attended meetings held as part of our Transformation programme to hear first-hand about the progress of the programme and to contribute their experience and expertise where relevant. We also continue to build a development programme for high-potential individuals in the organisation and will seek to include the experience of our Board members as part of that programme where practical.
Continuing to improve the quality of Board papers and presentations in Board and committee meetings, to focus these even further on the matters that require consideration and input from the Board.	We continue to improve the quality of our Board and committee papers and presentations and feedback from our evaluation in 2022 shows that these have improved over the year. There is always more that can be done in this area so we will continue to strive to make papers as useful as possible to enable the Board to focus on the things that matter.

In 2022 our Board evaluation has been undertaken by Lintstock as an independent, external facilitator. The evaluation consisted of detailed online questionnaires which were completed by all Board members. The results from these questionnaires were compiled into a report which was shared with the Board for discussion.

The review concluded that the Board and its committees were operating effectively with a number of areas of strength noted, including oversight of stakeholders, Board dynamics and the way in which Board meetings are managed.

The review highlighted some specific areas for focus in 2022:

- Ensuring greater focus on colleague engagement with the Board wishing to receive more regular updates on colleague sentiment;
- More time to be spent by the Board in considering technology and digital developments, reflecting the relatively low level of expertise in this area at the Board;
- Ensuring greater focus by the Board on customers and a desire to pursue more innovative ways of allowing the Board to learn from, and interact with, customers; and
- Some specific topics were highlighted for inclusion In the forward agenda for the Board, including a deep dive on specific environmental matters, climate change, culture, PR24 and regulatory engagement.

An action plan has been developed and agreed by the Board and the progress made will be reported in our Corporate Governance Statement for the year ended 31 March 2023. In addition to the annual Board evaluation, the Chair meets with each Board member individually on at least an annual basis to discuss their own performance and to identify any areas for development or potential training needs. The Senior Independent Director also gathers feedback separately on the performance of the Chair and discusses this with her at least annually.

Non-executive director meetings

The independent non-executive directors and investor directors meet with the Chair at regular intervals to discuss Board-related matters.

Powers of the directors

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

All directors have a statutory duty to avoid conflicts of interest. Our Articles of Association permit those directors who are not conflicted to authorise conflict situations, as is standard practice. Conflicts of interest are a standing agenda item at each Board meeting and any potential conflicts must be disclosed and may then, if appropriate, be authorised by the non-conflicted directors. Any such authorisations may be subject to appropriate conditions. The directors do not consider that any actual conflicts of interest have arisen during the year between the roles of the directors as directors of the company and any other roles which they may hold.

Our Chair, executive directors and investor directors remain mindful that they hold directorships on both the Board and that of Kelda Holdings Limited and that these operate as distinct legal entities.

Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence over a period of at least 12 months from the date of approval of the Financial Statements.

For this reason, they continue to consider it appropriate to adopt the going concern basis of accounting in preparing the Financial Statements. Please see note 1 of the **Financial Statements** for full going concern considerations.

Directors' statement

The directors confirm that they consider the ARFS, taken as a whole, to be fair, balanced, and understandable and provides the information necessary for shareholders and other stakeholders to assess the company's performance, business model and strategy. When arriving at this position the Board was assisted by a number of processes including the following:

- The ARFS is drafted by senior management with overall co-ordination by senior members of the finance team to ensure consistency across the relevant sections;
- An internal verification process is undertaken to ensure factual accuracy;
- Comprehensive reviews of drafts of the ARFS are undertaken by the executive directors and senior management;
- An advanced draft is reviewed by the Board;
- The final draft is reviewed by the Audit and Risk Committee prior to consideration by the Board. The Committee advised the Board that the ARFS, taken as a whole, is fair, balanced, and understandable for shareholders and other stakeholders to assess the company's performance, business model and strategy. Each director in office at the date of this report confirms that, to the best of their knowledge the Financial Statements give a true and fair view of the assets, liabilities, financial position, and loss of the company; and
- The Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

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

Disclosure of information to auditors

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

- So far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- Each director has taken all the steps they ought to have taken as a director in order to make themselves aware of any relevant audit information, and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Statement of directors' responsibilities

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Relations with shareholders

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

Amendments to the company's Articles of Association

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

Our risk management framework

Our risk management framework, which sets out our approach to identifying and managing our risks, is detailed in our **Strategic Report**.

Risk management responsibilities

The Board

The Board has overall responsibility for setting the risk appetite for the business and for ensuring that the overall risk profile is aligned with this. It is also responsible for ensuring that the business maintains sound internal control and risk management systems, as well as reviewing the effectiveness of those systems.

In order to do this, the Board has regular meetings with senior management and, via the Audit and Risk Committee, receives regular reports from the internal auditors and the external auditor on the effectiveness of the systems of internal control and risk management. The Board is satisfied that the systems are embedded within the day-to-day activities of the business and cover all material controls, including financial, operational and compliance controls, and that the business continues to be compliant with the provisions of the UK Corporate Governance Code relating to internal control.

The leadership team

The YWLT is responsible for reviewing the risks that have been recorded, to ensure completeness and accuracy, as well as assessing the suitability of the mitigations in place and any proposed timescales for further controls to be implemented.

Audit and Risk Committee

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

Financial risk management

We produce an annual budget which is reviewed by senior management and ultimately approved by the Board. A business plan, based on the most recent Final Determination, is also in place which enables the business to have a clear longer-term view of financial projections on a five-yearly cycle.

We also prepare monthly performance reports against budget, which are monitored by each business area and reported at YWLT and Board meetings. Further information about the financial risk management policies in place and, in particular, the way in which credit risk, liquidity risk, interest rate risk and foreign currency risk are managed, is in note 18 to the **Financial Statements.**

Greenhouse gas emissions

Information on our GHG emissions for the year to 31 March 2022 is contained in our Strategic Report in the **Love our environment** section.

Nomination Committee Report

On behalf of the Nomination Committee and the Board, I am pleased to present the Nomination Committee Report for the year ended 31 March 2022.

The role of the Nomination Committee is to keep the structure, size and composition of the Board under review and to ensure that the balance of skills, knowledge and experience of the Board meets the requirements of the business, both now and in the future.

The Committee is also responsible for over-seeing the recruitment process for new directors and for making recommendations regarding appointments to the Board.

Board Changes

As announced last year, I was appointed to the Board on 1 July 2021 and then became the Chair of the Board and the Nomination Committee from 1 September 2021. The Nomination Committee was heavily involved in the recruitment process, which was led by Ray O'Toole, as the Senior Independent Director. Ray also chaired the Committee meetings when the Chair succession process was being discussed.

Russell Reynolds Associates were engaged as independent recruitment consultants and they worked with the Committee to draw up the role profile and skills requirements. They then submitted a long list of Chair potential candidates, which was reviewed at length by the Committee, not least to ensure appropriate diversity amongst the potential candidates. A panel of Nomination Committee members then oversaw the interview process.

Earlier this year, Liz Barber indicated that she was considering retiring from the business and the Committee then met to discuss the process for the recruitment of a new Chief Executive. Spencer Stuart were then engaged to draw up a long list of candidates which was then reviewed by the Committee, with Committee members all meeting with the preferred candidate as part of the interview process. The Committee then unanimously approved the recommendation of Nicola Shaw to the Board as our new Chief Executive.

Board structure

Our Board structure is different from that of a listed company in that we have three investor non-executive directors who sit on our Board, alongside our independent non-executive directors and our executive directors. This has been the case since September 2017. Having representatives from our shareholders in the room is immensely beneficial to us as it enables us to understand their views in detail and ensures they hear first-hand all of the information that is presented to the Board in order to provide support and challenge as appropriate.

Whilst they are not deemed independent in accordance with the definition in the UK Corporate Governance Code, the investor directors still carry the same legal and fiduciary duties as our other directors and fully understand the importance of the services that we provide to Yorkshire and the impact that our actions have on the local communities which we serve. They also individually bring skills and experience to the Board which assist in creating a greater diversity of skills and experience, which is beneficial to the Board in its decision making.

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

Developing talent

In addition to reviewing the composition of the Board, the Nomination Committee plays a key role in developing talent in the organisation, to identify and promote those who are potential future Board members, either of Yorkshire Water or elsewhere. This includes ensuring that there are equal opportunities for development for people of all genders.

The Committee has a Board Appointments Policy which sets out the key principle for appointments to be made on merit, with consideration always being given to the need for diversity of all types. Yorkshire Water is committed to using open advertising or the services of an independent external adviser when recruiting to the Board and will only use external executive search firms who have signed up to the voluntary Code of Conduct addressing gender diversity and best practice.

Thanks and feedback

Our non-executive directors contribute significant time and effort in their roles and I would like to thank them for their commitment to Yorkshire Water.

Any feedback on the performance of the Nomination Committee is always welcome and this can be directed to me through our Company Secretary, Kathy Smith, who can be contacted at **compsec@yorkshirewater.co.uk**

Vanda Murray

Vanda Murray OBE
Chair, Nomination Committee
15 July 2022

Attendance at Committee meetings

The Nomination Committee is a sub-committee of the Board and meets as often as required each year. During the year ended 31 March 2022, the Committee met five times. The membership and attendance of the Committee is set out earlier in the Governance section. Meetings are also attended by the Company Secretary.

Committee responsibilities

- To review the structure, size and composition of the Board on a regular basis and to make recommendations to the Board regarding any changes;
- To ensure plans are in place for orderly succession to Board and senior management positions, and oversee the development of a diverse pipeline for succession;
- To keep under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to meet its obligations in relation to investors, the public service it provides and the community in which it operates;
- To oversee the process for the recruitment of any Board roles; and
- To review annually the time required from each of the directors to perform their roles effectively.

The Terms of Reference of the Committee are in line with the recommendations in the UK Corporate Governance Code and from the Chartered Governance Institute.

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

Committee evaluation

During the year an externally facilitated evaluation was undertaken of the Board and all of its committees. The feedback on the Nomination Committee showed it to be operating effectively. Succession planning was identified as an area for increased focus in the coming year, both for independent non-executive directors and for the senior leadership team within the business. This has been added to the forward agenda for the Committee for the coming year to ensure it receives an increased level of focus.

Public Value Committee Report

On behalf of the Public Value Committee and the Board, I am pleased to present the Public Value Committee report for the year ended 31 March 2022.

This Committee was previously known as the Social Value Committee, but the name was changed during the year to better reflect the role and purpose of the Committee. As a business we recognise the significance of the value that we can bring to the communities that we serve, as reflected in our purpose which is 'we're proud to play water's role in making Yorkshire a brilliant place to be – now and always'. The Committee was established in 2018 specifically to focus Board attention in this area.

As an anchor institution in the Yorkshire region we have a responsibility to ensure our actions are for the benefit of the whole region and aligned with other organisations where possible. During the year the Committee has considered a wide variety of matters ranging from reviewing environmental incidents, to considering how the Six Capitals are applied to decision making across the business, to considering our community engagement in specific areas of Yorkshire.

The Terms of the Reference of the Committee were updated in November 2021 to move oversight of environmental incidents to the renamed Safety, Health and Environment Committee, but our overall impact on the environment as a business from a public value perspective remains within the remit of the Public Value Committee.

The Committee applies a public value lens to Board decisions and ensures that the impact on our communities, the environment and other stakeholders are carefully considered in detail before decisions are made. During the year the Committee has considered our proposed approach to PR24, the public value elements of our strategy and has reviewed in detail our external reporting on matters of public value, prior to these going to the Board for approval.

The Committee has also spent time in the year considering both the carbon strategy and energy strategy of the business, as well as our approach to climate change through the review of our Adaptation Report prior to publication, which can be found on our website at yorkshirewater.com/media/gh5lxp3a/yw_adaptation_report_2021. As a Committee we remain committed to the achievement of our net zero ambitions and seek regular updates on progress in that regard.

The Committee regularly considers stakeholder views and our engagement with stakeholders of all types, from communities to our regulators and has frequent discussions on these areas, as well as reviewing feedback received from various stakeholders.

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

Any feedback on the performance of the Public Value Committee is always welcome and can be directed to me through our Company Secretary, Kathy Smith, who can be contacted at: compsec@yorkshirewater.co.uk

Dame Julia Unwin
Chair, Public Value Committee
15 July 2022

Attendance at Committee meetings

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

Purpose of the Committee

The Committee exists to ensure, on behalf of the Board, that there is a focus on the social purpose and public accountability of the company, given its role as a private provider of an essential public service. This includes ensuring that consideration of public value is embedded in strategy and decision-making across the business and providing assurance to the Board in relation to the public value aspects of Board matters.

The specific duties of the Committee in its terms of reference include:

- To review the strategic direction and key strategic milestones of the company through the lens of public value and provide assurance to the Board in relation to the public value considerations in price reviews, the annual business plan and other key strategic documents;
- To consider the short, medium and long-term risks and opportunities the company may face in relation to social purpose and public accountability;
- To review the vehicles that support the social purpose of Yorkshire Water and the networks in which Yorkshire Water participates;
- To consider performance from the perspective of social purpose and public accountability;
- To review the suite of external publications that cover the public value of the business to ensure these are appropriate and present a fair reflection of performance;
- To receive updates on relationships with key stakeholders and partners and the approach being taken to effectively manage those relationships; and
- To receive deep dives on matters with an impact on public value.

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

Committee evaluation

During the year an externally-facilitated evaluation was undertaken of the Board and all of its committees. The feedback on the Public Value Committee showed it to be operating very effectively, with no specific areas for development beyond continuing its focus on stakeholder relationships and continuing to develop the reporting received by the Committee.

Safety, Health and Environment Committee Report

On behalf of the Safety, Health and Environment Committee and the Board, I am pleased to present the Safety, Health and Environment Committee Report for the year ended 31 March 2022.

We work in a high hazard industry, both in terms of health and safety and in relation to the environment. In November 2021 oversight of any environmental incidents was moved into the remit of the Committee and it was renamed the Safety, Health and Environment Committee. This was done to ensure that a consistent and rigorous approach by the Board is applied to the review and oversight of any health and safety or environmental incidents. The Committee also plays a crucial role in ensuring that sufficient time and focus is spent at a Board level on these important matters.

The health, safety and wellbeing of our people and partners is fundamental to our business and we want to ensure that the moral imperative of 'zero harm' is met and that our health and safety vision of 'everyone, every day, safe and well and we know it' continues to be embedded in everyday life across the business.

The Committee monitors performance against our health and safety KPIs. More information on these can be found in our **Strategic Report**, along with information on how we have maintained safe operations during the Covid pandemic and the subsequent return to work, something that the Committee has monitored carefully during the year.

Health, safety and wellbeing is always uppermost in our minds and in particular the Committee has focused this year on three key risk areas; process safety, including the control framework around the handling of hazardous chemicals; the health and safety performance we expect from our supply chain and how we ensure this is closely monitored; and our approach to reservoir integrity risk.

Accordingly, the Committee has spent time during the year reviewing our approach to process safety and received a deep dive on the controls around the risk of fire and explosion. The Committee also welcomed two of our key contractors to Committee meetings to hear feedback first-hand on the experience of working with Yorkshire Water and to learn how we could better support our partners to meet the health and safety standards we require of them.

The Committee also spent time in the year visiting Scammonden Reservoir and hearing from our reservoir team first-hand about the controls in place in relation to reservoir integrity.

The Committee receives regular updates on health, safety and wellbeing performance and has spent time ensuring that the accountabilities and responsibilities for health and safety are clearly defined and understood across the business. Information on health, safety and environmental incidents and near misses is reported to the Committee. The Committee reviews and discusses these to ensure that there are appropriate investigations being undertaken and that lessons learned are being built into future methods of working.

We are also acutely aware of the potential impact our operations could have on the environment and the need to ensure we minimise environmental harm and have a zero-tolerance approach to any environmental permit breaches. Information on our environmental performance in the year can be found in the wastewater and energy & carbon sections of our **Strategic Report**.

In the second half of the year, following the extension of its remit, the Committee spent time focusing on environmental matters, receiving updates on environmental performance and reviewing the measures in place across the business to monitor such performance and to measure compliance with environmental permits. We are also aware of society's changing attitude towards the environment and we expect that our policies will also evolve accordingly. This will continue to be a key area of focus for the Committee going forward.

During the year we have complied with a request from Ofwat to supply detailed information on our compliance with flow to full treatment permits at our wastewater treatment works. The Committee now has oversight of compliance in this area and was pleased to note that work to achieve compliance on our outstanding sites was completed by the end of April 2022, in line with the timescale submitted to Ofwat. The Committee has met three times during the year and reports back to the Board after each meeting, this is in addition to the monthly health, safety, wellbeing and environment reports that are circulated to the whole Board to ensure all Board members remain informed of matters in this area.

Any feedback on the performance of the Safety, Health and Environment Committee is always welcome and can be directed to me through our Company Secretary, Kathy Smith, who can be contacted at **compsec@yorkshirewater.co.uk**

Andrew Wyllie CBE
Chair, Safety, Health and Environment Committee
15 July 2022

Attendance at Committee meetings

Attendance at the Committee meetings during the year is noted earlier in the Governance section. As well as the Committee members, meetings are also attended by the Director of HSSE, the Director of Wastewater, the Director of Water, the Director of Capital Delivery and the Company Secretary. Other specialists are also invited to attend the Committee as and when required.

Purpose of the Committee

The Committee exists to ensure, on behalf of the Board, that the company drives a proactive culture in relation to health, safety, wellbeing and environmental matters. Also, to ensure that the company implements and maintains effective systems and plans to ensure the health, safety and wellbeing of colleagues, contractors and the public, and to minimise harm to the environment. The specific duties of the Committee in its terms of reference include:

- To consider the health, safety and wellbeing culture across the business and the extent to which the desired culture is embedded;
- To consider the cultural approach to the environment across the business and whether the desired culture is embedded in decision-making across the business;
- To provide advice to the Board on the perceived 'tone from the top' in relation to health, safety, wellbeing and environmental matters;
- To review and approve the health, safety and wellbeing strategy and annual plan, ensuring that it appropriately prioritises health, safety and wellbeing across the business, is adequately resourced and reflects the risk appetite set by the Board;

- To review and recommend to the Board the strategies associated with environmental matters, ensuring that these drive the desired behaviour in relation to the avoidance of environmental incidents and the minimising of harmful effects on the environment;
- To consider the short, medium and long-term risks relating to health, safety, wellbeing and environmental incidents and the mitigations in place to reduce these risks as far as reasonably practicable;
- To receive regular updates on health, safety and wellbeing performance and details of any non-trivial incidents or near misses and the actions arising from these to prevent recurrence;
- To receive regular updates on environmental performance including in comparison to ODIs, taking into account benchmarking information from across the sector and other relevant organisations;
- To receive details of any potential Category 1 or Category 2 environmental incidents and the actions arising from these as well as receiving and considering assurance that the company is identifying and applying lessons learnt;
- To keep under review relationships with third parties that are integral to health, safety, wellbeing and environmental risk management;
- To review the adequacy of the health, safety, wellbeing and environmental risk management framework across the business; and
- To review the findings from health, safety, wellbeing and environmental audits and other assurance programmes, including the mitigating actions and the timely closure of audit findings.

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

Committee evaluation

During the year an externally facilitated evaluation was undertaken of the Board and all of its committees. The feedback on the Safety, Health and Environment Committee showed it to be operating very effectively, with Committee members keen to increase the focus on environmental matters in the current year, given the recent change to bring environmental matters back within the remit of the Committee. Training for Committee members on environmental matters, as well as regular refresher training on health and safety, was also proposed as part of the evaluation and this has now been built into the forward agenda for both Board and Committee members.

Audit and Risk Committee Report

The Audit and Risk Committee supports the Board by providing oversight and challenge to the company's systems for reporting and managing risk and for maintaining the integrity of its operational and financial reporting.

This role continues to be key as we face ongoing volatility in our operating environment due to the impact of global economic uncertainty, escalating cyber-security risks and changing regulation. The Committee has focused on assurance over our financial resilience in the short and longer-term, including the impact of severe, but plausible risk scenarios. Through positive relationships with the external auditor and internal auditors the Committee has gained assurance that the internal controls framework remains robust, and that risks are identified, escalated, and managed in line with our corporate appetite. The Committee has delivered all its duties which are outlined in this report.

Role

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

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

Membership and attendance

The Audit and Risk Committee met for six scheduled meetings during 2022. Membership and attendance of the Committee is shown in the Leadership section of the Directors' Report. Although not Committee members, the CEO, CFO, Head of Finance, Head of Risk and Audit and external auditor (Deloitte) are notified of all meetings and may attend. The Committee has taken the opportunity to talk to the external and internal auditor without management being present.

Committee evaluation

During the year an externally-facilitated evaluation was undertaken of the Board and all of its committees. The feedback on the Audit and Risk Committee's showed it to be operating very effectively with particular strengths In the way the Committee assesses audit work, monitors financial reporting and assesses Internal controls and risk management. There were no specific areas for improvement identified, although Committee members requested additional focus In the coming year over financial resilience, the risks relating to the transformation programme and deep dives on risks with a high impact but low likelihood.

The Terms of Reference for the Committee are approved by the Board and are available from our Company Secretary at compsec@yorkshirewater.co.uk or on our website at yorkshirewater.com. These have been reviewed by the Chair of the Committee to confirm they have been adhered to during 2022.

Activity 2022

The Audit and Risk Committee has discharged its responsibility to the Board through its coordinated programme of activity in the year. The table below, highlights the key matters that were considered and challenged as appropriate by Committee members. The table notes whether they were for review (R) or approval and recommendation to the Board (A).

Andrew Merrick
Chair, Audit and Risk Committee
15 July 2022

Key matters reviewed and approved at Committee meetings

Area of Focus	Matters for Consideration	Action
Integrity of external reporting, including significant areas of judgement		
Accounting policies and practices	The Committee reviewed with management and the external auditor the integrity and the appropriateness of significant accounting policies and disclosures and material accounting estimates and judgements. It gained assurance that these are reasonable and give a fair outcome.	R
Fair, balanced, and understandable	The Committee assessed whether the information presented in the 2022 ARFS taken as a whole, is fair, balanced, and understandable and contains the information needed to enable stakeholders to assess the company's performance, risks, business model and strategy. It considered the process for producing the 2022 ARFS and the assurance available. It understands that a rigorous review process is in place, designed to ensure that all disclosures are complete, accurate and verified. It undertook a detailed review of the ARFS to satisfy itself that the reporting of performance is balanced and understandable.	R
Long-term viability	The Committee recommended the viability assessment to the Board based on review and challenge of: • the eight-year coverage to March 2030, which is considered appropriate as it aligns to the company's longer-term risk horizon; • the sensitivity analysis includes appropriate potential severe but plausible risk scenarios which have been detailed in our LTV statement included in the Strategic Report; • the impacts of these scenarios on both the interest cover ratio (used as a proxy for default) and the four financial ratios which, if missed, would trigger a breach; and • consideration of the headroom as a form of reverse stress test of the nature and extent of events needed to trigger default or a breach. It considered it justifiable to state that the directors have a reasonable expectation that the company is viable over the eight-year period.	A
Going concern	The Committee confirmed to the Board that it is appropriate for the company's Financial Statements to be prepared on a going concern basis by reviewing the basis of management's assessment, including evidence of liquidity and funding, alongside the auditor's report. It took account of the increased rigour recommended by the FRC and noted the potential move to a Resilience Statement.	A

Area of Focus	Matters for Consideration	Action
Infrastructure asset valuation	The valuation is conducted at the year end, based on value in use (VIU). VIU is determined using discounted cash flows to calculate the business enterprise value. The Committee reviewed the methodology and assumptions. The Committee noted that the approach is consistent with previous years as the assets are broadly the same and performing in the same manner.	R
Financial instruments	Significant management judgement is required to value the company's financial instruments. The overall credit position of the company is considered as follows: • interest rate swaps, cross-currency swaps and floating to fixed swaps are valued based on third party valuations, primarily from banks, the mid-market valuation provided by third parties adjusted to reflect its own credit risk; and • the other instruments are valued using a custom-built inflation linked swaps valuation model as the institutions that these instruments are held with do not perform their own mark to market valuation. The Committee noted that the approach is in line with FRS102 and is consistent with previous years.	R
Exceptional items	The Committee confirmed that it is appropriate to classify the below items as exceptional in the 2022 statutory accounts: • Expenditure associated with a one-off strategic review of our business processes; • Insurance income relating to extreme weather events in prior periods; and • Deferred consideration receivable in relation to a final true-up of the sale of the non-household retail customer business in the year ended 31 March 2020.	R
APR	The Committee reviewed the risks and assurance over the information included in the 2022 APR including the cost assessment submissions and performance against ODIs.	A
Regulatory submissions	The Committee has also reviewed the judgements and estimates and the assurance to enable the Board to approve the risks, strengths and weaknesses and draft assurance plan, our charges framework, and the bio-resources RCV allocation and the new connection charges framework and timetable for publication.	A
Assurance over the design and operation of internal controls		
Internal control framework	The Committee received "Significant Assurance" over the overall effectiveness of the control and governance framework during 2022 from the Head of Risk and Audit. It reviewed the outcome of the annual evaluation of compliance process including the actions to improve the company's compliance with its obligations. It monitored the timely achievement of the action plans agreed to address control weaknesses.	R
Whistleblow arrangements	Reviewed and approved the Speaking Up Policy. It maintains oversight of the themes raised through individual Speaking Up reports, the outcomes, agreed actions and assurance that no one using the policy has been victimised as a consequence.	A

Area of Focus	Matters for Consideration	Action
Internal audit plan	The Committee satisfied itself that the 2022 internal audit plan, taken in the context of a three-year rolling plan, provided sufficient third line assurance that risks are managed to the level reported.	**A**
Internal audit performance	The Committee agreed the level of performance, experience and expertise expected to deliver the 2022 internal audit plan and approved the value added by internal audit set out in the Audit Charter. It reviewed the internal auditor's performance in achieving the targets set out in the Charter on a quarterly basis and monitored the achievement of milestones in the three-year action plan to improve internal audit performance in line with the external quality assessment conducted in 2020.	**A**
Effectiveness and independence of the external auditor		
Independence of the external auditor	The Committee reviewed the company's Auditor Independence Policy which sets out the procedures which enable the Committee to satisfy itself that there are no factors which may, or may be seen to, impinge upon the independence and objectivity of the external audit process, particularly the level of fees relating to non-audit work. The Committee approves on an individual basis any non-incidental non-audit work by the external auditor.	**A**
Independence of the external auditor	A cap on fees for non-audit work across the Kelda group was agreed. In any one financial year a 70% cap of the three-year average statutory external audit fee for the whole group is applicable from the financial year starting 1 April 2020. The 2022 split between audit and non-audit fee is shown in note 3 to the Financial Statements, the non-audit fees predominantly relate to regulatory reporting requirements. The Committee reviewed this and accepted that it did not impinge on independence.	**R**
Performance of the external auditor	The Committee assessed the performance of Deloitte for the 2021 financial year by reviewing the findings from a survey completed by the Board and management stakeholders about the conduct and quality of the audit. The performance of Deloitte during 2022 will be assessed by the Committee in September 2022.	**R**
External audit fee	The Committee reviewed and approved the external audit fee, plan, and approach for the financial year 2022.	**A**
Effectiveness of the risk management process		
Principal risks	The Committee reviewed the design and operation of the corporate risk management process to provide confidence over the completeness and assessment of corporate and principal risks reported to the Board.	**A**
Risk appetite	The Committee reviewed the approach for monitoring the corporate risk appetite in line with the Board's expectations and recommended the statement to the Board.	**A**

Discharge of responsibilities

The Committee has devoted sufficient time to reviewing and challenging all the areas in its Terms of Reference which are integral to the company's core management, risk, and financial processes, as well as engaging regularly with management, internal audit, and our external auditor. The Committee has, where necessary, taken the initiative in requesting and questioning information in order to discharge its constructive challenge role. The Committee believes it has had an impact on assuring and improving the internal control framework.

Directors' report – other disclosures

Directors

Details of the directors who served during the year can be found in our Board of directors section.

Directors' indemnity

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

Dividends

Dividends of £52.6m were paid in the year (2021: £45.2m): none of which were available to the shareholders of Kelda Holdings Limited (2021: nil), Yorkshire Water's ultimate parent company, as they have continued to support the company's financial resilience since AMP6. Our full dividend policy has been included earlier in the ARFS in the Ofwat Board Leadership, Governance and Transparency Principles section.

Reserves

The loss for the financial year of £368.6m has been deducted from to the profit and loss reserve (2021: profit of £11.1m added to the profit and loss reserve). This movement brings the balance held in this reserve to £148.1m (2021: £569.3m). As at 31 March 2022, following a specialist review the company's directors believe that the entire profit and loss account balance of £148.1m is distributable to shareholders. Information relating to reserves is disclosed within the Statement of changes in equity.

Research and development

The company undertakes a programme of research in pursuit of improvements in service and operating efficiency. In 2022 £2.9m (2021: £2.8m) was committed to research and development. In addition, £3.7m (2021: £3.7m) of costs have been accrued by Yorkshire Water in relation to the Innovation in Water Challenge scheme operated by Ofwat for AMP7. These expenses offset revenue recognised during the year. The amounts accrued will either be spent on innovation projects that the group successfully bids for or will be transferred to other successful water companies in accordance with the scheme rules.

Revaluation of assets

Certain classes of the company's tangible assets were revalued in the year, as detailed in note 12 to the Financial Statements. As a result of the valuation carried out at 31 March 2022 the carrying value of the infrastructure assets has increased by £901.8m and the resulting revaluation gain taken to the revaluation reserve (2021: £217.0m gain).

Capital and infrastructure renewals expenditure

Total expenditure on activities during the year amounted to £434.1m (2021: £448.3m). More information relating to capital expenditure and fixed assets is disclosed in note 12 to the Financial Statements.

Environment

The environmental policy of the company recognises that a sustainable water and wastewater business is dependent on environmentally sustainable operations. It is therefore committed to integrating environmental best practice and continuous improvement in environmental performance through the efficient, effective, and proper conduct of its business. Environmental performance is reported in our **Love our environment** section of this annual report, and on the company's website which is regularly updated. This can be viewed at: **yorkshirewater.com/environment**

Community

Yorkshire Water's corporate strategy and vision is shaped around the company's role serving communities across Yorkshire. The company recognises the critical and substantial nature of the contribution it makes in providing its essential public services and ancillary activities. It is a company priority to further improve this service and the value created for society. We have a range of long-standing programmes to actively support communities, for example through colleague volunteering and education. Further details on our community activities and impact can be found in the **Strategic Report**.

Employees and employment policies

Yorkshire Water continues to place an importance on ensuring a positive working environment for all colleagues and a culture of open, honest internal communications and feedback. Our company values provide the framework for the consistent behaviours expected from colleagues.

Yorkshire Water places considerable value on the involvement of its colleagues and has continued to keep them informed on matters affecting them as colleagues and on the various factors affecting the performance of the company and the work of the Board. This is achieved through a range of channels, including the intranet, 'Team Talks' and 'Talk Back' sessions by line managers and directors, annual business plan cascades, people leader events to cascade key business performance messages and a bi-annual colleague engagement survey. We also undertake an anonymous diversity and inclusion perception survey every two years where colleagues are encouraged to feedback on the culture of the workplace and share their experiences. All line managers are encouraged to develop and implement action plans with their teams, taking accountability for developing colleague morale, engagement, and trusted relationships.

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 colleagues meeting on a quarterly basis with directors and senior managers to share performance information and discuss health and safety issues. These meetings also provide an opportunity to seek colleague views which can then be considered in decision making. There is a weekly change day meeting with the unions in place where any change taking place across the company is consulted on with the recognised trade unions and where they have the opportunity to ask questions or make reasonable suggestions to the management of the proposed changes. Yorkshire Water is committed to providing an inclusive working environment with a diverse workforce which reflects its customer base and is committed to equality and opportunity for all. Further information on this is contained in our **Putting people first** section.

We are proactively reviewing our employee relations policies and procedures linking them to our new Talking Performance approach. Policies will be easier to understand, and all people leaders will be provided with the coaching, support and tools to ensure that we are consistently living our values and behaviours with everyone at the heart of everything we do.

Applications for employment by disabled persons are welcomed and always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of colleagues becoming disabled, every effort is made to ensure that their employment with the group continues, and that appropriate training is arranged. It is our policy that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other colleagues. We run a supported internship in partnership with a local school for students with an autistic spectrum condition where students work in real roles in the business at the same time as gaining a formal qualification. Yorkshire Water is now part of a group leading the role out of an internship programme across the region. We are a disability confident employer and any candidate who considers themselves to have a disability is guaranteed an interview if they meet the essential criteria for the role.

We aim to attract, select, develop, and retain the best talent to meet the needs of the business. There is a strong commitment to developing a pipeline of technical talent and understanding future skills requirements to meet our evolving needs. The talent framework is used to discuss aspirations, skills, and development needs at all levels. During the next regulatory period the company will aim to recruit 175 apprentices to create a strong pipeline of talent for the future. Yorkshire Water works in partnership with a number of schools across the region to ensure that young people become more employable when they leave school and have a better chance of gaining employment. We provide a wide range of development tools, including in-house and accredited programmes to help all colleagues develop the necessary skills, knowledge, values, and experience to realise their performance potential. We also recognise the important role of mentoring and over 150 colleagues are in mentoring relationships either internally or externally.

Key to achieving operational excellence and delivering out-performance is ensuring that every individual understands their role and how they can make a difference, whilst feeling valued for their contribution.

We are committed to rewarding the right performance and provide salary and benefits packages which are designed to be competitive. Performance-related pay gives colleagues at all levels the opportunity to share in the success of the business, through bonus payments linked to the achievement of individual and business plan targets.

Our policies on employee consultation and on equal opportunities for all employees can be found in the **Strategic Report**.

Customers, suppliers and key stakeholders

Our approach to engagement with customers, suppliers, regulators and other key stakeholders can be found in our **Being a good partner** section.

Energy and carbon disclosures

Our energy and carbon considerations and metrics can be found in our **Love our environment** section.

Political donations

Yorkshire Water does not support any political party and does not make what are commonly regarded as donations to any political party or other political organisations. However, the definition of “donations” in the Political Parties Elections and Referendums Act 2000 covers a number of activities which form part of the necessary relationship between the company and stakeholders, for example attendance at party conferences or other events. Due to the ongoing restrictions caused by Covid-19, Yorkshire Water did not attend any such events in 2022 and therefore did not incur any such expenditure as part of its stakeholder engagement programme (2021: £100).

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

Nicola Shaw
Chief Executive Officer
15 July 2022

Directors' Remuneration Report

Our information on directors' remuneration is structured as follows:

- Annual statement from the Chair of the People and Remuneration Committee, providing an overview of the key developments and remuneration decisions made during the financial year.
- Remuneration Policy Report, setting out the Remuneration Policy for 2023 that has been recommended by the People and Remuneration Committee and approved by our shareholders.
- Annual Report on Remuneration, showing how the Remuneration Policy for 2022 has been applied, how we intend to apply the new policy for 2023, along with a summary of the work of the People and Remuneration Committee in the year.

Yorkshire Water is a private limited company and our shareholders do not require us to hold an AGM. This report is therefore not subject to approval at an AGM but is presented for information to our stakeholders, to ensure we are transparent in what we pay our directors, and in compliance with the relevant legislation.

Annual Statement from the Chair of the People and Remuneration Committee

On behalf of the People and Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2022.

Our aim is for complete transparency in relation to remuneration and we seek to make our remuneration policy easy to understand and one which enables us to recruit and retain high-performing executive directors, rewarding them fairly and reflecting the priorities and values of the business.

We consider a lot of factors when we make decisions in relation to remuneration, including the pay and employment conditions of others across the rest of the business and in the communities we serve.

Our remuneration policy for executive directors is weighted towards variable pay so that we can align pay to both financial and non-financial performance. The performance measures for variable pay relate to customer satisfaction, colleague engagement, health and safety, the environment and delivery of our strategic transformation programmes, as well as financial performance, to ensure that remuneration links directly to our strategic objectives and the matters that are important to our people, our customers and our shareholders.

Policy changes

We review our remuneration policy each year to ensure it remains fit for purpose and achieves our aims of rewarding strong performance and not rewarding poor performance. Whilst the Committee believes the policy broadly remains fit for purpose, it was agreed in the year that the policy for base salary should move from paying 'at or below the market median' to simply being described as paying 'the appropriate market rate for the role'. This is to enable the business to attract the best candidates for the role when vacancies arise.

Board changes

We have had a number of Board changes during the year which are set out below:

- Nevil Muncaster, our Chief Strategy and Regulation Officer, left the Board on 31 July 2021 to take up a role elsewhere in the water industry;
- Our previous Chair, Anthony Rabin, retired from the Board on 1 September 2021 and we appointed Vanda Murray as our Chair Designate on 1 July 2021. Vanda then took on the role of Chair of the Board upon Anthony's retirement;
- On 27 October 2021 one of our investor directors, Mike Osborne, left the Board. He was then replaced on 19 January 2022 by Russ Houlden; and
- After the year end, on 7 April 2022 we announced that our CEO, Liz Barber, had informed the Board of her wish to retire from the business and we also announced the appointment of Nicola Shaw in her place with effect from 9 May 2022.

The remuneration paid to each of our joiners and leavers is set out in this report and is consistent with our remuneration policy in each year.

Performance

This has been another challenging year for colleagues with the ongoing impact of the pandemic plus three severe weather events during the year. Our colleagues have shown great resilience in dealing with the pressures they have been under, but we acknowledge that there are some areas in which we have not always met the standards that we have set ourselves, such as in the areas of internal sewer flooding, customer minutes lost, and UPOs. We are also acutely aware of the expectations of our customers and stakeholders in relation to our environmental performance and there has been much focus on this in the year internally, which will continue into future years.

We know that we have to make changes in the business to better control our cost base and our transformation programme seeks to improve efficiency and customer service. Further information on this and the performance of the business can be found in our **Strategic Report**.

All of these factors have been taken into account by the People and Remuneration Committee in our consideration of remuneration throughout the year and our desire to ensure that remuneration drives the right behaviours to align with the objectives of the business.

Key decisions by the Committee in the year

The Committee met five times during the financial year and there have been a number of key decisions taken, which are outlined below:

The remuneration paid to the Chair of the Board

As noted above, Anthony Rabin retired from the Board on 1 September 2021. The Committee reviewed his remuneration arrangements prior to his departure and recommended to the Board that he should receive his basic salary until 30 November 2021, in line with his contractual entitlement.

As noted in our remuneration report last year, Vanda Murray joined the business as our Chair Designate on 1 July 2021, stepping up to become the Chair of the Board upon the retirement of Anthony Rabin. The Committee reviewed the remuneration to be offered to Vanda, considering the significance of her role and her previous experience, and recommended to the Board that a package be offered in line with our remuneration policy; with a base salary of £275,000. This was paid to Vanda from the date of her appointment in July to reflect the considerable time required over the initial months to undertake an in-depth induction to the business and a smooth transition from one Chair to another. Further information on the remuneration received by Vanda in the year is detailed later in this report.

Remuneration paid to Nevil Muncaster upon his departure

Nevil Muncaster resigned from the Board on 31 July 2021 and left to take up a role elsewhere in the water sector. The Committee reviewed the remuneration arrangements for his departure and agreed that as voluntary resignations did not qualify for treatment as a good leaver, Nevil would forfeit any future payments from the EIP and long-term incentive plan (LTIP) schemes following his departure. He received his base salary and associated benefits up until the date of his departure on 31 July 2021. Further information on the amounts paid to Nevil during the year are detailed later in this report.

Salary review for executive directors

In our report last year, we noted that the Committee had provisionally agreed a pay increase for the executive directors of up to 1.75% but that this remained subject to the outcome of the pay negotiations across the rest of the business at the time of signing of the report.

The pay negotiations were concluded in October 2021 at 3.0% for those in Bands 3 to 6. It was agreed by the Committee at that point that an increase of 1.0% would be applied to the executive directors, backdated to 1 April 2021. Liz Barber chose to waive her increase for the second year in a row and therefore this increase was only applied to Chris Johns.

The Committee then reviewed the pay of the executive directors in March 2022, taking into consideration additional factors including the average pay increase across the rest of the organisation of 3.0% from 1 April 2022, prevailing market rates and external economic factors such as the significant increase in inflation. Following detailed discussions, it was decided to apply a pay increase of 3.0% to the base pay of the executive directors with effect from 1 April 2022 to align with the rest of the workforce and to reflect movements in market rates and the increased cost of living. This was not applied to the base pay for Liz Barber given her forthcoming retirement from the business.

The award and measures for the EIP

Awards are made annually under the EIP in April of each year. As in previous years, the awards made in April 2021 to each of the executive directors were equivalent to a maximum of 150% of base salary for the short-term element of the scheme and up to 150% of base salary for the long-term deferred element, in line with our remuneration policy.

The Committee also agreed on the measures for the short-term element of the award, setting the threshold, target and maximum performance levels for each element of the scheme to drive delivery of the desired outcomes for the business.

The long-term performance measures for the EIP that was awarded in 2020 were also agreed and communicated to participants. These aim to ensure that the position achieved at the point of vesting in 2021 is at least maintained for the remaining performance periods.

Variable pay vesting in 2022

There were two variable pay schemes with performance periods ending in 2022; the first year of the EIP awarded in 2021 and the final vesting of the previous LTIP scheme which was awarded in 2019.

The performance in the first year of the 2021 EIP award indicated vesting of 43.0%. This was discussed at length by the Committee, considering the discretionary elements of the scheme and the wider context of the year under review to ensure that the vesting reflected the overall performance of the business. These discussions considered all areas of performance across the business, including in relation to compliance with statutory and regulatory obligations, with particular focus on our delivery for customers and the environment. The Committee noted that these areas of performance were factored into the vesting calculations and therefore were reflected in the level of variable pay that vested. The Committee agreed that the vesting calculations fairly reflected the operational, financial, customer and environmental performance in the year.

The LTIP performance over the three-year period indicated a vesting of 39.5% as at 1 May 2022. This was reviewed by the Committee and the calculations independently verified by KPMG. It was agreed that this level of vesting should be approved by the Committee given the targets achieved.

Payments in relation to the EIP and LTIP will be paid to executive directors in July 2022. Further information on the amounts to be received is shown in the Remuneration Policy Report.

The change of Chief Executive Officer

As noted above, we announced in April 2022 that our CEO, Liz Barber, wished to retire from the Board and we also announced the appointment of Nicola Shaw, her successor. Both the remuneration to be paid to Liz upon her departure and the offer to be made to Nicola were matters considered by the Committee post year end, but both have been included in the Remuneration Report this year for completeness.

Feedback

As a private limited company, our Remuneration Report is not subject to a vote an at AGM. We are keen, however, to receive any feedback from stakeholders on our remuneration policy, which may be directed to me via our Company Secretary, who can be contacted at **compsec@yorkshirewater.co.uk**

Ray O'Toole
Chair of the People and Remuneration Committee
15 July 2022

Remuneration Policy Report

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

Any existing remuneration commitments or contractual arrangements agreed prior to the implementation of this policy will be honoured in accordance with their original terms.

Remuneration payments and payments for loss of office can only be made during the policy period if they are consistent with this policy or are otherwise approved by our shareholders by an ordinary resolution.

Policy overview

The current remuneration policy for directors comprises the elements set out in the table overleaf.

In setting the policy, the Committee considers a number of factors, including:

- The need to align the remuneration policy with the strategic objectives of the business and the interests of customers;
- The need to achieve an appropriate balance between fixed and performance-related pay to incentivise strong long-term performance and sustained shareholder value creation, whilst not encouraging unnecessary risk-taking or irresponsible behaviour;
- Internal levels of pay and employment conditions across the rest of Yorkshire Water;
- The need to provide a remuneration structure that is sufficiently competitive to attract, retain and motivate executive directors of a high calibre;
- The principles and recommendations set out in the UK Corporate Governance Code, the Wates Corporate Governance Principles for Large Private Companies and the Ofwat Board Leadership, Transparency and Governance Principles; and
- Periodic external comparisons of market trends and practices elsewhere in the water industry and in companies of a similar size, complexity and geographic scope.

Our remuneration structure is intended to be simple and transparent and to clearly link pay to performance. Our policy ensures that performance-related components form a significant proportion of the overall remuneration package, with maximum total potential rewards earned only through the achievement of stretching performance targets based on measures selected to promote the long-term success of the company and an enhanced customer experience.

Consideration of pay and employment conditions across the business

The Committee considers the pay and employment conditions of colleagues across the business when setting the remuneration policy for the executive directors, to ensure that these are aligned where appropriate. We regularly monitor pay trends across all levels of the business and salary increases for the directors will normally be in line with those of the wider workforce, in percentage terms.

The Committee seeks views on remuneration from colleagues across the business through the Yorkshire Water Voice survey, which has been conducted once during the year. The results from each survey are considered in detail by the Board and its committees.

Yorkshire Water also has a Colleague Engagement Forum which provides regular input into the people strategy and key decisions in relation to remuneration and terms and conditions. Julia Unwin and Ray O'Toole attend the Forum on behalf of the Board and are therefore able to feedback comments directly to the People and Remuneration Committee. In addition, the minutes from each Forum are shared with all Board members for information and the views expressed are therefore fed into decision-making by the Board and its committees.

How the Committee may exercise discretion

The Committee may exercise discretion in two broad areas for each element of remuneration, as follows:

- To ensure fairness and align executive remuneration with underlying individual and company performance, the Committee may adjust, upwards or downwards, the outcome of any variable pay within the limits of the relevant plan rules. This includes taking into account regulatory or statutory breaches that become apparent in the year under review.
- In the case of a non-regular event occurring, the Committee may apply its discretion to ensure fairness and seek alignment with business objectives. Non-regular events include, but are not limited to corporate transactions, changes in the company's accounting policies, administrative matters, internal promotions, external recruitment, terminations, etc.

Any adjustments in light of corporate events will be made on a neutral basis: this means that the intention of any adjustment will be that the event is not to the benefit or detriment of participants. Adjustments due to underlying performance may be made in exceptional circumstances to ensure outcomes are fair both to shareholders and participants.

Any use of discretion by the Committee during the financial year will be detailed in the Annual Report on Remuneration each year.

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

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

Executive directors' policy table

Component of remuneration and how it supports the Yorkshire Water strategy	How does this operate and what is the maximum that may be paid?	What performance measures are used and why?	Are there any provisions to recover sums paid?
Fixed pay			
Base salary			
Setting the base salary at the right level enables us to attract and retain the high calibre individuals required to deliver the strategic objectives of the business.	Salaries are reviewed annually with changes typically effective from 1 April. The review considers the annual salary increases for the workforce generally as well as any other key internal and external reference points, including the calibre and performance of the individual. Base salaries are usually set in line with the market rate for the role when benchmarked against other water companies or other utility companies, whilst also taking into consideration market rates in both the FTSE 250 and FTSE 100 for similar roles. There is no prescribed maximum annual basic salary or salary increase. Increases will not normally exceed the general level of increase for colleagues across the business in percentage of salary terms; however, we may award higher increases in certain circumstances, for example, where there is a change in responsibility, progression in the role or a significant increase in the scale of the role or the size or complexity of the business. Details of the base salaries for each of the executive directors are shown in the **Annual Report on Remuneration**.	No specific performance measures are used in relation to determining base salary, but individual and business performance are considered as part of the discussion when setting the base salary levels.	There are no provisions to recover any sums paid.

Component of remuneration and how it supports the Yorkshire Water strategy	How does this operate and what is the maximum that may be paid?	What performance measures are used and why?	Are there any provisions to recover sums paid?
Benefits			
Paying the right level of benefits helps us to attract and retain the right individual for the role to deliver the strategic objectives of the business.	The provision of benefits is set based upon general market practice, considering the benefits available to other colleagues across the business. The benefits available to executive directors may include a combination of: • Private medical insurance for the executive and their spouse; • Life assurance; • A choice of company car-lease or a car allowance of up to £12,000 per annum for the CEO and £7,500 for the CFO; • Medical screening; and • Optional private fuel provision. Executive directors will be eligible for any other benefits which are introduced for the wider workforce on broadly similar terms. We also reimburse normal business-related expenses for our executive directors. The cost of benefits may vary from year to year and there is no maximum level set.	Benefits are not performance-related.	There are no provisions to recover any sums paid.

Component of remuneration and how it supports the Yorkshire Water strategy	How does this operate and what is the maximum that may be paid?	What performance measures are used and why?	Are there any provisions to recover sums paid?
Retirement benefits			
Retirement benefits are paid as part of a market competitive package which, in turn, helps us to attract and retain high calibre individuals to deliver the strategic objectives of the business.	Executive directors are entitled to receive a company contribution to the defined contribution stakeholder scheme of up to 10% of basic salary. Alternatively, they can elect to receive a cash allowance of up to 10% of basic salary or a combination of a company contribution to the defined contribution stakeholder scheme and a cash allowance.	Retirement benefits are not performance-related.	There are no provisions to recover any sums paid.
Variable pay			
EIP – short-term element			
The short-term element of the EIP is designed to ensure focus on short-term priorities for the benefit of customers, shareholders and other stakeholders, such as the environment. The combined elements of the EIP represent a significant proportion of the overall remuneration package and incentivise outperformance against targets.	Performance targets are set at the beginning of the year by the Committee with up to 150% of base salary vesting each year depending on the performance against the targets set, as determined by the Committee. All payments are at the ultimate discretion of the Committee. 20% of the maximum is payable for achieving the threshold hurdle, rising to 80% of maximum at target level and with payments of up to 100% of the maximum level for stretch performance. The high threshold and target levels reflect the greater emphasis placed on variable pay by the Committee.	A balance of financial and non-financial measures is selected by the Committee at the start of each year. All targets are clear, stretching and measurable and use a combination of the main KPIs for the company and progress on transformational projects. The measures agreed for 2023 are set out in more detail later in this report. In addition to the performance measures set by the Committee, there is an underpin that the Committee must be satisfied that the financial and non-financial performance of the business over the performance period warrants the level of vesting.	Payments are subject to clawback in the event of misstatement of performance, errors in the assessment of performance conditions or misconduct.

Component of remuneration and how it supports the Yorkshire Water strategy	How does this operate and what is the maximum that may be paid?	What performance measures are used and why?	Are there any provisions to recover sums paid?
Variable pay			
EIP – long-term element			
The long-term element of the EIP is designed to ensure focus on long-term business goals and sustainability for the benefit of customers, shareholders and other stakeholders, such as the environment. The combined elements of the EIP represent a significant proportion of the overall remuneration package and incentivise outperformance against targets.	The long-term element of the EIP is subject to the same performance measures as the short-term element in year one. The maximum award for the long-term element is 150% of base salary but this is then capped by the performance level in year one, with the capped amount being deferred in equal instalments to years three, four and five of the scheme. The instalments in years three, four and five are then subject to further longer-term performance measures which may reduce the vested amount further. These measures relate to financial, human, social and environmental capital and all require the position at the end of year one to have been maintained when it is measured again at the end of years three, four and five respectively. All payments are at the ultimate discretion of the Committee.	The performance measures in year one are described later in this report. The longer-term performance measures are designed to ensure that performance does not deteriorate after the in-year payment is made and to ensure that in year performance is not being enhanced to the detriment of the longer term. In addition to the performance measures set by the Committee, there is an underpin that the Committee must be satisfied that the financial and non-financial performance of the business over the performance period warrants the level of vesting.	Payments are subject to clawback in the event of misstatement of performance, errors in the assessment of performance conditions or misconduct.

Non-executive directors' policy table

Component of remuneration and how it supports our strategy	How does this operate and what is the maximum that may be paid?	What performance measures are used and why?	Are there any provisions to recover sums paid?
Fees			
Fees are set to provide competitive pay to enable us to attract and retain the right calibre of individual and the right balance of skills on the Board.	Fees are reviewed annually. Any increase will be guided by changes in market rates, time commitments and responsibility levels as well as by increases for the broader colleague population. The Chair is paid an all-encompassing fee to take account of all Board responsibilities. The other independent non-executive directors receive a base fee with additional fees paid for additional responsibility, such as the chairing of a committee or performing the role of the Senior Independent Director. In exceptional circumstances, if there is a temporary yet material increase in the time commitments for independent non-executive directors, the company may pay extra fees to recognise the additional workload. We reimburse all of our non-executive directors for any normal business-related expenses.	Fees are not performance-related; however, performance is addressed through regular one-to-one meetings between the Chair and each independent non-executive director. The performance of the Chair is reviewed at one-to-one meetings between the Chair and the Senior Independent Director.	There are no provisions to recover any sums paid.

How does the remuneration policy for executive directors differ from that of other colleagues?

Overall, the remuneration policy set for the executive directors is more heavily weighted towards performance-related variable pay than for other colleagues. As such, a greater proportion of their remuneration is dependent upon the successful delivery of the business strategy.

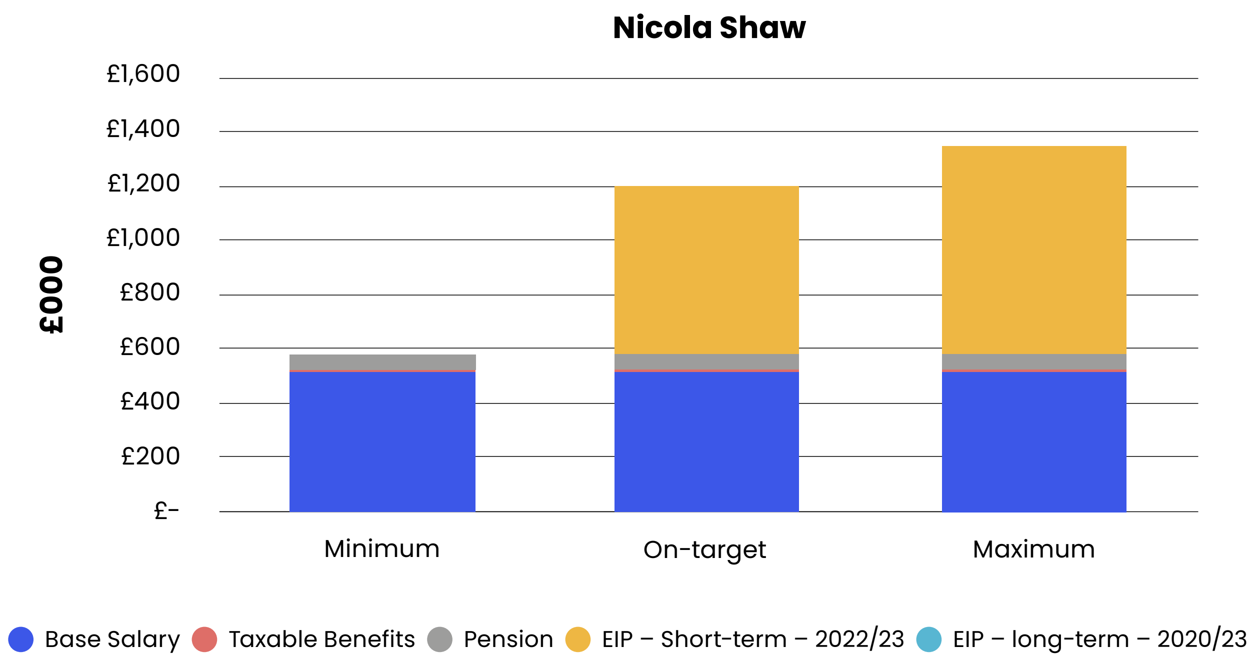
The key differences are noted in the table below:

Remuneration component	Difference
Base salary	Base salaries are reviewed in the same way for executive directors as for other senior colleagues, considering market rate information, internal reference points, individual performance, the scope of the role, the financial performance of the business and the average increases across the rest of the business. Most colleagues are covered by collective agreements which are negotiated based on our principles of affordability, fairness and transparency. The outcome of these negotiations is also taken into account when considering pay increases for other colleagues. We pay all colleagues, contract partners and service providers salaries at least equivalent to the voluntary real living wage.

Remuneration component	Difference
Benefits	An increasing level of benefits is offered to colleagues as their job level increases. Those offered to the executive directors are consistent with those offered to other senior colleagues, with a slightly higher car allowance offered to the Chief Executive.
Retirement benefits	All colleagues are entitled to pension contributions from Yorkshire Water. The amount contributed increases as the colleague contribution increases. The policy for executive directors is consistent with colleagues across the business with a maximum company contribution of 10% of base salary.
EIP	Long-term incentive awards are made only to those individuals who are most able to directly influence the business strategy. Along with the executive directors, senior leaders are also invited to participate in the EIP. The performance measures and performance period are the same for all participants in the scheme. The level of award increases with seniority. Colleagues in Band 3 participate in an annual bonus scheme with payments of up to ten or 15 per cent of salary, dependent on role. All other colleagues participate in a bonus scheme which pays up to £1,000 per annum depending on company performance.

What might executive directors be paid under the remuneration policy for 2023?

The charts below indicate how much the executive directors might receive under the remuneration policy for 2023 on a fixed, on-target and maximum basis.



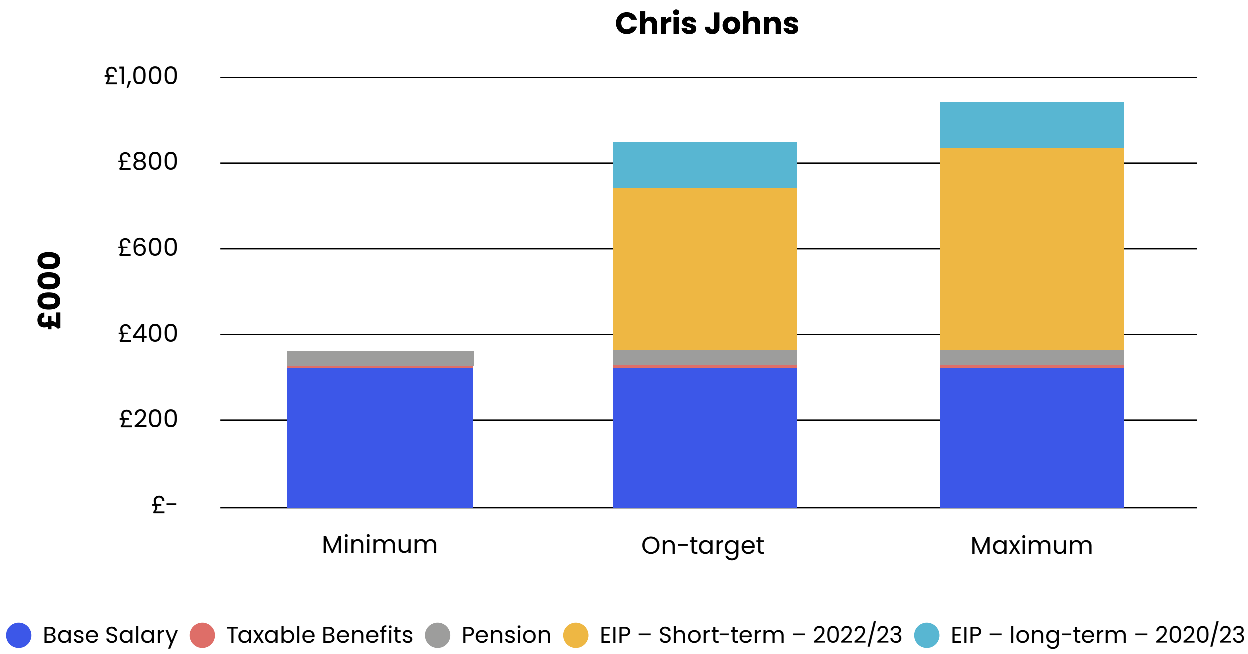


Chart assumptions

The different scenarios shown in the graphs are:

- **Minimum** – where performance is below threshold and executive directors receive fixed pay only with no vesting under the EIP. Fixed pay comprises base salary, benefits and retirement benefits;
- **On-target** – where executive directors receive their fixed pay plus an EIP on-target pay-out of 80% of the maximum opportunity for the short-term element vesting in 2023 and 100% of the long-term element vesting in 2023, which was capped at 84% through the vesting in 2021;
- **Maximum** – where performance meets or exceeds the maximum and the executive directors receive their fixed pay plus the maximum in-year vesting of the EIP and 100% of the long-term element vesting in 2023, which was capped at 84% through the vesting in 2021.

The charts above do not reflect the remuneration to be paid to Liz Barber due to her retirement from the business. Instead they show the remuneration to be paid to Nicola Shaw from her date of appointment on 9 May 2022. Information on the payments made to Liz Barber upon her departure is included later in this report. It should be noted that the charts show what could be earned by the executive directors based on the 2023 remuneration policy and the numbers will therefore differ from those included in the table later in this report which details what was actually earned by the executive directors in the year to 31 March 2022.

Recruitment policy

The remuneration package for a new executive director would be set in accordance with the terms of the prevailing remuneration policy at the time of appointment, considering the skills and experience of the individual, the market rate for a candidate of that experience and the importance of securing the relevant individual.

The table below sets out our policy on the recruitment of new permanent executive directors for each element of the remuneration package:

Remuneration component	Policy on recruitment
Base salary	The salary would be provided at such a level as required to attract the most appropriate candidate. The aim would be to pay the appropriate market rate for the role when benchmarked against other water companies or other utilities, in line with the current policy for existing executive directors. Where it is appropriate to set a lower salary initially, a series of increases above the level awarded to the wider workforce may be given over the following few years until the desired position is achieved, subject to individual performance. This may apply to those promoted internally in the business as well as to those recruited from outside.
Benefits	The benefits package we will offer will be set in line with the policy for existing executive directors. In addition to the benefits currently available to existing executive directors, we may also offer an allowance to cover relocation, travel and / or incidental expenses as appropriate.
Retirement benefits	The maximum pension contribution will be set in line with the policy for executive directors at up to 10% of base salary.
Executive incentive plan	EIP awards will be made in line with the policy for other executive directors. In the year of recruitment an award may be made at a date outside of the usual annual awards, at the discretion of the Committee. Different performance measures may be set initially at the discretion of the Committee, depending on the point in the financial year at which the individual joins. The award made will be pro-rated to the period of employment, with both the in-year and deferred vesting amounts pro-rated accordingly.
Buy-outs	In addition to the above, we may also offer additional cash when we consider this to be in the best interests of shareholders and the business. Any such payments would be based solely on remuneration relinquished when leaving the former employer and would reflect, as far as possible, the nature and time horizons attaching to that remuneration and the impact of any performance conditions. Our policy on 'buying-out' of existing incentives granted by the executive's previous employer will depend on the circumstances of recruitment and will be negotiated on a case-by-case basis. There will not be a presumption in favour of buy-out, but it will be considered if necessary to attract the right candidate.

In total, the maximum variable pay level in the year of appointment – excluding the value of any buy-out awards – will be 150% of base salary through the EIP award.

For an internal executive appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to its terms, adjusted as appropriate to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment would be allowed to continue.

The appointment of Nicola Shaw

We announced on 7 April 2022 that a new Chief Executive, Nicola Shaw, would be joining the business on 9 May 2022. Nicola joins during a period of significant change for Yorkshire Water through the ongoing transformation programme, as well as increasing regulatory pressure across the sector. In addition, the Board is keen for the company to improve its operational performance relative to its peers.

The Board believes that Nicola has the experience and expertise to be able to deliver in these areas. The Committee reviewed the remuneration to be offered to Nicola in this context, taking into account her vast experience in the successful running of regulatory businesses across a number of sectors and her considerable experience in over-seeing successful transformation programmes in a number of different businesses. In addition, her role was benchmarked against similar roles in both the FTSE 250 and FTSE 100 to obtain a view of the appropriate market rate for the role.

The Committee concluded that the base salary to be offered to Nicola should be £574,000, with a car allowance of £12,000 and the rest of her benefits and remuneration in line with that offered to our previous Chief Executive, Liz Barber.

Given the need for Nicola to relocate to Yorkshire, the Committee has also agreed to pay relocation expenses of up to £140,000 in accordance with the existing Remuneration Policy.

Non-executive director recruitment

The fee structure for independent non-executive director appointments will be based on the independent non-executive director fee policy as set out in the policy table.

The appointment of Russ Houlden

Our investor directors do not receive any remuneration for their role as directors on our Board. Therefore Russ Houlden, who was appointed to the Board on 19 January 2022, will not receive any remuneration for his role and receives no other benefits or variable pay from the business.

Service contracts

Our policy is to set notice periods for executive directors at six months' notice from either party. The current service agreement dates are set out in the table below:

Director	Date of appointment	Date of current service agreement
Liz Barber	24 November 2010[1]	15 July 2019
Nicola Shaw	9 May 2022	6 April 2022
Chris Johns	1 June 2020	27 September 2019

[1] Liz Barber joined the Board as Group Director of Finance and Regulation on 24 November 2010. She then became CEO on 12 September 2019 and stepped down from the Board on 6 May 2022. She will leave the business on 31 December 2022.

Letters of appointment

Independent non-executive directors are appointed by letters of appointment for a period of two years. Appointments may be renewed by mutual agreement for further periods of up to two years subject to a total period of nine years' service with the company. The letters of appointment allow for termination by either party without a requirement for notice.

The appointment of the Chair is for a period of three years and may be renewed by mutual agreement for further periods of up to three years, subject to a total period of nine years' services with the company. The notice period is set at three months for either party.

The dates of the current letters of appointment are noted in the table below:

Director	Date of appointment	Date of current letter of appointment
Vanda Murray	July 2021	27 May 2021
Andrew Merrick	June 2019	27 May 2021
Ray O'Toole	June 2014	26 May 2022
Julia Unwin	January 2017	25 November 2000
Andrew Wyllie	September 2017	9 July 2021

The following non-executive director appointments were made in accordance with Clause 4 of the Shareholders Agreement dated 2010. This permits investors to appoint representatives to the company in accordance with their holdings.

Non-executive director	Appointed
Scott Auty	September 2017
Andrew Dench	September 2017
Russ Houlden	January 2022

Payments to executive directors who leave the business

The table below sets out our policy on payments in relation to executive directors who leave Yorkshire Water. The Committee is clear that contractual entitlements will be honoured, there will be a consistent approach to exit payments and no reward for poor performance. We will not pay anything if an executive director is dismissed for serious breach of contract, serious misconduct or under-performance or for acts that bring the executive director or Yorkshire Water into serious disrepute.

Remuneration component	Treatment on exit
Base salary	Salary will be paid for the contractual notice period. Where appropriate, we will seek to mitigate any payments due, however the Committee has discretion to make a lump sum payment on termination in lieu of notice.
Benefits and retirement benefits	Benefits and retirement benefits will normally continue to be provided over the notice period. Where appropriate, we will seek to mitigate any payments due, however the Committee has discretion to make a lump sum payment on termination equal to the value of the benefits payable during the notice period.

Remuneration component	Treatment on exit
Variable pay schemes	Normally awards will lapse on cessation of employment, unless the Committee determines that the executive is a good leaver. Good leaver principles have been agreed by the Committee and status is usually conferred for one of the following reasons: death, ill health, injury or disability, a change of control, redundancy or other circumstances at the discretion of the Committee. Good leavers will be treated in accordance with the rules of the specific scheme. Colleagues leaving on the grounds of retirement will be considered on a case-by-case basis. Good leavers may request to receive payment of their outstanding EIP long-term elements in the July following their departure from the business, in exchange for a discount of 25% in recognition of the early settlement. Agreement to this is entirely at the discretion of the Committee.

In relation to a termination of employment, the Committee may make payments in relation to any statutory entitlement or payments to settle compromise claims as necessary. The Committee also retains the discretion to reimburse reasonable legal expenses incurred in relation to a termination of employment and to meet any transitional costs if deemed necessary. Payment may also be made in respect of accrued benefits, including untaken holiday entitlement.

Payments on a change of control, where a director's employment is adversely changed, will be as on termination. There will be no enhanced provisions on a change of control.

The departure of Nevil Muncaster

As previously noted, Nevil Muncaster resigned from the Board on 31 July 2021 to accept a role elsewhere in the water sector. He was paid his base salary and benefits up to the date of his departure in accordance with his contractual entitlement. The Committee agreed that voluntary resignation did not qualify for good leaver status and therefore any payments that Nevil would have been entitled to under the EIP or LTIP following his departure will lapse.

The departure of Liz Barber

Post year end we announced that Liz Barber would be retiring from the Board with effect from 6 May 2022. The Committee agreed that Liz would receive her contractual remuneration until 31 December 2022 to enable a smooth handover to her successor and to cover her contractual notice period. The Committee also agreed that she would qualify as a good leaver in line with the rules of the LTIP and EIP scheme and would therefore receive payments under both of these schemes subject to vesting performance and pro-rated to the date of the end of her notice period on 31 December 2022. The Committee exercised its discretion to agree with Liz that all outstanding pro-rated awards would be paid in July 2022, with those being paid early reduced by 25% to reflect the early settlement. Details of the amounts due to be paid to Liz in July 2022 are shown later in this report.

The non-executive directors' letters of appointment do not include any compensation for loss of office.

Policy on outside appointments

We believe that where executive directors hold directorships in other companies, Yorkshire Water can benefit from their experience. As a result, and subject to the Board's prior approval, executive directors may take on one substantial external non-executive directorship and retain the fees earned.

Annual Report on Remuneration

This part of the Directors' Remuneration Report sets out the amounts we have paid to directors for the year ended 31 March 2022 and describes how the policy will be implemented in 2023.

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

Single total figure table (audited)

	Current directors				Past director			
	Liz Barber		Chris Johns[1]		Nevil Muncaster[2]		Total	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Base salary	443	435	308	250	75	226	826	911
Taxable benefits	9	9	9	7	3	9	21	25
Retirement benefits[3]	44	52	31	30	9	27	84	109
Sub-total	**496**	**496**	**348**	**287**	**87**	**262**	**931**	**1,045**
EIP – short term element	286	548	199	315	-	285	485	1,148
EIP – long term element[4]	393	-	-	-	-	-	393	-
Exceptional bonus[5]	-	-	-	-	-	34	-	34
LTIP[6]	244	272	-	-	-	114	244	386
Sub-total	**923**	**820**	**199**	**315**	**-**	**433**	**1,122**	**1,568**
Total	**1,419**	**1,316**	**547**	**602**	**87**	**695**	**2,053**	**2,613**

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

[2] Nevil Muncaster left the Board on 31 July 2021. The payments in the table above reflect the payments made to Nevil prior to his departure. No payments have been made following his departure.

[3] Liz Barber opted for a full salary supplement instead of a contribution to the Kelda Stakeholder+ Plan. She received a cash sum of £44,291 (2021: £52,000) in the year.

Chris Johns is a member of the Kelda Stakeholder+ Plan with a partial salary supplement. He received a total cash sum of £24,681 (2021: £19,500) and a pension contribution of £6,170 (2021: £10,500).

Nevil Muncaster opted for a full salary supplement instead of a contribution to the Kelda Stakeholder+ Plan. He received a cash sum of £9,040 (2021: £27,120) in the year.

[4] The long-term elements of the EIP were not due to be paid until July 2023 onwards but as part of the remuneration arrangements agreed with Liz Barber on her retirement from the business, it was agreed by the Committee that the long-term elements would be settled early in July 2022 in return for a discount of 25% to reflect the early settlement. These have also been pro-rated to the date of her departure from the business on 31 December 2022.

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

[6] The figures included above for the LTIP that vested during the year relate to the LTIP awards granted in 2019 which vested on 1 May 2022 Further details of the scheme and the vesting are detailed later in this report.

EIP

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

Awards will not vest unless the Committee is satisfied that the underlying financial and non-financial performance has been satisfactory over the performance period, considering any relevant factors, including the regulatory regime in place. The Committee has authority to exercise its discretion to reduce the level of vesting to any extent considered appropriate. Any amounts that vest are paid in cash to participants in July of each year.

Awards made in 2021

Awards of up to 150% of base salary for the short-term element and 150% of base salary for the long-term element were made to Liz Barber and Chris Johns with effect from 1 April 2021. The performance period for the short-term element ran to 31 March 2022.

The Committee assessed performance in the year against the performance criteria set out below. This indicated that the vesting was at 43.0%. The Committee considered this, taking into account the overall performance of the business during the year and the pay and conditions elsewhere in the business. This included careful consideration of regulatory performance in the year, particularly in relation to environmental matters and customer delivery. In the two measures requiring Committee assessment, the view was taken that half of the maximum amount available would be awarded to accurately reflect performance in the year. The Committee concluded that no further discretionary reduction should be applied and that the vesting calculations accurately reflected the underlying performance of the business in a challenging year. This means that 43.0% of the 150% maximum, equivalent to 64.5% of base salary, will be paid in cash to the executive directors in July 2022, with 43.0% of the 150% maximum of the long-term element carried forward and released, subject to the further performance criteria set out below, in three equal cash instalments in July 2024, July 2025 and July 2026. Any amounts that vest under this scheme will be reported in the Directors' Remuneration Reports for the years ended 31 March 2024 to 2026.

The performance measures for the short-term element vesting in March 2022 are shown below:

		Threshold level – vesting starts to accrue	Target level – 80% of maximum vesting generated	Maximum level – maximum vesting generated	Actual performance
Target	**Weighting**	**Performance required**	**Performance required**	**Performance required**	**Performance achieved**
Financial – 10%					
Operating cash	10%	£20m below business plan	In line with business plan	£20m above business plan	10%
Delivering for customers – 75%					
Total operating expenditure (excluding exceptionals)	15%	£20m more than business plan	In line with business plan	£10m less than business plan	-
Capital expenditure	15%	£20m more than business plan	In line with business plan	£20m less than business plan	15%
Accrued ODIs*	20%	£5m worse than business plan	In line with business plan	£5m better than business plan	-
Customer satisfaction – CMEX	5%	9th	9th	8th	-
HEALTH AND SAFETY – LTIR	5%	0.297	0.27	0.243	5%
Operational carbon – tonnes	5%	95,572	86,884	78,195	3.5%
Environment – EPA rating	5%	2*	3*	3*	1%
Colleague engagement survey score	5%	7.2	7.4	7.6	1%
Strategic – 15%					
Transformation milestones	10%	Assessment by Committee	Assessment by Committee	Assessment by Committee	5%
Public value, strategy and PR24 plan	5%	Assessment by Committee	Assessment by Committee	Assessment by Committee	2.5%

* Our accrued ODI measure relates to the ODIs set as part of our five-yearly price review and which measure our performance throughout the AMP.

These performance measures were selected by the Committee to reflect the priorities of the business both during 2022 and in the longer-term and to reflect the needs of stakeholders through 75% of the performance being aligned to the needs of customers, people, and the environment.

EIP long-term measures

The measures that have been agreed by the Committee for the long-term element of the scheme are to be confirmed by the Committee in September 2022. Performance against these measures will be reported in the Remuneration Report for the year ended 31 March 2024 onwards.

All of the measures chosen by the Committee for the short-term and long-term elements of the scheme are carefully selected to ensure that the schemes drive the right behaviour amongst our senior executives and align with the needs of the business and those of our key stakeholders.

Financial measures are selected as the business needs to be run efficiently to ensure that we are not wasting customer money and that we are maximising the money available for investment to protect the business in the longer-term. Measures relating to customers, people, the environment and the community align directly with our ambition to put people at the heart of everything we do and align directly with the requirements of our regulator, Ofwat. Overall 75% of the measures for the short-term element of the scheme align directly with the needs of these stakeholders in the scheme that vested this year. The measures are being reviewed again for the award made in April 2023 to ensure that these continue to align our senior leaders with the objectives of the business and the needs of our stakeholders. Details of the measures chosen will be disclosed in our Annual Report in 2023.

The importance of linking the environment to our variable pay

There has been much external focus in recent times on the role that water companies play in relation to the environment. As set out elsewhere in our ARFS we recognise the importance of the environment in all that we do at Yorkshire Water. We have a significant impact on the environment around us and are reliant on it for our water resources, now and always. The Committee has sought to reflect this in our variable pay measures.

We have two measures in the short-term element of our EIP which link directly to the environment; our operational carbon measure and our EPA rating. The EPA rating is calculated by the EA and includes factors such as our compliance with environmental permits and the number of pollution incidents each year. We also have an ODI measure in the short-term element of the scheme which makes up 20% of the short-term variable pay. This is made up of a number of measures, several of which relate directly to the environment through measuring leakage, sewer collapses, pollution incidents, treatment work compliance, operational carbon and bathing water quality. This is equivalent to one third of the ODI measure, meaning that a total of 16% of the short-term element of our EIP is directly related to our environmental performance.

We have also previously attributed 16% of the measures for the long-term element of the scheme directly to environmental matters, namely carbon emissions and our EPA rating. This means that overall across both the short-term and long-term elements of the scheme, 32% of the variable pay each year has been directly linked to performance in relation to the environment. The long-term measures for the scheme that has vested in 2022 are yet to be confirmed by the Committee.

Outstanding awards under the EIP as at 31 March 2022

The long-term element of the EIP scheme is carried over to subsequent years. The current amounts being carried forward are set out below:

	Current directors				Past director
	Liz Barber		Chris Johns		Nevil Muncaster
Effective date of award	**01.04.2020**	**01.04.2021**	**01.06.2020**	**01.04.2021**	**01.04.2020**
Awards outstanding at 1 April 2021	548	-	315	-	285
Awards made in the year £'000	-	286	-	199	-
Vested during the year £'000	295[1]	97[1]	-	-	-
Lapsed during the year £'000	253[1]	189	-	-	285
Awards outstanding at 31 March 2022 £'000	-	-	315	199	-
Awards already vested in previous years £'000	548	286	315	199	678
Face value of maximum total award £'000	-	-	750	926	-
Total % that would vest at threshold performance	-	-	20%	20%	-

[1] As mentioned above, the Committee approved that Liz Barber should receive the outstanding elements of her EIP awards early. These will be paid In July 2022 and the figures above reflect the pro-rating to the date of her leaving the business on 31 December 2022 and a discount of 25% to reflect the early settlement.

LTIP

The LTIP was a rolling three-year plan based on the achievement of specific performance conditions with targets set at the start of each performance period. Any amounts that vest are paid in cash to participants in July of each year with the last performance period for the scheme ending on 1 May 2022.

LTIP awards vesting in 2022

On 1 April 2019, awards were granted to Liz Barber equivalent to 200% of base salary at that time and to Nevil Muncaster equivalent to 150% of base salary at that time. The specific targets attached to the LTIP awards granted in 2019, and the performance achieved in the three-year period to 31 March 2022, are shown in the table below.

Performance Condition	Performance
Cashflow performance over the performance period:	
<90% of target – no LTIP vesting	
>90% but < 100% of target – vesting pro-rated between 1% and 70%	Adjusted EBITDA indicates a vesting of 62.4%.
>100% but < 120% of target – vesting pro-rated between 70% and 100%	
>120% or higher of target – vesting at 100%	
The performance above could then be reduced by the percentage indicated if the performance measures below were not met:	
People – 20%	
Health and safety measure – 10%	Targets met
Colleague engagement measure – 10%	Target not met – 6.2% net deduction
Customer experience – 40%	
AMP7 customer service related PCs	Target partially met – 12.5% net deduction
Resilience – 40%	
AMP7 resilience-related PCs	Targets substantially met, however, 4.2% net deduction

The performance in the year therefore indicated a vesting of the 2019 LTIP awards of 39.5%. This was discussed by the Committee and the calculations were independently verified by KPMG. It was decided that the vesting reflected actual performance in the year and therefore the vesting of 39.5% was approved for payment in July 2022.

The vesting in May 2022 marks the end of the LTIP and there are therefore no outstanding awards carried forward.

Payments for loss of office (audited)

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

Payments to past directors (audited)

A payment will be made in July 2022 to Richard Flint who is a past executive director of the company. This payment relates to the LTIP vesting in 2022 and amounts to £114,542.

No other payments to past directors were made in the year.

Independent non-executive directors

Single total figure table (audited)

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

Non-executive director	2022 £'000	2021 £'000
Anthony Rabin[1,3]	115[2]	275
Vanda Murray[1,2]	206[2]	–
Andrew Merrick	60	60
Raymond O'Toole	70	70
Julia Unwin	60	60
Andrew Wyllie	60	60

1. The fees for Vanda Murray and Anthony Rabin includes their other responsibilities in relation to other Kelda Group Limited companies but are shown here in full.
2. Vanda Murray joined the Board on 1 July 2021 so her fee was pro-rated from that date.
3. Anthony Rabin retired from the Board on 1 September 2021 and therefore his fee is pro-rated to that date. He continued to receive his salary until 30 November 2021 in accordance with his contractual entitlement, which amounted to a further payment of £68,750 in addition to the fee shown above.

The investor directors do not receive any remuneration from Yorkshire Water.

Remuneration of the CEO

The table below sets out the remuneration for our CEO in each of the last nine years.

	2022 £'000	2021 £'000	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Total remuneration	1,419	1,316	1,469	1,328	932	1,328	1,231	1,291	861	1,288
Annual bonus paid against maximum opportunity	43.0%	84.0%	74.8%	64.6%	67.7%	73.5%	60.0%	87.0%	80.0%	85.0%
Long-term incentive vesting against maximum opportunity	39.5%	45.3%	74.8%	50.0%	-	50.0%	50.0%	75.0%	-	60.0%

Chief Executive pay ratio

The table below shows the pay ratio of our Chief Executive in the year indicated as required by the Companies (Miscellaneous Reporting) Regulations 2018.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2022	Option A	34:1	27:1	20:1
2011	Option A	46:1	35:1	26:1

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

- Identifying all colleagues who received a base salary during the year ended 31 March 2022 and who were still employed on that date;
- Using the total pay and benefits received in respect of the year ended 31 March 2022, including bonuses earned for performance in the financial year and paid in July following the end of the financial year;
- Uplifting certain pay elements for colleagues who were employed on a part-time basis or who were not employed for the full financial year;
- Taking into account any changes in working hours during the reporting period and adjusting relevant pay elements accordingly; and
- Using the employer contribution to the defined benefit pension schemes in order to reduce administrative complexity.

Our CEO has a significant proportion of her remuneration linked to variable pay and therefore it is expected that the ratios will vary each year depending on the outcome of the variable pay scheme, the EIP. Participation in the EIP is currently limited to approximately 30 colleagues, with none of the individuals identified as the 25th percentile, median or 75th percentile receiving an EIP award this year.

For the third year in a row we have observed a decrease in the pay ratio compared with the prior year. This is primarily driven by a decrease in the variable pay outcomes for the CEO, however, we have also seen a rise in median base salary and total pay and benefits this year which has also contributed to the reduction of the ratio.

We are mindful of the inflationary pressures that are impacting our workforce and are committed to paying our colleagues in accordance with the Real Living Wage. We also paid eligible colleagues a bonus this year, which was paid in two tranches to ease the cost of living pressure. We conduct an annual salary review that is underpinned by market benchmarking to ensure we offer competitive and fair rates of pay across the organisation.

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

	25th percentile	Median	75th percentile
Base salary	£21,546	£27,798	£37,194
Total pay and benefits	£30,046	£38,370	£50,249

The pay ratio calculation shows that, in total remuneration terms, the CEO earns 27 times (2021: 35 times) that of the median employee. These calculations have been independently verified by Ernst and Young.

We have a whole range of policies and practices to ensure that colleagues are fairly rewarded. We also conduct an annual salary review that is underpinned by market benchmarking to ensure competitive and fair rates of pay are offered throughout the organisation.

Change in remuneration

The table below sets out the change in the remuneration of the CEO from the prior year in comparison to the average percentage change in respect of managers at Yorkshire Water and all colleagues:

	% change in element between 2020 and 2021		
	Salary	Taxable benefits[1]	Annual bonus
CEO	1.8% increase	No change	47.9% decrease
All colleagues	7% increase	No change	13.5% increase

[1.] Taxable benefits include healthcare, car allowance and fuel provision for colleagues who receive such benefits.

The salary has been calculated by looking at colleagues in the same role on 31 March 2022 and as at 31 March 2021 and calculating the change in salary between those two dates.

Relative spend on pay

The table below sets out the relative spend on pay for Yorkshire Water as a whole in comparison to distributions to shareholders:

	Year ended 31 March 2022 £m	Year ended 31 March 2021 £m	Percentage change %
Total remuneration cost for all colleagues[1]	188.4	171.2	10.0%
Total distributions made[2]	52.6	45.2	16.4%[3]

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

[2.] Total distributions made consists of £52.6m (2020: £45.2 million) of distributions made to the parent company to make interest and loans payments.

[3] In 2020 additional dividends were paid to substantially cover 2021 head office costs, reducing the dividend payments required in 2021.

Implementation of policy for 2023

The table below sets out how we will implement the Remuneration Policy for the 2023 financial year:

	Implementation in 2023
Base salary	The Committee reviewed base salaries in March 2022 and agreed an increase of 3.0% for Chris Johns to align with the rest of the workforce. The base salaries for 2023 are therefore as follows: • Liz Barber: £442,909 from 1 April 2022 to 31 December 2022. • Nicola Shaw: £574,000 from 9 May 2022. • Chris Johns: £317,764 from 1 April 2022.
Benefits	Benefits remain unchanged from 2022.
Retirement benefits	Retirement benefits remain unchanged from 2022.
EIP	EIP awards made with effect from 1 April 2022 are equivalent to a maximum of 150% of base salary for both executive directors for the short-term element and 150% of base salary for the long-term element, with the long-term element potentially vesting in equal instalments in years three, four and five subject to further performance conditions. Further information on the performance conditions is shown earlier in this section.

Non-executive directors

The Board undertook its annual review of fees for the independent non-executive directors in March 2022, taking into account that the last increase in independent non-executive director fees was in 2018. Since then, increases for the wider workforce have been made of 3% in 2019, 2% in 2020, 3% in 2021 and 3% in 2022. Applying the same rates to the base fee for independent non-executive directors would mean that the base fee for 2023 would be £55,729.

A benchmarking exercise was undertaken using data from two different independent sources. These indicated that the base fee for the independent non-executive directors was significantly lower than the median market rate. The combination of these factors, along with the significant demands placed on the independent non-executive directors in their roles on the Board, meant that it was agreed that the base fee would increase from £50,000 to £58,000 for 2023 and that the additional fees for the role of Committee Chair and Senior Independent Director would be increased from £10,000 to £12,000 to further align with the market median.

The benchmarking data indicated that the fee for the role of Chair should be increased in line with the rest of the workforce at 3%, therefore the Chair fee has been increased from £275,000 to £283,250 with effect from 1 April 2022. The independent non-executive fees will next be subject to an annual review in March 2023. The fees to be paid in 2023 are set out below:

	£'000
Chair fee	283
Base independent non-executive director fee	58
Additional fee for Committee Chair[1]	12
Additional fee for Senior Independent Director	12

[1] The additional fee for the role of Committee Chair is not paid to the Chair for her role as Nomination Committee Chair. The fee paid to Vanda as Chair already encompasses her additional role as Committee Chair.

People and Remuneration Committee

The membership and attendance at Committee meetings during the year is shown in the table in Leadership within the Governance section. Meetings are also attended by the CEO, the Chief People Officer, the Head of Reward and the Company Secretary. No colleagues are present when their own reward is discussed. The People and Remuneration Committee is a sub-committee of the Board and has four scheduled meetings a year. Additional meetings are held as and when required. The specific matters considered by the Committee at each of the meetings are shown in the table below:

Meeting	Matters considered
May 2021	• Update on the performance in relation to the LTIP for 2018-2021 and the short-term element of the EIP for 2021. • A review of the measures for the EIP award in 2021. • An update on the myDeal programme that was underway in the business to seek to align contractual terms and conditions amongst much of the workforce. • The approval of an exceptional bonus for Nevil Muncaster, as set out in the Annual Report in 2021. • Review of the draft Remuneration Report for 2021.
June 2021	• Conclusion on the vesting of the LTIP for 2018-2021 and the first year of the EIP for 2020-2021. • Approval of the long-term performance measures for the EIP scheme awarded in 2021 for the elements due to vest in 2023 to 2025. • Discussion of the remuneration arrangements for the departure of Nevil Muncaster from the business, should he decide to accept the offer of employment he had received from elsewhere. • Approval of the measures for the EIP award in 2021 and the continued structure of the EIP scheme with a threshold payment level of 20% and a target payment level of 80%.

Meeting	Matters considered
November 2021	• Update on the Learning Academy that was in the process of being set-up within the business. • An update on the changes proposed to the approach to performance management within the business. • An update on the approach to equality, diversity and inclusion across the business. • Approval of a revised Security of Employment Policy to apply to colleagues joining the business on or after 1 May 2021.
January 2022	• An update on the remuneration market from Willis Towers Watson. • An update on the performance of the variable pay schemes due to vest in 2022; the LTIP for 2019-2022 and the short-term element of the EIP for 2022. • A review of pension contributions made for Band 1 colleagues and approval of the proposed approach to align this further with the rest of the workforce. • Approval of the remuneration to be offered to the Director of Strategy and Regulation.
March 2022	• Review and approval of the pay awards for executive directors and senior management, effective from 1 April 2022. • Update on the performance in relation to the LTIP for 2019-2022 and the EIP short-term element for 2022. • Initial discussions of the performance measures for the 2022 award of the EIP, with particular focus on a letter received from Ofwat in relation to executive remuneration and the need to ensure a clear connection being environmental performance and variable pay. • A discussion around the remuneration arrangements that would apply should there be a change of CEO, due to discussions that were ongoing with Liz Barber around her wish to retire from the business.

During the year under review, the Committee received remuneration advice from Willis Towers Watson. Willis Towers Watson received fees of £32,640 for their update on the remuneration market and benchmarking data in relation to executive director and senior management roles. Willis Towers Watson also provide insurance broking services to Yorkshire Water, but the Committee believes that this does not compromise their independence from the business. Willis Towers Watson are signatories to the Remuneration Consultants Group Code of Conduct and any advice received from them is governed by that Code. The Committee has reviewed the way in which Willis Towers Watson operate and their relationships with the business and is satisfied that the advice it receives is independent and objective.

During the year an externally-facilitated evaluation was undertaken of the Board and all of its committees. The feedback on the People and Remuneration Committee showed it to be operating very effectively with time used well in meetings and good transparency of information to Committee members. There were some areas identified for specific additional focus in the coming year, including more information on some specific people matters, a deep dive on diversity across the organisation and a review of the EIP measures for 2023 to ensure that these align with the desired culture and behaviours of the organisation.

In accordance with its terms of reference, the Committee is responsible for:

- Setting the remuneration policy for all executive directors and YWLT members, considering relevant legal and statutory requirements, the UK Corporate Governance Code and associated guidance, having regard to pay and employment conditions across the company;
- Considering the clarity, simplicity, risk, predictability, proportionality and alignment to purpose, values, strategy and culture of the remuneration policy;
- Reviewing the design of all long-term incentive plans for approval by the Board;
- Considering succession planning for directors and other senior executives, taking into account the challenges and opportunities facing the company, the skills and expertise needed in the future and the need for the development of a diverse group of colleagues for succession;
- Overseeing any remuneration paid to leavers from amongst the executive directors and YWLT members, and consideration of the reasons for departure by any senior employee;
- Appointing remuneration consultants to provide reports, surveys or information deemed necessary to assist with the setting of an appropriate remuneration policy;
- Considering reports on diversity and inclusion across the business and overseeing any actions required in these areas and the initiatives in place to promote a diverse and inclusive workforce at every level of the organisation;
- Receiving reports on the performance and development of the executive directors and YWLT members; and
- Considering the culture of the organisation and whether this aligns to the desired culture set by the Board.

Copies of the Terms of Reference are available from the Company Secretary or on our website, **yorkshirewater.com**

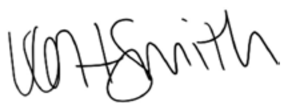
Consideration of shareholders' views

The presence of three directors representing shareholders on the Board of Yorkshire Water enables a direct flow of communication and sharing of views by shareholders to the Board. All three investor directors also sit on the People and Remuneration Committee.

Outside appointments

Liz Barber became a Non-Executive Director of Cranswick plc on 1 May 2021 and received fees of £49,000, which she was entitled to retain.

Signed by order of the Board.



Kathy Smith
Company Secretary
15 July 2022

Glossary

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

Financial Statements

Profit and loss account

For the year ended 31 March 2022

	Note	2022 £m	2021 £m
Revenue	2	**1,118.5**	1,101.1
Operating costs (including exceptional items of £5.5m (2021: £28.4m) (note 6))		**(876.2)**	(859.7)
Operating profit	3	**242.3**	241.4
Interest receivable and similar income	7	**41.9**	44.9
Interest payable and similar charges before fair value movements		**(267.2)**	(166.8)
Fair value movements		**(369.6)**	(102.0)
Interest payable and similar charges	8	**(636.8)**	(268.8)
(Loss)/profit before taxation		**(352.6)**	17.5
Taxation	9	**(16.0)**	(6.4)
(Loss)/profit for the financial year		**(368.6)**	11.1

Statement of comprehensive income and expense

For the year ended 31 March 2022

	Note	2022 £m	2021 £m
(Loss)/profit for the financial year		**(368.6)**	11.1
Items that will not be reclassified to profit or loss:			
Revaluation of tangible assets before taxation	12	**901.8**	217.0
Tax on revaluation of tangible assets		**(243.4)**	(41.2)
Revaluation of retirement benefits		**(0.1)**	(0.6)
Tax on revaluation of retirement benefits		**0.1**	0.1
		658.4	175.3
Items that may be subsequently reclassified to profit or loss:			
Gains on cash flow hedges taken to equity before taxation	18	**39.9**	10.2
Tax on cash flow hedges		**(10.4)**	(2.0)
		29.5	8.2
Total other comprehensive income for the year		**687.9**	183.5
Total comprehensive income for the year		**319.3**	194.6

All of the results above relate to continuing operations.

Balance sheet
As at 31 March 2022

	Note	2022 £m	2021 £m
Fixed assets			
Intangible assets	11	**175.6**	156.0
Tangible assets	12	**9,236.7**	8,211.2
Investments	13	**2.2**	2.2
Non-current debtors	14	**933.2**	941.3
		10,347.7	9,310.7
Current assets			
Stocks		**6.6**	4.8
Current debtors (including £172.2m (2021: £202.4m) due after more than one year)	14	**484.6**	511.0
Cash and cash equivalents		**28.5**	197.9
		519.7	713.7
Creditors: amounts falling due within one year	15	**(1,020.6)**	(939.3)
Net current liabilities		**(500.9)**	(225.6)
Total assets less current liabilities		**9,846.8**	9,085.1
Creditors: amounts falling due after more than one year	16	**(8,070.5)**	(7,850.0)
Provisions for liabilities			
Deferred tax liability	20	**(656.2)**	(393.1)
Other provisions		**(11.8)**	(0.4)
		(668.0)	(393.5)
Net assets		**1,108.3**	841.6
Capital and reserves			
Called up share capital	21	**11.0**	11.0
Revaluation reserve	21	**914.0**	255.6
Hedging reserve	21	**35.2**	5.7
Profit and loss account	21	**148.1**	569.3
Shareholders' funds		**1,108.3**	841.6

The Financial Statements on pages 154 to 192 were approved by a duly authorised committee of the Board of directors on 15 July 2022 and were signed on its behalf by:

Nicola Shaw
Chief Executive Officer
Yorkshire Water Services Limited
Registered in England and Wales no. 02366682

Statement of changes in equity

For the year ended 31 March 2022

	Note	Called up share capital £m	Revaluation reserve £m	Hedging reserve £m	Profit and loss account £m	Total equity £m
Balance at 1 April 2021		**11.0**	**255.6**	**5.7**	**569.3**	**841.6**
Total comprehensive income/(expense) for the year						
Loss for the financial year		**-**	**-**	**-**	**(368.6)**	**(368.6)**
Revaluation of tangible assets before taxation		**-**	**901.8**	**-**	**-**	**901.8**
Tax on revaluation of tangible assets		**-**	**(243.4)**	**-**	**-**	**(243.4)**
Revaluation of retirement benefits		**-**	**-**	**-**	**(0.1)**	**(0.1)**
Tax on revaluation of retirement benefits		**-**	**-**	**-**	**0.1**	**0.1**
Gains on cash flow hedges taken to equity before taxation		**-**	**-**	**39.9**	**-**	**39.9**
Tax on cash flow hedges		**-**	**-**	**(10.4)**	**-**	**(10.4)**
Total comprehensive income/(expense) for the year		**-**	**658.4**	**29.5**	**(368.6)**	**319.3**
Transactions with owners recorded directly in equity						
Dividends	10	-	-	-	**(52.6)**	**(52.6)**
Balance at 31 March 2022		**11.0**	**914.0**	**35.2**	**148.1**	**1,108.3**

Statement of changes in equity (continued)

For the year ended 31 March 2022

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

Notes

1. Accounting policies

Yorkshire Water Services Limited (Yorkshire Water or the company) is a private company limited by shares, incorporated in the United Kingdom (UK) under the Companies Act 2006, registered in England and Wales, and resident for tax in the UK. Registered address: Yorkshire Water Services Limited, Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ.

Basis of preparation

These Financial Statements have been prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and the Companies Act 2006.

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

The presentation currency of these Financial Statements is £ sterling (GBP) because that is the currency of the primary economic environment in which the company operates.

Kelda Eurobond Co Limited includes the company in its consolidated Financial Statements. The consolidated Financial Statements of Kelda Eurobond Co Limited are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and are available to the public and may be obtained from Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ.

In these Financial Statements, the company, as a qualifying entity, has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash flow statement and related notes;
- Key management personnel compensation; and
- Transactions between wholly-owned subsidiaries, or with their parent.

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Financial Statements.

The preparation of these Financial Statements requires the use of certain critical accounting judgements and key sources of estimation uncertainty. Judgements made by management in applying the significant accounting policies and estimates made at the end of the reporting period are discussed at the end of this note.

Interest Rate Benchmark Reform

In September 2019, the International Accounting Standards Board (IASB) issued Phase 1 Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* in relation to Interest Rate Benchmark Reform. The Financial Reporting Council (FRC) subsequently issued equivalent amendments to FRS 102 which are in line with the IASB's changes. This allowed Yorkshire Water to continue hedge accounting for its benchmark interest rate exposures during the period of uncertainty arising from interest rate benchmark reforms.

In August 2020, the IASB issued Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, and IFRS 16 Leases in relation to replacement issues. The FRC also issued equivalent amendments to FRS 102. During the year, Yorkshire Water transitioned all of its external exposures from GBP London Inter-bank Offered Rate (LIBOR) to Sterling Overnight Index Average Rate (SONIA) as a direct consequence of the reforms and on an economically equivalent basis. Phase 2 Amendment reliefs have been applied, resulting in a continuation of hedge accounting and financial instruments not being derecognised. No gains or losses have been recognised as a result of the transition. The completion of the transition brings an end to the period of uncertainty and has not resulted in any changes to Yorkshire Water's accounting policies. There has been no change to Yorkshire Water's risk management strategy as a result of the transition.

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are described in the Strategic Report. Our long-term viability statement has also been included in the Strategic Report.

The directors have considered the business plan and the cash position of the company, specifically the sufficiency of the funds available to fund the operating and capital investment activities of the company for the 12 months from the date of signing the Financial Statements and the headroom against applicable covenants. In addition, the company has an indefinite licence to operate as a water and sewerage operator terminable with a 25-year notice period. In assessing Yorkshire Water's ability to continue as a going concern, the directors have considered:

- Yorkshire Water's business activities, including the company's financial and operational performance and strength of the year end net asset position. Whilst the net current liability position has Increased year on year, this was driven by refinancing activity close to the previous year end date which led to an increased cash position which has since normalised, and therefore does not adversely impact on going concern considerations;
- Yorkshire Water's available combination of cash and committed undrawn facilities totalling £691.5m at 31 March 2022 (2021: £658.7m), comprising £663.0m (2021: £460.8m) undrawn committed facilities and £28.5m (2021: £197.9m) of cash and cash equivalents;
- Yorkshire Water's securitised financing arrangements include covenants with 'trigger' and 'default' thresholds, which are reported bi-annually. The forecast cash flow model, established from the company's business plan, shows sufficient liquidity and headroom for debt covenants, when considering 'trigger' as well as 'default' thresholds;
- Historical accuracy of management's forecasts through a comparison of actual results to budgets to assess the accuracy of forecast cash flows; and
- The impact of wider factors on operations and business performance, for example climate change and macroeconomic challenges such as the increased pressure on household income.

Whilst a financial loss after tax has been reported, a dividend distribution was deemed appropriate due to the operating profit position and assessment of overall company performance. Furthermore, the dividend payments were at a level that covered group interest charges and the majority of the dividend was ultimately used to make intercompany interest payments back to the company as a result of intercompany financing arrangements. The forecast cash flow model, combined with the above considerations, allowed the directors to conclude that from a liquidity perspective Yorkshire Water would have significant liquidity and covenant headroom on facilities available to manage its business risks over a period of at least 12 months from the date of approval of the Financial Statements. For this reason, they continue to consider it appropriate to adopt the going concern basis of accounting in preparing the Financial Statements.

Measurement convention

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

Basic financial instruments

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

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

Interest-bearing borrowings classified as basic financial instruments
Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition interest-bearing borrowings are stated at amortised cost using the effective interest method.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances, call deposits, and other short-term highly liquid investments.

Other financial instruments

Financial instruments not considered to be basic financial instruments
Other financial instruments not meeting the definition of basic financial instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less any impairment losses.

Derivative financial instruments and hedging
Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged as set out below.

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

Hedge effectiveness is assessed on an ongoing basis and evaluates whether the hedging instrument is effective in offsetting changes in the fair values or cash flows of the hedged item attributable to the hedged risk. This is done through evaluating the economic relationship between hedged item and instrument, the effectiveness of which can be reliably measured.

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

The company applies fair value hedge accounting to its cross-currency interest rate swaps and associated debt and fixed to floating interest rate swaps and associated debt.

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

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

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

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

Tangible assets

Infrastructure assets are valued annually using the support of a third party expert. Residential properties, non-specialised properties and rural estates held within land and buildings are held at their revalued cost less accumulated depreciation. Other tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

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

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

Revaluation
Infrastructure assets, residential properties, non-specialised properties, and rural estates are stated at fair value less any subsequent accumulated depreciation and impairment losses.

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

Losses arising on revaluation are recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity, in respect of that asset. Any excess is recognised in the profit and loss account. FRS 102 requires assets held at fair value to be valued by an independent third party on a periodic basis. See note 12 for further detail.

Government grants and contributions
Government grants and contributions in respect of property, plant and equipment are held as deferred income and credited to the income statement by instalments over the expected economic lives of the related assets. Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Government grants and contributions received in respect of an item of expense during the year are recognised in the income statement on a systematic basis in line with the cost that it is intended to compensate.

Intangible assets

During the year, Yorkshire Water has updated its accounting policy in relation to the treatment of configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) arrangements. The updated accounting policy is presented below. A detailed review has been performed on the existing asset base which concluded that prior projects have been accounted for in line with the latest guidance and hence no adjustment was required on update of the accounting policy.

Costs incurred to configure or customise SaaS application software are expensed when the costs are incurred. Costs which relate to the development of software code that enhances or modifies on-premise software, or costs incurred for software which meet the recognition criteria for an intangible asset, are capitalised as incurred. Any costs expensed will be recognised in line with the service provided. Any intangible assets identified will be initially carried at cost and follow the existing accounting policy for intangible assets.

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

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

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

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

Impairment

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

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

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

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

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

Leases

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

Employee benefits

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

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

Provisions

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

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

Revenue

Water charges
This revenue stream comprises charges to customers for water, wastewater and other services excluding value added tax, and arises only in the UK.

Revenue is recognised when the performance obligations have been discharged to the customer with respect to the services detailed above, and the amounts receivable in respect of these services are deemed probable of collection. Revenue relates to charges due in the year, excluding any amounts paid in advance. Revenue for measured water charges includes amounts billed plus an estimation of the amounts unbilled at the year end. The accrual is estimated using a defined methodology based upon daily average water consumption, which is calculated based upon latest and historical billing information.

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

Connection charges
This revenue stream comprises charges to property developers for the connection of new properties to the water and sewerage network. Revenue relating to these charges is deferred and recognised over the expected useful life of the related infrastructure assets.

Infrastructure charges
This revenue stream comprises charges to property developers to compensate for the additional strain on the infrastructure system. The associated revenue is deferred and recognised over the expected useful life of the associated assets.

Expenses

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

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

Interest payable and interest receivable

Interest payable and similar charges include interest payable, movements in the fair value of financial instruments excluding those meeting cash flow hedging criteria, and finance lease charges recognised in profit or loss using the effective interest method. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset.

Other interest receivable and similar income include interest receivable on funds invested and bank interest.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Dividends

Dividends payable are recognised on approval by the Board.

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

Exceptional items

Exceptional items are items which derive from events or transactions that individually or, of a similar type, in aggregate fall outside the normal activities, or are significant in value. Such items may include, but are not limited to, extreme weather events including related insurance claims, the sale of businesses and significant asset impairments. Exceptional items, whether debits or credits, are disclosed separately within the relevant statutory account line item to which they relate.

Taxation

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

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

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

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

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

Critical accounting judgements and key sources of estimation uncertainty

In the application of the company’s accounting policies, which are described earlier in this note, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed overleaf.

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

Fair value of derivative financial instruments
The company's accounting policy for financial instruments is detailed earlier in note 1. In accordance with FRS 102, derivative financial instruments are recognised in the Financial Statements at fair value. The fair value of derivative financial instruments that are not traded on an active market is determined using a discounted cash flow valuation technique. Management uses its judgement, after taking advice from external parties, to determine the derivative valuations. The calculations include adjustments to the Mark to Market (MtM) value to arrive at the reported fair values. Details of the nature of the assumptions inherent within the financial instrument fair valuations can be found in note 19. Particular estimation uncertainty exists in relation to counterparty funding adjustments and own and counterparty credit risk assumptions since these are unobservable inputs to which the valuation model is materially sensitive.

The fair value of net derivative financial liabilities of £2,414.4m (2021: £2,111.9m) would be £45.1m (2021: £45.1m) higher or lower were the counterparty funding assumption to change by ten basis points. The fair value of net derivative financial liabilities of £2,414.4m (2021: £2,111.9m) would be £25.8m (2021: £31.2m) higher or lower were the credit curve assumption to change by ten basis points. The fair value of net derivative financial liabilities of £2,414.4m (2021: £2,111.9m) would be £90.1m (2021: £87.4m) higher or lower were the recovery rate assumption to change by ten per cent.

Disclosing an appropriate sensitivity of fair values could vary based on what is reasonably possible in the market but a change of ten basis points demonstrates the level of movement in the assumption which results in a material difference, this can be scaled up or down and is consistent with sensitivities reported previously.

Infrastructure assets valuation
Infrastructure assets are held under a revaluation model. Fair value is determined with the support of a third party using a market value approach, which uses discounted cash flow modelling to calculate a valuation range for the Enterprise Value (EV) of Yorkshire Water. Management conclude on the appropriate EV to be used from within this range using their judgement. Yorkshire Water's working capital balances and existing asset carrying amounts are then deducted from the selected EV and the remaining EV is attributed by management to the infrastructure assets.

Estimates are made in respect of the key assumptions applied in the valuation model. The key assumptions requiring estimation are the discount rate (which is based on the regulatory weighted average cost of capital and cost of equity of Yorkshire Water), retail price index (RPI), the underlying forecast cash flows and the terminal value. The discount rate applied is 7.50% (2021: 7.63%). A long-term RPI rate has been adopted of 2.90% (2021: 2.90%). See note 12 for the revaluation in the year and total net book value of tangible assets held as at the year end.

The key judgements inherent within the valuation methodology are the selection of the appropriate point within the range of EVs calculated by the third party valuation expert, and the attribution of the EV less working capital balances wholly to the infrastructure assets. The selection within the range is undertaken with due consideration of the regulatory capital value of the infrastructure assets.

The key sensitivities to assumptions that would cause a material[1] movement in the model's valuation output are: a 0.02% movement in RPI & consumer price index including owner-occupiers' housing costs (CPIH)[2]; a £1.48m pa movement in the underlying cash flows[2]; and a 0.04% movement in the discount rate.

Revenue recognition from household customers where payment is not considered probable and household bad debt provision
Given the number of customers to whom the company provides services is significant, the estimate of those household customers who are not likely to pay their bills requires significant judgement. Management estimates the revenue from household customers where payment is not considered probable and adjust the accounts to remove this amount.

Billed and unbilled amounts receivable, totalling £28.3m (2021: £25.3m) have not been recognised as revenue in the current year on the basis that they are not probable of collection. This reduction in revenue is offset by a consequent reduction in the bad debt charge and bad debt provision of the same amount. Management's estimate of revenue receivable that should not be recorded as revenue in the Financial Statements is based on amounts billed and unbilled relating to:

- household customers who have not paid their bill in over two years; and
- new household customer accounts where no payments have been received in the first six months.

[1] Material as defined in the Independent Auditor's Report.
[2] Across all years of the model.

Management monitors the actual payment profile of household customers on an ongoing basis and adjust the estimate of those amounts not deemed probable of payment to take account of changes in customer behaviour and ability to pay. If the period used went from two to three years, it would reduce the provision by £3.4m (2021: £3.0m).

At each reporting date, management also make an estimate regarding future cash collection to form the basis of the household bad debt provision. Estimates associated with this provision is based on historic, current, and forward-looking information where available. A high level of uncertainty remains around how current economic conditions could impact the recoverability of household debtors, particularly in light of the backdrop of Covid-19, rising energy prices, and high inflation rates which have adversely impacted typical household's disposable income affecting some customers' ability to pay. The bad debt provision is primarily based on reviewing customer payment profiles over two years. If this were changed to two and a half years, the bad debt provision would decrease by £12.6m (2021: £9.3m).

The following are the critical judgements, apart from those involving estimations (which are dealt with separately above), that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements.

The directors consider the critical judgements made in the Financial Statements to be:

Capitalisation of labour costs
Additions made to property, plant, and equipment (PPE) include £63.3m (2021: £58.4m) of own work capitalised. Judgement is made to ensure these costs relate to relevant assets and that future economic benefits will flow to the company.

Depreciation
The company's accounting policy for PPE is detailed earlier in note 1 of the Financial Statements. Estimated useful economic lives of PPE are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of capital investment to the company, variations between actual and estimated useful lives could impact operating results both positively and negatively. Historically, only minor changes to estimated useful lives have been required. See note 12 for the depreciation charge.

2. Revenue

	2022 £m	2021 £m
UK regulated water and sewerage services	**1,105.3**	1,088.0
UK non-regulated water services	**13.2**	13.1
Total revenue	**1,118.5**	1,101.1

3. Operating profit

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

	2022 £m	2021 £m
Raw materials and consumables	**46.4**	36.8
Staff costs (note 4)	**188.4**	171.2
Depreciation of tangible assets (note 12)	**305.1**	298.6
Operating lease charges	**2.5**	0.4
Amortisation of software (note 11)	**28.4**	24.5
Exceptional items (note 6)	**5.5**	28.4
Auditor's remuneration:		
Audit of the Financial Statements	**0.5**	0.4
Other assurance services	**0.2**	0.1

Other assurance services predominantly relate to our regulatory reporting obligations.

4. Staff numbers and costs

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

	Number of employees	
	2022	2021
Activity:		
Operational	**2,915**	2,610
Capital investment	**380**	505
Administration	**636**	592
	3,931	3,707

The aggregate payroll costs of these persons were as follows:	2022 £m	2021 £m
Wages and salaries	**158.6**	143.2
Social security costs	**16.6**	15.8
Other pension costs	**13.2**	12.2
	188.4	171.2

In the Strategic Report of this ARFS in the *Putting people first* section there are details of a range of employee diversity statistics. In those statistics, a total of 3,922 (2021: 3,925) colleagues were employed on the last day of the financial year, whereas a total of 3,931 (2021: 3,707) employees were employed based on a monthly average throughout the financial year. Both approaches are accurate and are provided in the format stated by the relevant regulatory and statutory requirements.

5. Directors' remuneration

	2022 £m	2021 £m
Aggregate emoluments	**2.6**	3.1
The amounts in respect of the highest paid director are as follows:		
Total amount of emoluments	**1.4**	1.3

During the financial year, none of the executive directors (2021: none) were contributory members of the Kelda Group Pension Plan, a defined benefit scheme and accordingly the accrued pension benefit of the highest paid director in 2022 was £nil (2021: £nil).

Liz Barber, Anthony Rabin, Vanda Murray and Chris Johns were also directors of Kelda Holdings Limited during 2021/22. Their emoluments are included within these Financial Statements in full, although they carried out other group responsibilities during the year.

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

6. Exceptional Items

	2022 £m	2021 £m
Strategic business process review	**10.5**	8.7
Extreme weather events/insurance recoveries	**(3.0)**	(2.5)
Deferred consideration receivable on business disposal	**(2.0)**	-
Exceptional operational costs	**-**	7.9
Exceptional payments to delivery partners	**-**	3.8
CMA referral costs	-	10.5
Total exceptional items included in operating profit	**5.5**	28.4

Net exceptional items of £5.5m (2021: £28.4m) include £10.5m (2021: £8.7m) in relation to a strategic review of our business processes to identify efficiencies and provide a step change in operational performance, including associated severance expenses. This transformation project commenced in the previous year as a result of a challenging Price Review process in 2019 in which Yorkshire Water referred the Final Determination to the Competitions and Markets Authority (CMA).

These costs are offset by the final instalment of insurance income of £3.0m (2021: £2.5m income net of costs), relating to extreme weather events in previous years. In addition, £2.0m income was received relating to a final true-up on the sale of the non-household retail customer business in the year ended 31 March 2020. This treatment as exceptional is consistent with the treatment of other aspects of the disposal in previous years.

The 2021 exceptional items included £7.9m in relation to discretely identifiable increases in operational costs as a result of factors such as enhanced cleaning regimes, social distancing requiring additional vehicles, and protective equipment to keep our colleagues safe and allow essential working in accordance with government guidance; and £3.8m in relation to payments made to key delivery partners to enable them to continue to employ personnel who were considered critical responders in the event of operational emergencies in the business such as leakage incidents, and to cover their discretely identifiable additional costs of operation in the Covid-19 environment.

In addition, following the decision to refer the AMP7 Final Determination to the CMA, £10.5m of legal and advisory related costs were classified as exceptional in 2021.

7. Interest receivable and similar income

	2022 £m	2021 £m
Interest on amounts owed by group undertakings	**41.8**	44.2
Interest on bank deposits	**0.1**	0.7
Total interest receivable and similar income	**41.9**	44.9

Interest on amounts owed by group undertakings includes £41.8m (2021: £44.2m) receivable from Kelda Eurobond Co Limited, of which £41.1m of cash flow was received in the year to 31 March 2022 (2021: £45.3m).

8. Interest payable and similar charges

	2022 £m	2021 £m
Bank loans and overdrafts	**1.4**	2.8
Finance leases	**(0.9)**	0.6
Interest on amounts owed to subsidiary undertakings	**267.4**	178.5
Loss on early redemption of amounts owed to subsidiary undertakings	**1.0**	-
Other interest	**29.4**	14.4
Net interest receivable from swaps in hedge relationships	**(16.6)**	(15.3)
Interest capitalised (note 12)	**(14.5)**	(14.2)
Interest payable and similar charges before fair value movements	**267.2**	166.8
Fair value movements	**369.6**	102.0
Total interest payable and similar charges	**636.8**	268.8

Interest on amounts owed to subsidiary undertakings include payments of £6.1m (2021: £6.0m) to fund interest payments on exchanged bonds issued by subsidiary undertakings (note 17). Other interest includes £nil (2021: £2.7m) as the net amount of fees received after costs paid in respect of changes to inflation linked swaps during the year.

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

	2022 £m	2021 £m
Included in total interest payable and similar charges		
Movement in fair value of inflation linked swaps	**368.3**	98.9
Movement in fair value of cross-currency interest rate swaps	**26.6**	37.4
Movement in fair value of debt associated with cross-currency swaps	**(24.5)**	(35.6)
Movement in fair value of floating to fixed interest rate swaps	**(3.9)**	(1.2)
Movement in fair value of fixed to floating interest rate swaps	**39.5**	23.3
Movement in fair value of debt associated with fixed to floating interest rate swaps	**(36.4)**	(20.8)
Total fair value movements	**369.6**	102.0

Movement in fair value of inflation linked swaps of £368.3m (2021: £98.9m) includes a movement of £96.4m (2021: £48.3m) in relation to the RPI bullet accumulated as at 31 March 2022, interest receivable of £55.8m (2021: £69.0m), interest payable of £55.4m (2021: £52.3m) and other fair value movements of £272.3m (2021: £67.3m).

Movement in fair value of floating to fixed interest rate swaps includes £2.5m (2021: £2.3m) net interest payable.

9. Taxation

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

	2022 £m	2021 £m
Current tax		
Accrual for payment to other group companies for tax losses	**6.5**	13.9
Adjustments in respect of prior periods	**0.1**	1.5
Total current tax charge	**6.6**	15.4
Deferred tax (note 20)		
Origination and reversal of timing differences	**(73.5)**	(7.6)
Effect of change in tax rates	**81.9**	-
Adjustments in respect of prior periods	**1.0**	(1.4)
Total deferred tax charge/(credit)	**9.4**	(9.0)
Total tax charge included in profit and loss account	**16.0**	6.4
Total tax charge recognised in other comprehensive income and expense		
Deferred tax (note 20)		
Origination and reversal of timing differences	**178.9**	43.1
Effect of change in tax rates	**75.6**	-
Adjustments in respect of prior periods	**(0.8)**	-
Total deferred tax charge included in other comprehensive income and expense	**253.7**	43.1

The Provisional Collection of Taxes Act, enacted on 17 March 2020, set the corporation tax rate at 19% from 1 April 2020, the rate which has been used in preparing these Financial Statements.

The Finance Bill 2021 introduced an increase to the main rate of corporation tax to 25% from April 2023. This rate was substantively enacted on 24 May 2021. As a result, deferred tax balances expected to reverse after April 2023 and calculated at the previous 19% rate have been re-measured using the increased 25% rate.

During the year, payments of £15.3m (2021: £13.6m) were made to other group companies regarding the previous year's tax losses surrendered to Yorkshire Water. No payments in relation to corporation tax were made to HM Revenue & Customs (HMRC) (2021: £nil).

9. Taxation (continued)

Reconciliation of effective tax rate

	2022 £m	2021 £m
(Loss)/profit before taxation	**(352.6)**	17.5
Tax (credit)/charge using the UK corporation tax rate of 19% (2021: 19%)	**(67.0)**	3.3
Effects of:		
Non-deductible expenses	**4.5**	4.4
Adjustments in respect of prior periods	**1.1**	0.1
Income not taxable	**(1.0)**	(1.0)
Other adjustments	**0.2**	0.2
Income from capital disposal not subject to tax	**(0.7)**	(0.6)
Impact of future tax rate changes on deferred tax balances	**81.9**	-
Super-deduction qualifying expenditure – additional capital allowances	**(3.0)**	-
Total tax charge included in profit or loss	**16.0**	6.4

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

Income not taxable: income reflected in the accounts which is not subject to tax as either:

- it relates to an adopted asset where no cash is received by the company;
- the income has reduced the amount of capital allowances that can be claimed on the assets associated with the income; or
- the income relates to Research & Development (R&D) expenditure credits that have been taxed in a previous period.

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

Impact of future tax rate changes on deferred tax balances: an increase to the main rate of corporation tax to 25% from April 2023 means that the deferred tax balances have been re-measured using the increased 25% rate.

Super-deduction qualifying expenditure: The Finance Bill 2021 introduced a temporary first year allowance for companies investing in qualifying plant and machinery. The super deduction provides allowances of 130% on particular types of new equipment that would ordinarily qualify for an annual 18% writing down allowance.

9. Taxation (continued)

Reconciliation of current tax

The current tax charge represents payments to other Kelda group companies as compensation for them surrendering tax losses to the company. The company has no current tax charge for the year in relation to corporation tax liabilities owed to HMRC.

	2022 £m	2021 £m
(Loss)/profit before taxation	**(352.6)**	17.5
Tax (credit)/charge using the UK corporation tax rate of 19% (2021: 19%)	**(67.0)**	3.3
Effects of:		
Non-deductible depreciation on tangible assets and amortisation of intangible assets	**42.6**	41.1
Potential capital allowances available to claim on tangible assets	**(56.6)**	(45.8)
Capital allowances waived and deferred to future years	**43.3**	7.2
Interest costs that have been capitalised on the balance sheet but are deductible for tax purposes	**(2.8)**	(2.7)
Non-deductible expenses	**0.8**	0.3
Income not taxable	**(1.2)**	(0.6)
Fair value movements on financial instruments that are disregarded for tax purposes and replaced by an accruals basis of accounting	**48.7**	9.9
Deductible payments to pension scheme	**(1.3)**	(1.2)
Adjustments in respect of prior years	**0.1**	1.5
Chargeable gains crystallising in relation to historical asset disposals	**(0.7)**	1.8
Other timing differences	**0.6**	-
Accrued employee remuneration deductible when paid	**0.1**	0.6
Current tax charge included in profit or loss	**6.6**	15.4

10. Dividends

	2022 £m	2021 £m
Dividends of 2.39 pence per share paid in the year (2021: 2.05 pence)	**52.6**	45.2

During the year, dividends of 2.39 pence per share (2021: 2.05 pence), totalling £52.6m (2021: £45.2m), were distributed to the parent company.

Dividends of £52.6m were paid in the year (2021: £45.2m): none of which were available to the shareholders of Kelda Holdings Limited (2021: £nil), Yorkshire Water's ultimate parent company, as they have continued to support the company's financial resilience since AMP6.

These dividends included distributions of £29.4m (2021: £35.1m) that did not impact the company's liquidity position or its distributable reserves as they were returned immediately to the company in the form of interest receipts on intercompany loans. No dividends have been proposed post year end in relation to 2022 (2021: £nil).

Pence per share is rounded to two decimal places.

11. Intangible assets

	Software £m	Software under construction £m	Total £m
Cost			
Balance at 1 April 2021	178.0	45.4	223.4
Additions	16.6	25.9	42.5
Transfers on commissioning	29.3	(29.3)	-
Other transfers	4.8	0.7	5.5
Disposals	(10.9)	-	(10.9)
Balance at 31 March 2022	217.8	42.7	260.5
Amortisation			
Balance at 1 April 2021	67.4	-	67.4
Amortisation for the year	28.4	-	28.4
Disposals	(10.9)	-	(10.9)
Balance at 31 March 2022	84.9	-	84.9
Net book value at 31 March 2022	**132.9**	**42.7**	**175.6**
Net book value at 31 March 2021	110.6	45.4	156.0

Development costs have been capitalised in accordance with FRS 102 Section 18 *Intangible Assets other than goodwill* and are therefore not treated, for dividend purposes, as a realised loss.

12. Tangible assets

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Total £m
Cost or valuation					
Balance at 1 April 2021	2,071.5	6,256.1	2,725.0	531.7	11,584.3
Additions	1.7	124.3	38.9	269.2	434.1
Transfers on commissioning	54.5	49.7	220.0	(324.2)	-
Other transfers	-	-	(4.8)	(0.7)	(5.5)
Disposals	(11.9)	(6.5)	(184.2)	-	(202.6)
Revaluation	-	901.8	-	-	901.8
Balance at 31 March 2022	2,115.8	7,325.4	2,794.9	476.0	12,712.1
Depreciation and impairment					
Balance at 1 April 2021	569.5	1,553.8	1,249.8	-	3,373.1
Depreciation charge for the year	43.2	99.2	162.7	-	305.1
Disposals	(11.9)	(6.5)	(184.4)	-	(202.8)
Balance at 31 March 2022	600.8	1,646.5	1,228.1	-	3,475.4
Net book value at 31 March 2022	**1,515.0**	**5,678.9**	**1,566.8**	**476.0**	**9,236.7**
Net book value at 31 March 2021	1,502.0	4,702.3	1,475.2	531.7	8,211.2

During the year the company capitalised borrowings costs amounting to £14.5m (2021: £14.2m) on qualifying assets. Borrowings costs were capitalised at the weighted average rate on the company's borrowings of 3.05% (2021: 3.14%). Included in the net book value as at 31 March 2022 are £155.3m of capitalised borrowing costs (2021: £145.6m).

Assets included above held under finance leases amount to:

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m
Cost	-	69.1	-	69.1
Depreciation	-	(35.0)	-	(35.0)
Net book value at 31 March 2022	**-**	**34.1**	**-**	**34.1**
Net book value at 31 March 2021	9.2	35.2	4.6	49.0

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

	2022 £m	2021 £m
Freehold	**1,491.7**	1,479.8
Long leasehold	**22.7**	21.6
Short leasehold	**0.6**	0.6
	1,515.0	1,502.0

12. Tangible assets (continued)

Revaluation – Infrastructure assets

The company's infrastructure assets were valued by management at 31 March 2022 and 31 March 2021 using the approach outlined in note 1. These annual valuations are performed on a consistent basis in accordance with FRS 102 which requires that assets subject to a policy of revaluation should be carried at their fair value less any subsequent accumulated depreciation and accumulated impairment losses. FRS 102 allows, where market based evidence of fair value is not available due to the specialised nature of the items of property plant and equipment, an entity to estimate fair value using an income approach.

The increase in infrastructure assets valuation that results from the annual revaluation has been incorporated into the Financial Statements and the resulting revaluation adjustments taken to the revaluation reserve. A revaluation gain of £901.8m, before deferred tax, was recognised in the year ended 31 March 2022 (2021: £217.0m gain). The directors note that the revaluation reserve position may be subject to movements in future periods as key discounted cash flow (DCF) model assumptions are revised as information regarding future price controls and regulatory policy becomes available.

Revaluation – Land and buildings

Certain categories of the company's land and buildings are also held under a revaluation model, on the basis of existing use, and were last valued by independent qualified valuers as at March 2019.

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

Non-specialist properties	Cushman & Wakefield
Rural estates	Carter Jones LLP
Residential properties	Savills (UK) Limited

The external valuations on properties will be re-performed on a periodic basis. An interim valuation is booked in intervening years based on directors' valuations. The valuations carried out at 31 March 2019 have been considered at 31 March 2022 by the directors, taking into account indicators such as the impact of Covid-19 and climate change, and have concluded that the current book values are not materially different to current market values.

12. Tangible assets (continued)

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

	Valuation £m	Historical cost basis £m
Infrastructure assets	5,678.9	4,245.5
Non-specialist properties	39.2	37.7
Rural estates	51.7	0.5
Residential properties	2.4	-
At 31 March 2022	**5,772.2**	**4,283.7**

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

	Valuation £m	Historical cost basis £m
At 31 March 2020	69.2	13.7
Additions	23.3	23.3
Depreciation and impairment	(0.9)	(0.7)
At 31 March 2021	91.6	36.3
Additions	2.9	2.9
Depreciation	(1.2)	(1.0)
At 31 March 2022	**93.3**	**38.2**

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

	Valuation £m	Restated[1] Historical cost basis £m
Valuation/cost at 31 March 2022	7,325.4	5,861.3
Aggregate depreciation	(1,646.5)	(1,615.8)
Net value at 31 March 2022	**5,678.9**	**4,245.5**
Valuation/cost at 31 March 2021	6,256.1	5,693.8
Aggregate depreciation	(1,553.8)	(1,531.1)
Net value at 31 March 2021	4,702.3	4,162.7

[1] The amounts reported in the 2021 Annual Report and Financial Statements in respect of the historical cost, aggregate depreciation and net value as at 31 March 2021 were misstated due to an error in compilation of the disclosure. Accordingly, the disclosures herein in relation to 2021 have been updated to reflect the corrected amounts. There has been a £17.4m increase to the historical cost, an increase in aggregate depreciation of £145.5m and a reduction in net value on a historical cost basis of £128.1m as previously reported.

13. Investments

	Shares in subsidiary undertakings £m
Cost and net book value	
At 31 March 2021 and at 31 March 2022	**2.2**

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

The company has the following investments in subsidiaries whose registered office, unless otherwise stated, is Western House, Halifax Road, Bradford, West Yorkshire BD6 2SZ:

	Country of incorporation	Principal activity	Class of shares held	Ownership 2022 %	Ownership 2021 %
Yorkshire Water Services Finance Limited	England & Wales	Finance company	Ordinary	100	100
Yorkshire Water Finance Plc	England & Wales	Finance company	Ordinary	100	100
Southern Pennines Rural Regeneration company Limited[1]	England & Wales	Regeneration projects	Limited by guarantee	100	100

[1.] Registered office address: Canal & Visitors Centre Butler's Wharf, New Road, Hebden Bridge, England, HX7 8AF.

14. Debtors

	2022 £m	2021 £m
Trade debtors	**144.0**	153.4
Amounts owed by group undertakings	**14.6**	15.1
Amounts owed by subsidiary undertakings	**0.6**	1.4
Other debtors	**14.5**	17.4
Derivative financial assets (including £172.2m (2021: £202.4m) due after more than one year (note 18))	**216.5**	232.0
Prepayments	**7.8**	10.8
Accrued income	**84.2**	78.5
Taxation receivable	**2.4**	2.4
Current debtors	**484.6**	511.0
Amounts owed by group undertakings	**933.2**	941.3
Non-current debtors	**933.2**	941.3

Amounts owed by group undertakings include loans to Kelda Eurobond Co Limited totalling £941.3m (2021: £949.4m), of which £199.2m (2021: £207.3m) is in respect of an amount that reflected the fair value of inflation linked swaps at the date of novation from Saltaire Water Limited to Yorkshire Water in August 2008 (the initial loan was transferred by Saltaire Water Limited to Kelda Holdco Limited on the same day as the swap novation, and then subsequently transferred to Kelda Eurobond Co Limited in December 2014), and £742.1m (2021: £742.1m) in relation to an upstream loan. With effect from 21 February 2022 the loans transitioned from bearing interest at six month LIBOR plus 4.25% to an economically equivalent SONIA based rate plus 4.25%. In addition, the loans are unsecured, have no contracted repayment date and are repayable on demand. A repayment profile is in place to repay £8.1m per annum of the £199.2m loan. Therefore, £8.1m is shown in amounts due within one year and the balance is reflected in amounts due after more than one year. The balance of amounts owed by group undertakings relates to interest receivable on the loans to Kelda Eurobond Co Limited and trading balances with other group undertakings that are repayable on demand.

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

15. Creditors: amounts falling due within one year

	2022 £m	2021 £m
Interest-bearing loans and borrowings (note 17)	**159.0**	354.7
Trade creditors	**138.6**	128.8
Capital creditors	**122.8**	78.8
Deferred grants and contributions on depreciating tangible assets	**12.4**	11.8
Amounts owed to group undertakings	**16.2**	21.4
Amounts owed to subsidiary undertakings	**473.7**	228.9
Taxation and social security	**4.2**	3.8
Receipts in advance	**79.8**	88.1
Other creditors	**2.0**	3.6
Accruals and deferred income	**11.9**	19.4
	1,020.6	939.3

Amounts owed to group undertakings are interest free and repayable on demand and include £6.6m (2021: £15.3m) in relation to corporation tax group relief, the remaining amounts being trading balances.

Amounts owed to subsidiary undertakings includes accrued interest and similar charges of £62.7m (2021: £60.2m) on amounts disclosed within borrowings in note 17 and loans of £411.0m (2021: £168.7m) falling due within one year, also disclosed within borrowings in note 17.

Other creditors include external interest accrued of £1.3m (2021: £3.0m) on amounts disclosed within short-term and long-term borrowings in note 17.

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

	2022 £m	2021 £m
Interest-bearing loans and borrowings (note 17)	**546.3**	640.9
Amounts owed to subsidiary undertakings (note 17)	**4,340.6**	4,349.3
Other creditors	**1.2**	2.1
Derivative financial liabilities (note 18)	**2,630.9**	2,343.9
Deferred grants and contributions on depreciating tangible assets	**551.5**	513.8
	8,070.5	7,850.0

Included within creditors: amounts falling due after more than one year are amounts repayable after five years by instalments of £31.2m (2021: £73.8m).

17. Interest-bearing loans and borrowings

	Bank loans and overdrafts 2022 £m	Finance leases 2022 £m	Total 2022 £m
Short-term borrowings:			
In one year or less or on demand	157.0	2.0	**159.0**
Long-term borrowings:			
In more than one year, but not more than two years	-	2.0	**2.0**
In more than two years, but not more than five years	-	6.0	**6.0**
In more than five years	507.1	31.2	**538.3**
	507.1	39.2	**546.3**
Amounts owed to subsidiary undertakings before fair value movements			**4,723.1**
Fair value movements in amounts owed to subsidiary undertakings			**28.5**
Total borrowings			**5,456.9**
Cash and cash equivalents			**(28.5)**
Amounts owed by group undertakings			**(941.3)**
Net debt at 31 March 2022			**4,487.1**

Fair value movements in amounts owed to subsidiary undertakings of £28.5m (2021: £89.5m) relates to the application of fair value hedge accounting to the carrying value of sterling and foreign currency denominated debt. The sterling denominated debt instruments are within designated hedging relationships with associated fixed to floating interest rate swaps. The foreign currency denominated debt instruments are within designated hedging relationships with associated cross-currency swaps.

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

17. Interest-bearing loans and borrowings (continued)

Amounts owed to subsidiary undertakings includes loans from other members of the Yorkshire Water Financing Group (YWFG) (other members being Yorkshire Water Finance Plc and Yorkshire Water Services Finance Limited).

Yorkshire Water Finance Plc is the principal financing company for Yorkshire Water and holds corporate debt issued since the establishment of the Whole Business Securitisation (WBS). Yorkshire Water Services Finance Limited is a legacy financing company that holds debt issued prior to the WBS being established. In both instances, funds raised from debt issuance have been on-lent to Yorkshire Water via back-to-back intercompany loans that match the terms of the underlying debt.

Yorkshire Water is a member of the YWFG. Debt covenants covering the YWFG include the consolidated external debt position of this group of companies. When calculating the consolidated debt position of the YWFG it should be noted that the book value recorded in these Financial Statements in relation to the internal loans of bonds that were exchanged from Kelda Group Limited to Yorkshire Water in 2009 is £13.0m (2021: £16.3m) higher than the book value recorded in Yorkshire Water Finance Plc, as the latter accounts for the exchanged bonds in line with FRS 101.

Amounts owed by group undertakings relate to loans of £941.3m (2021: £949.4m) receivable from Kelda Eurobond Co Limited, a parent company of Yorkshire Water. This is disclosed in note 14.

Net debt includes unamortised issue costs of £17.9m (2021: £15.5m).

Borrowings repayable in instalments after more than five years include £31.2m (2021: £58.8m) in respect of a finance lease which matures in 2043 (2021: finance leases with maturity dates ranging from 2032 to 2043). In March 2022, certain finance leases were early terminated. The remaining finance lease has transitioned from carrying an interest rate based on six month LIBOR to an economically equivalent rate based on SONIA. The finance lease creditors are secured on the underlying assets.

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

During March 2022, Yorkshire Water renewed its operating and maintenance bank liquidity facility (the O&M facility) at £90.0m (2021: £75.0m). The O&M is a 12-month standby facility for the funding of Yorkshire Water's operating and maintenance expenditure. As at 31 March 2022, £nil amounts were drawn on this facility (2021: £nil). At the same time as renewal of the facility, £12.5m was released from Yorkshire Water's restricted O&M Reserve Bank Account. As at 31 March 2022, the balance standing to the credit of the O&M Reserve Bank Account was £nil (2021: £12.5m).

Yorkshire Water also has a £170.0m (2021: £145.8m) debt service reserve liquidity facility (the DSR facility). The DSR is a standby facility for the funding of Yorkshire Water's interest expense. Until 24 March 2022, the facility was provided by a syndicate of banks and was renewable annually. From 25 March 2022, the facility has been provided by an insurance provider and is renewable on a rolling five-year evergreen basis. As at 31 March 2022, £nil amounts were drawn on this facility (2021: £nil). On 25 March 2022, £22.1m and £2.2m was released respectively from restricted Class A and Class B debt service reserve bank accounts. As at 31 March 2022, £nil (2021: £22.1m) was standing to the credit of Class A debt service reserve bank accounts and £nil (2021: £2.2m) to the credit of the Class B debt service reserve bank accounts.

As at 31 March 2022, Yorkshire Water had access to undrawn committed bank facilities totalling £663.0m (2021: £460.8m), £90.0m of which expires in March 2023 (the O&M facility), £403.0m of which expires in October 2023 (the RCF) and £170m of which expires in March 2027 (the DSR facility).

17. Interest-bearing loans and borrowings (continued)

Leases

The minimum lease payments in respect of finance leases are as follows:

	2022 £m	2021 £m
No later than one year	**2.9**	4.4
Later than one year and no later than five years	**11.9**	20.2
Later than five years	**33.0**	62.5
	47.8	87.1
Less: future finance charges on finance lease obligations	**(6.6)**	(6.0)
Present value of lease obligations	**41.2**	81.1
Amount due for settlement within one year	**2.0**	4.2
Amount due for settlement after more than one year	**39.2**	76.9
	41.2	81.1

17. Interest-bearing loans and borrowings (continued)

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

Counterparty		Nominal £m	Interest rate %	Maturity date Year	Liability at 31 March 2022 £m
Yorkshire Water Finance Plc		94.3	3.870	2023	**114.1**
Yorkshire Water Finance Plc		33.8	5.875	2023	**29.3**
Yorkshire Water Finance Plc		200.0	5.375	2023	**193.2**
Yorkshire Water Finance Plc		18.8	3.870	2024	**22.8**
Yorkshire Water Finance Plc		300.0	1.750	2026	**298.8**
Yorkshire Water Finance Plc		150.0	5.500	2027	**142.5**
Yorkshire Water Finance Plc		60.0	2.030	2028	**59.8**
Yorkshire Water Finance Plc		250.0	3.625	2029	**245.5**
Yorkshire Water Finance Plc		90.0	3.540	2029	**94.1**
Yorkshire Water Finance Plc		50.0	2.140	2031	**49.8**
Yorkshire Water Finance Plc		240.0	6.625	2031	**239.7**
Yorkshire Water Finance Plc		350.0	1.750	2032	**344.7**
Yorkshire Water Finance Plc		90.0	4.965	2033	**96.8**
Yorkshire Water Finance Plc		50.0	2.210	2033	**49.8**
Yorkshire Water Finance Plc		100.0	1.524	2033	**173.2**
Yorkshire Water Finance Plc		40.0	2.300	2036	**39.8**
Yorkshire Water Finance Plc		50.0	2.300	2036	**49.8**
Yorkshire Water Finance Plc		200.0	6.375	2039	**199.0**
Yorkshire Water Finance Plc		100.0	6.375	2039	**103.3**
Yorkshire Water Finance Plc		175.0	2.718	2039	**262.7**
Yorkshire Water Finance Plc		85.0	2.718	2039	**134.5**
Yorkshire Water Finance Plc		50.0	2.160	2041	**66.5**
Yorkshire Water Finance Plc		350.0	2.750	2041	**341.4**
Yorkshire Water Finance Plc		100.0	2.750	2041	**103.6**
Yorkshire Water Finance Plc		50.0	1.803	2042	**65.8**
Yorkshire Water Finance Plc [1]		200.0	3.750	2046	**198.2**
Yorkshire Water Finance Plc	Amortising loan		6.598	2023	**30.1**
Yorkshire Water Finance Plc	Amortising loan		6.598	2023	**1.4**
Yorkshire Water Finance Plc	Amortising loan		3.232	2027	**4.2**
Yorkshire Water Finance Plc	Amortising loan		6.611	2031	**7.2**
Yorkshire Water Finance Plc	Amortising loan		1.658	2033	**6.3**
Yorkshire Water Finance Plc	Deeply Discounted Loan		6.588	2023	**(11.8)**
Yorkshire Water Finance Plc	Deeply Discounted Loan		3.227	2027	**(5.1)**
Yorkshire Water Finance Plc	Deeply Discounted Loan		6.611	2031	**8.5**
Yorkshire Water Finance Plc	Deeply Discounted Loan		1.658	2033	**5.1**
Carried forward					**3,764.6**

17. Interest-bearing loans and borrowings (continued)

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

Counterparty	Nominal £m	Interest rate %	Maturity date Year	Liability at 31 March 2022 £m
Brought forward				**3,764.6**
Yorkshire Water Services Finance Limited	7.4	5.500	2027	**6.9**
Yorkshire Water Services Finance Limited	200.0	5.500	2037	**196.0**
Yorkshire Water Services Finance Limited	65.0	1.823	2050	**100.5**
Yorkshire Water Services Finance Limited	125.0	1.462	2051	**198.7**
Yorkshire Water Services Finance Limited	85.0	1.758	2054	**131.6**
Yorkshire Water Services Finance Limited	125.0	1.460	2056	**198.7**
Yorkshire Water Services Finance Limited	100.0	1.709	2058	**154.6**
				4,751.6
Amounts falling due within one year (note 15)				**411.0**
Amounts falling due after more than one year (note 16)				**4,340.6**
				4,751.6

[1]Associated step up and call date in March 2023. Yorkshire Water Finance Plc has signed a deed poll, which is an enforceable and legally binding pledge, to exercise its optional redemption right on the underlying bond prior to the end of the fixed rate period (22 March 2023).

18. Derivative financial assets and liabilities

	2022 £m	2021 £m
Derivative financial assets:		
Inflation linked swaps	**129.4**	119.1
Fixed to floating interest rate swaps	**17.3**	56.8
Cross-currency interest rate swaps	**22.9**	49.1
Energy derivatives	**46.9**	7.0
	216.5	232.0
Derivative financial liabilities:		
Inflation linked swaps	**(2,611.5)**	(2,318.8)
Floating to fixed interest swaps	**(14.7)**	(21.1)
Cross-currency interest rate swaps	**(4.7)**	(4.0)
	(2,630.9)	(2,343.9)
Net derivative financial liabilities	**(2,414.4)**	(2,111.9)

Total derivative financial assets of £216.5m (2021: £232.0m) include £44.3m (2021: £29.6m) maturing in less than one year and £172.2m (2021: £202.4m) maturing after more than one year. Amounts maturing within one year include cross-currency interest rate swaps of £nil (2021: £24.9m) and energy derivatives of £44.3m (2021: £4.7m).

Managing financial risk

Yorkshire Water's operations expose the company to a variety of financial risks that include, amongst other things, inflation risk, interest rate risk and exchange rate risk.

In relation to inflation risk, up to 31 March 2020 Yorkshire Water's turnover was linked to the underlying rate of inflation measured by RPI and therefore was subject to fluctuations in line with changes in RPI. With effect from 1 April 2020 a portion of Yorkshire Water's turnover is linked to the rate of inflation measured by CPIH and is therefore subject to fluctuations in line with changes in both RPI and CPIH. In addition, Yorkshire Water's RCV, which is one of the critical components for setting customer's bills, was also linked to RPI until 31 March 2020. It is now linked to both RPI and CPIH (with effect from 1 April 2020). Yorkshire Water and its financing subsidiaries raises funds from third parties. These funds are used by the company to finance its activities (including funding the company's long-term capital investment programme). As the percentage of the company's net debt to RCV is a key covenanted ratio within Yorkshire Water's financing arrangements with its lenders, negative inflation, without appropriate management, could potentially breach such covenants despite the company being profitable.

Yorkshire Water manages its inflation risk via inflation linked bonds and loans, and a number of hedging instruments (termed as swaps below).

Inflation linked swaps

The company holds a number of inflation linked swaps, with a notional value at 31 March 2022 of £1,289.0m (2021: £1,289.0m). There are three cash flows associated with these inflation linked swaps:

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

In addition, a proportion of the inflation linked swaps also receives six monthly interest amounts based on a fixed rate.

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

18. Derivative financial assets and liabilities (continued)

This is accrued in the profit and loss account and recognised within financial liabilities. The RPI bullet accrued to 31 March 2022 was £280.9m (2021: £229.5m) which has been reduced by £83.1m (2021: £42.5m) when discounted to present value.

With higher RPI expectations, and SONIA and applicable discount rates continuing at relatively low levels, Yorkshire Water's portfolio of inflation linked swaps gave rise to a net liability of £2,482.1m (2021: £2,199.7m liability) at the year end date, comprising £129.4m assets and £2,611.5m liabilities (2021: £119.1m assets, £2,318.8m liabilities). Included in this net amount, £197.8m (2021: £187.0m) represents the discounted value of the RPI bullet accrued to 31 March 2022. Also included within the net liability are net assets of £76.1m (2021: £88.2m) relating to day one deferred gains and losses recognised on the restructuring of certain inflation linked swaps in prior years.

The valuation model used by Yorkshire Water to determine the fair value of the inflation linked swaps portfolio as at 31 March 2022 includes a funding valuation adjustment, credit valuation adjustment and debit valuation adjustment to reflect long-term credit risk. All the swaps in the portfolio have super-senior status. The funding valuation adjustments, credit valuation adjustments and debit valuation adjustments to the valuation represent unobservable inputs that have the potential to materially affect the resultant fair valuation, and therefore require estimation techniques to be adopted by management. Management uses a third party expert to advise on the appropriateness of these assumptions and have prepared sensitivity analysis in order to evaluate the impact of a reasonably possible range of assumptions on the resultant valuation. The total adjustment made to the valuation as a result of the assumptions adopted in respect of these key inputs was £456.0m (2021: £502.1m).

Interest rate swaps

Yorkshire Water holds £45.0m notional value (2021: £45.0m) of legacy floating to fixed interest rate swaps. These swaps are recognised at a fair value liability of £14.7m at 31 March 2022 (2021: £21.1m liability). Hedge accounting has not been applied. Of the year on year decrease in the liability of £6.4m (2021: decrease of £3.5m), £3.9m income (2021: £1.2m income) has been included in the profit and loss account, whilst £2.5m (2021: £2.3m) relates to net interest payments made during the year.

Yorkshire Water holds £430.0m notional value (2021: £430.0m) of fixed to floating interest rate swaps. These swaps are recognised as a fair value asset of £17.3m at 31 March 2022 (2021: £56.8m asset). Fair value hedge accounting has been applied. In line with FRS 102, the financial instruments to which these fixed to floating interest rate swaps relate to have also been adjusted for the hedged interest rate risk at 31 March 2022. The net impact of the fair value movement of the fixed to floating interest rate swaps and the associated debt has resulted in £3.1m of expense (2021: £2.5m expense) to the profit and loss account. This represents ineffectiveness in the hedge relationship due to sources of ineffectiveness such as credit risk.

Cross-currency interest rate swaps

Yorkshire Water hedges the fair value of USD debt using a series of interest rate and foreign currency swaps that in combination form cross-currency interest rate swaps, swapping USD principal repayments into sterling and fixed rate USD interest payments into floating rate sterling interest payments. These swaps are recognised at a fair value asset of £22.9m at 31 March 2022 (2021: £49.1m asset). Hedge accounting has been applied and the currency basis is included in the hedge designation, and it is a source of ineffectiveness.

Yorkshire Water hedges the fair value of AUD debt using a combined interest rate and foreign currency swap, swapping AUD principal repayments into sterling and fixed rate AUD interest payments into floating rate sterling interest payments. These swaps are recognised at a fair value liability of £4.7m at 31 March 2022 (2021: £4.0m liability). Hedge accounting has been applied and the currency basis is included in the hedge designation, and it is a source of ineffectiveness.

The net impact of the fair value movement of the currency interest rate swaps and the associated debt has resulted in £2.1m of expense (2021: £1.8m expense) to the profit and loss account.

Energy derivatives

The company holds UK electricity swaps, which help hedge the company's exposure to energy price risk by exchanging the average day ahead baseload index price of electricity in a given month for a fixed price. These are designated as cash flow hedges and hedge accounting has been applied. The gain of £39.9m (2021: gain £10.2m) in the derivatives from £7.0m assets to £46.9m assets (2021: movement from £3.2m liabilities to £7.0m assets) has been recognised |in other comprehensive income.

19. Financial instruments

Fair values of financial assets and financial liabilities

The information set out below provides information about how the company determines fair values of various financial assets and financial liabilities.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Some of the company's financial assets and financial liabilities are measured at fair value at the end of each reporting year. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used). The level for inflation linked swaps is determined through assessing the percentage of the Debit Value Adjustment (DVA) and Funding Value Adjustment (FVA) of the Dirty MtM value of each swap. The Dirty MtM value includes accrued interest.

Financial assets/ financial liabilities	Fair value as at 31 March 2022	Fair value as at 31 March 2021	Fair value hierarchy	Valuation technique(s) and key input(s)
1. Interest rate swaps, cross-currency swaps, inflation linked swaps, energy derivatives	Assets: £216.5m Liabilities: £873.3m	Assets: £222.6m Liabilities: £776.5m	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting year) and contract interest rates, discounted at a rate that reflects own or counterparty credit risk.
2. Amounts owed to subsidiary undertakings, bank loans and overdrafts	Liabilities: £2,482.8m	Liabilities: £2,840.8m	Level 2	The fair values of amounts owed to subsidiary undertakings have been determined by reference to the fair values of back-to-back debt issued by subsidiaries. In relation to bonds issued by the subsidiaries, fair values are determined by reference to quoted prices for identical instruments that can be accessed at the measurement date. In relation to private notes issued by subsidiaries, and bank loans and overdrafts, fair values are calculated by discounting expected future cash flows using prevailing rates including credit spreads observable in publicly traded instruments.

19. Financial instruments (continued)

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

Financial assets/ financial liabilities	Fair value as at 31 March 2022	Fair value as at 31 March 2021	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value 31 March
3. Inflation linked swaps, bank loans and overdrafts	Assets: £nil Liabilities: £1,902.2m	Assets: £9.4m Liabilities: £1,709.8m	Level 3	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting year) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.	Inflation linked swaps: • Counterparty cost of funding assumption • Assumptions relating to long-term credit beyond observable curves • Recovery rates Bank loans and overdrafts: • Level 3 instrument valuations relate to CPI linked transactions where inputs are from a less liquid market.	Unobservable inputs contribute on average to 17.6% of the fair value of level 3 inflation linked swaps, equalling a total of £437.5m of the fair value included in the Financial Statements. A ten basis point or percentage shift in each of these assumptions in either direction gives rise to an aggregate impact on the valuation of £145.0m higher or lower. A ten basis point shift in the RPI to CPI wedge would give rise to a £1.1m higher or lower valuation of bank loans and overdrafts.

19. Financial instruments (continued)

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

The following table provides the fair values of the company's financial assets and liabilities at 31 March 2022.

	Level 1 2022 £m	Level 2 2022 £m	Level 3 2022 £m	Level 1 2021 £m	Level 2 2021 £m	Level 3 2021 £m
Primary financial instruments financing the company's operations						
Financial assets measured as Fair Value Through Profit and Loss						
Fixed to floating interest rate swaps	**-**	**17.3**	**-**	-	56.8	-
Cross-currency interest rate swaps	**-**	**22.9**	**-**	-	49.1	-
Inflation linked swaps	**-**	**129.4**	**-**	-	109.7	9.4
Financial assets measured at Fair Value Through Other Comprehensive Income						
Energy derivatives	**-**	**46.9**	**-**	-	7.0	-
Financial liabilities measured at Fair Value Through Profit and Loss or in fair value hedge relationships						
Floating to fixed interest rate swaps	**-**	**(14.7)**	**-**	-	(21.1)	-
Cross-currency interest rate fair value swaps	**-**	**(4.7)**	**-**	-	(4.0)	-
Inflation linked swaps	**-**	**(853.9)**	**(1,757.6)**	-	(751.4)	(1,567.4)
Amounts owed to subsidiary undertakings	**-**	**(602.7)**	**-**	-	(807.6)	-
Financial liabilities held at amortised cost not in fair value hedge relationships						
Bank loans and overdrafts	**-**	**(413.1)**	**(144.6)**	-	(482.9)	(142.4)
Amounts owed to subsidiary undertakings	**(3,111.8)**	**(1,467.0)**	**-**	(3,021.1)	(1,550.3)	-

For financial assets and liabilities not included in the fair values hierarchy table, the carrying amount approximates the fair value. The carrying amounts of bank loans and overdrafts totalling £157.0m (2021: £330.8m) approximate their fair value, so are not included in the hierarchy table.

20. Deferred tax assets and liabilities

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

	Assets 2022 £m	Liabilities 2022 £m	Net 2022 £m	Assets 2021 £m	Liabilities 2021 £m	Net 2021 £m
Accelerated capital allowances	**-**	**1,187.2**	**1,187.2**	-	754.3	754.3
Timing differences on financial instruments	**(531.0)**	**-**	**(531.0)**	(361.2)	-	(361.2)
Net tax (assets)/liabilities	**(531.0)**	**1,187.2**	**656.2**	(361.2)	754.3	393.1

Movement in deferred tax during the year

	1 April 2021 £m	Recognised in income £m	Recognised in equity £m	31 March 2022 £m
Accelerated capital allowances	**754.3**	**189.5**	**243.4**	**1,187.2**
Timing differences on financial instruments	**(361.2)**	**(180.1)**	**10.3**	**(531.0)**
	393.1	**9.4**	**253.7**	**656.2**

Movement in deferred tax during the prior year

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

All the timing differences above are expected to reverse after more than 12 months.

The company has no deferred tax assets that are unrecognised in its Financial Statements (2021: none).

21. Share capital and other reserves

	2022 £m	2021 £m
Allotted, called up and fully paid		
22,000,000 (2021: 22,000,000) ordinary shares of 50 pence each	**11.0**	11.0

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

Also included within equity are reserves, the nature of which are as follows:

Revaluation reserve: Infrastructure assets, residential properties, specialised properties, and rural estates are stated at fair value less any subsequent accumulated depreciation and impairment losses. Gains on revaluation are recognised in other comprehensive income and accumulated in the revaluation reserve. For further details, see note 1 and note 12.

Hedging reserve: Energy derivatives, which hedge the company's exposure to energy price risk by exchanging the day ahead index price of energy for a fixed price, are designated as cash flow hedges and hedge accounting has been applied. The hedging gain or loss is recognised in other comprehensive income. For further details, see note 1 and note 18.

Profit and loss account: Cumulative profits or losses, net of revaluation of retirement benefits and dividends paid.

22. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings 2022 £m	Other 2022 £m	Total 2022 £m	Land and buildings 2021 £m	Other 2021 £m	Total 2021 £m
Less than one year	**0.3**	**2.2**	**2.5**	0.3	1.1	1.4
Between one and five years	**1.1**	**3.5**	**4.6**	0.7	2.0	2.7
More than five years	**12.3**	**-**	**12.3**	11.9	-	11.9
	13.7	**5.7**	**19.4**	12.9	3.1	16.0

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

23. Commitments

Capital commitments

	2022 £m	2021 £m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	**492.9**	378.2

The long-term investment programme for the company, which identified substantial future capital expenditure commitments in the period from 2020 to 2025, was agreed as part of the AMP7 Price Review process. £24.3m (2021: £9.6m) of the above capital commitments relate to intangibles (software).

24. Contingencies

Certain bank accounts of the company operate on a pooled basis with certain bank accounts of other members of the YWFG, whereby these bank account balances offset against each other. The company had guaranteed the following bonds and notes issued by Yorkshire Water Services Finance Limited and Yorkshire Water Finance Plc at 31 March 2022:

	Nominal £m	Coupon %	Maturity date Year	Liability at 31 March 2022 £m
Fixed rate				
Yorkshire Water Services Finance Limited	7.4	5.500	2027	**6.9**
Yorkshire Water Services Finance Limited	200.0	5.500	2037	**196.0**
Yorkshire Water Finance Plc	210.7	6.588	2023	**210.6**
Yorkshire Water Finance Plc	94.3	3.870	2023	**114.1**
Yorkshire Water Finance Plc	33.8	5.875	2023	**29.3**
Yorkshire Water Finance Plc	18.8	3.870	2024	**22.8**
Yorkshire Water Finance Plc	300.0	1.750	2026	**298.8**
Yorkshire Water Finance Plc	135.5	6.454	2027	**135.4**
Yorkshire Water Finance Plc	60.0	2.030	2028	**59.8**
Yorkshire Water Finance Plc	250.0	3.625	2029	**245.5**
Yorkshire Water Finance Plc	90.0	3.540	2029	**94.1**
Yorkshire Water Finance Plc	255.0	6.601	2031	**254.8**
Yorkshire Water Finance Plc	50.0	2.140	2031	**49.8**
Yorkshire Water Finance Plc	350.0	1.750	2032	**344.7**
Yorkshire Water Finance Plc	90.0	4.965	2033	**96.8**
Yorkshire Water Finance Plc	50.0	2.210	2033	**49.8**
Yorkshire Water Finance Plc	40.0	2.300	2036	**39.8**
Yorkshire Water Finance Plc	50.0	2.300	2036	**49.8**
Yorkshire Water Finance Plc	300.0	6.375	2039	**302.3**
Yorkshire Water Finance Plc	450.0	2.750	2041	**444.9**
Yorkshire Water Finance Plc[1]	200.0	3.750	2046	**198.2**
Total fixed rate				**3,244.2**
Inflation linked				
Yorkshire Water Services Finance Limited	65.0	1.823	2050	**100.5**
Yorkshire Water Services Finance Limited	125.0	1.462	2051	**198.7**
Yorkshire Water Services Finance Limited	85.0	1.758	2054	**131.6**
Yorkshire Water Services Finance Limited	125.0	1.460	2056	**198.7**
Yorkshire Water Services Finance Limited	100.0	1.709	2058	**154.6**
Yorkshire Water Finance Plc	127.8	3.307	2033	**180.7**
Yorkshire Water Finance Plc	260.0	2.718	2039	**397.2**
Yorkshire Water Finance Plc	50.0	2.160	2041	**66.5**
Yorkshire Water Finance Plc	50.0	1.803	2042	**65.8**
Total inflation linked				**1,494.3**

[1] Associated step up and call date in March 2023. Yorkshire Water Finance Plc has signed a deed poll, which is an enforceable and legally binding pledge, to exercise its optional redemption right on the bond prior to the end of the fixed rate period (22 March 2023).

25. Parent companies, controlling parties and the larger group

The company's immediate parent undertaking is Yorkshire Water Services Holdings Limited. The ultimate parent company is Kelda Holdings Limited, incorporated in Jersey and resident for tax in the UK. In the opinion of the directors there is no ultimate controlling party.

The largest UK group in which the results of the company are consolidated is that headed by Kelda Eurobond Co Limited, incorporated in England and Wales. The smallest group in which they are consolidated is that headed by Kelda Finance (No.1) Limited, incorporated in England and Wales. The registered address of these companies is the same as that of Yorkshire Water. The consolidated Financial Statements of these groups are available to the public and may be obtained from the Company Secretary, Kelda Eurobond Co Limited, Western House, Halifax Road, Bradford, BD6 2SZ.

26. Contingent liabilities

Five claims have been issued at various dates between December 2019 and March 2021 against Yorkshire Water by personal search companies (PSCs). The claims relate to historical search fees that PSCs have paid to Yorkshire Water for water and drainage reports obtained when buying a house. The PSCs state that the historical fees should not have been paid to Yorkshire Water as the information should have been provided for no fee under the Environmental Information Regulations 2004. Yorkshire Water has adopted the same stance as the rest of the sector in relation to this claim in disagreeing with the interpretation taken on behalf of the PSCs.

Yorkshire Water denies liability in relation to the claims and thus considers any outflow of economic benefit in relation to these claims is not probable. Accordingly, no provision has been recognised in this regard (2021: no provision recognised).

Yorkshire Water is subject to ongoing information requests from Ofwat and the EA which were received on 18 November 2021 by the EA and subsequently on 8 March 2022 from Ofwat. The subject of these investigations has impacted all water and sewerage companies in England and Wales. The outcome of these enquiries and any potential consequences is not known at this time.

Independent auditor's report

Independent auditor's report to the members of Yorkshire Water Services Limited

Report on the audit of the Financial Statements

1. Opinion

In our opinion the Financial Statements of Yorkshire Water Services Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements which comprise:

- the profit and loss account;
- the statement of comprehensive income and expense;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 26.

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

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of household bad debt provisioning; • Valuation of infrastructure assets; and • Valuation of derivative financial instruments. Within this report, key audit matters are identified as follows: Similar level of risk
Materiality	The materiality that we used in the current year was £18.8m which was determined on the basis of 3.2% of adjusted earnings before interest, tax, depreciation and amortisation ("Adjusted EBITDA"). This metric is reconciled within the Alternative Performance Measures outlined by the company as outlined in the Key Performance Indicators ("KPI") section of the annual report.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	We identified revenue recognition from household customers where payment is not considered probable as a key audit matter in the prior year. We do not consider this to be a key audit matter in the current year because the adjustment made by management is not materially different to previous years, and this is not an area in which considerable audit effort has been expended. There have been no other significant changes in our audit approach in the year.

4. Conclusions relating to going concern

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

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

- understanding financing facilities including compliance with interest cover ratio covenants and obtaining confirmation of undrawn facilities;
- understanding how the going concern model mirrors the business model and the forecasts used for impairment testing;
- testing the accuracy of the model and assessing the historical accuracy of forecasts prepared by management; challenging the key assumptions used in the forecasts, such as revenue levels and capital expenditure, including giving consideration to the current and forecast economic environment with high inflation and low levels of unemployment in the UK;
- assessing the maturity profile of the company's debt and the available liquidity for the going concern period;
- performing sensitivity analysis based on contradictory evidence, including latest third party economic forecasts and FY23 results to date; and
- assessing the appropriateness of the going concern disclosures made in the Financial Statements.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5. Key audit matters (continued)

5.1. Valuation of household bad debt provisioning

Key audit matter description	A proportion of the company's household customers do not or cannot pay their bills which results in the need for provisions to be made for non-payment of the customer balance. Management make estimates regarding future cash collection when calculating the bad debt provision. Management's approach to calculating the provision involves assessing their experience of subsequent cash collection of historical debtors, as well as judging how future cash collection may differ from that experienced historically, as a result of factors such as changes in the wider economic environment. In the current year, the increased rate of inflation in the UK is putting pressure on customers' ability to pay, leading to greater judgement in assessing whether future cash collection will differ to historical experience. The value of the provision for trade receivables at 31 March 2022 is £36.8m (2021: £27.5m). The Audit and Risk Committee also considered this as a significant issue as discussed in the Audit and Risk Committee Report on page 116 and it is also included as an area of key estimation uncertainty in note 1 to the Financial Statements.
How the scope of our audit responded to the key audit matter	The procedures performed were as follows: • obtained an understanding of the relevant controls established by management to value household bad debt provisioning. We also tested the effectiveness of certain controls around the management review of the year end household bad debt provision; • recalculated the baseline bad debt provision based on the year end debtors balance and management's policy; • evaluated the mechanical models used to calculate adjustments to the baseline bad debt provision and reperformed the model using independent data analytic techniques; • challenged management's estimates in calculating the household bad debt provision by comparing provisioning percentages to historical cash collection; • performed an independent review of current economic data, including in relation to both inflation and earnings/disposable income to evaluate the potential impacts of the ongoing cost of living crisis on a customers' ability to pay their bills; • performed sensitivity analysis on the provision to assess the impact of changes in the cash collection rates and provisioning percentages; • evaluated potential contradictory evidence, such as historical cash collection, to assess management's conclusion regarding the provision; and • performed benchmarking against other water companies with a similar provisioning approach.
Key observations	We consider the overall bad debt provision to be reasonable and compliant with accounting standards.

5. Key audit matters (continued)

5.2. Valuation of infrastructure assets

Key audit matter description	At each year end, management engage a third party to determine an enterprise value for the company. After review and consideration, management uses this valuation to determine the fair value of infrastructure assets of the company. There is a significant level of judgement in determining the fair value of these assets. The fair value of infrastructure assets at the year end was £5,678.9m (2021: £4,702.3m). The Audit and Risk Committee also considered this as a key area for their consideration as discussed in the Audit and Risk Committee Report on page 116 and it is also included as an area of key estimation uncertainty in note 1 to the Financial Statements. The value of the infrastructure assets and the uplift of £901.8m recognised on these assets at the year end is disclosed in note 12 to the Financial Statements
How the scope of our audit responded to the key audit matter	The procedures we performed were as follows: • obtained an understanding of relevant controls relating to the asset revaluation process; • understood the scope of work and the key judgements made by the third party valuer. We also evaluated their competence, capabilities and objectivity; • engaged internal valuation specialists to challenge the third party valuation through benchmarking the valuation against recent market transactions; • audited the value in use calculation prepared by management for mathematical accuracy, assessed the cash flows for completeness and tested the completeness and appropriateness of cash flow assumptions; • held discussions with management to understand the bridge between the third party's enterprise valuation and the uplift to be applied to the infrastructure assets, and re-performed management's calculation; • evaluated potential contradictory evidence surrounding the enterprise valuation, such as forecast economic indicators and market transaction valuations; and • evaluated that the uplift required has been accurately recorded in the accounts.
Key observations	We consider that the assumptions inherent in the fair value calculation, and the valuation methodology applied, are appropriate, and that the fair value of the infrastructure assets recognised is appropriate.

5. Key audit matters (continued)

5.3. Valuation of derivatives

Key audit matter description	Section 12 of FRS 102 "Financial Instruments" requires all derivatives to be accounted for in the balance sheet at fair value with movements recognised in profit or loss unless designated in a hedge relationship. Where possible, management has elected to apply hedge accounting. We identified a key audit matter in relation to the valuation of derivatives, including the application of credit, debit and funding risk valuation adjustments, as well as in relation to the designation, documentation and testing the effectiveness of hedge relationships. The fair value of derivative financial instruments at 31 March 2022 totalled £216.5m of assets and £2,630.9m of liabilities (2021: £232.0m of assets and £2,343.9m of liabilities) and the fair value charges recognised in the income statement for the year ended 31 March 2022 totalled £369.6m (2021: £102.0m). The Audit and Risk Committee also considered the valuation of derivatives as a significant matter as discussed in the Audit and Risk Committee Report on page 116 and it is also included as an area of key estimation uncertainty in note 1 to the Financial Statements. The movement in fair value of derivatives in the year is disclosed in note 19 and the fair value held at year end is disclosed in note 18 to the Financial Statements.
How the scope of our audit responded to the key audit matter	The procedures we performed were as follows: • obtained an understanding of relevant controls around the valuation techniques used in determining the fair value of derivatives; • understood the nature and number of derivatives held at both the year end and during the year; • involved internal valuation specialists to perform independent valuations of derivatives at the balance sheet date, including the calculation of credit and funding risk adjustments on both derivative assets and liabilities; • tested the accounting for all derivative positions, both external to the company and the intercompany arrangements, to assess whether they are in accordance with FRS 102; and • inspected the disclosures made for the year end derivatives, to assess whether they are in line with FRS 102.
Key observations	We consider that the fair values recognised and disclosures made in respect of the derivatives recorded in the Financial Statements are appropriate.

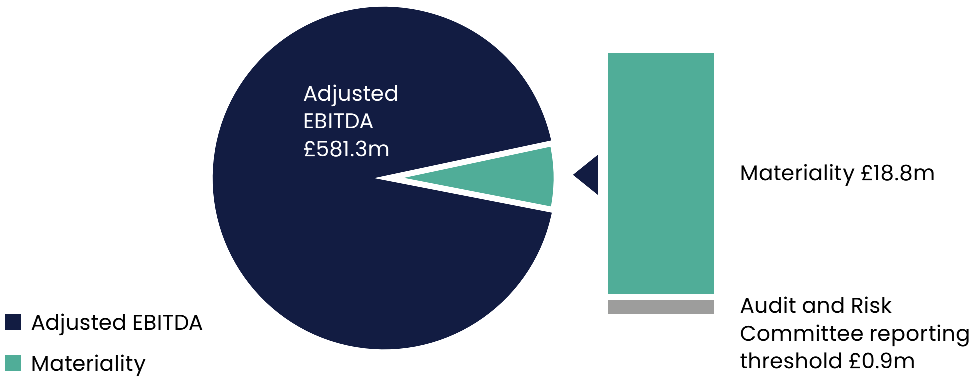
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

Materiality	£18.8m (2021: £18.0m)
Basis for determining materiality	3.2% of Adjusted earnings before interest, tax, depreciation, and amortisation ("Adjusted EBITDA") (2021: 3.5% of Adjusted EBITDA). This metric is reconciled within the Alternative Performance Measures outlined by the company as outlined in the Key Performance Indicators ("KPI") section of the annual report.
Rationale for the benchmark applied	Adjusted EBITDA has been used in order to focus on the company's underlying trading performance consistent with the company's internal and external reporting and the focus of key stakeholders for the business.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the Financial Statements as a whole. Performance materiality was set at 76% of materiality for the 2022 audit (2021: 77%). In determining performance materiality, we considered the following factors:

- our risk assessment, including our assessment of the company's overall control environment and that we consider it appropriate to rely on controls over the baseline household bad debt provision and the General IT controls ("GITCs") within the YorBill, YorCash and SAP systems;
- our consideration of the impact of hybrid working on the control environment; and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

6.3. Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £0.9m (2021: £0.9m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the company and its environment, including key controls surrounding the financial reporting cycle and identified key audit matters, and assessing the risks of material misstatement to the company. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

7.2. Our consideration of the control environment

Our planned IT controls are in line with previous years given the maturity of the SAP system. We have considered the key IT systems that were relevant to the audit to be the SAP system, which is the core IT system used for recording the financial transactions of the entity and "YORBill" and "YORCash" systems, which are used for billing and cash collection.

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

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

We planned to take controls reliance over the valuation and completeness of the baseline household bad debt provision. We tested these controls by understanding the relevant controls in place for each business process and testing the effectiveness of controls during the year.

As a result of the above procedures we have placed reliance on the controls around the valuation and completeness of the baseline household bad debt provision. We have not placed reliance on the controls over any manual adjustments to the baseline household bad debt provision which are outside the scope of the baseline modelling given the one-off nature of such adjustments.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the company's business and its Financial Statements. We have held discussions with the company's sustainability and finance team to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Financial Statements. Whilst management have acknowledged the risks posed by climate change, they have assessed that there is no quantitively material impact arising from climate change on the judgements and estimates made in the Financial Statements for the year ended 31 March 2022.

The company has committed to being net zero by 2030 with a developed strategy in how this is to be achieved. Management has considered transition and physical risks when factoring in climate change as part of their risk assessment process when considering the principal risks and uncertainties facing the company. This is set out in the Strategic Report on pages 46 to 51 and the principal risks on pages 69 to 72. Management have concluded that the key risks of climate change for the business arise from drought, flooding and transitioning the business to net zero.

We performed our own qualitative risk assessment of the potential impact of climate change on the company's account balances and classes of transactions and did not identify any additional reasonably possible risks of material misstatement as a result of climate change. We also deemed that climate-related risks have no significant impact on our key audit matters. Our procedures were performed in line with industry guidance on climate change and sustainability and included reading disclosures included in the Strategic Report to consider whether they are materially consistent with the Financial Statements and our knowledge obtained in the audit.

8. Other information

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

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the Financial Statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

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

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

- valuation of household bad debt provisioning;
- revenue recognition from customers where payment is not deemed probable; and
- classification of labour and overhead and repair and maintenance costs as property, plant and equipment.

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

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

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

11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of household bad debt provisioning as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the Financial Statements;
- enquiring of management, the Audit and Risk Committee and legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, Ofwat and other regulatory authorities;
- in addressing the risk of fraud through classification of labour and overhead and repairs and maintenance costs as property plant and equipment, reviewed and assessed management's capitalisation policy, understood judgements made by management in relation to the allocation of overheads to capital projects and substantively tested a sample of capitalised labour costs and repairs and maintenance costs to evaluate whether they had been appropriately classified;
- in addressing the risk of fraud through revenue recognition from customers where payment is not deemed probable, reviewed and assessed management's methodology for determining the adjustment, performed sensitivity analysis on the assumptions made by management and substantively tested the inputs into the adjustment, to assess whether management's policy was appropriately applied and that only those customers who met the relevant criteria had been included in the revenue adjustment; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Corporate Governance Statement

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

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 105;
- the directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 74;
- the directors' statement on fair, balanced and understandable set out on page 106;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 74;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 74; and
- the section describing the work of the Audit and Risk Committee set out on page 116.

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

14.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

15. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

J Boardman.

Jane Boardman, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
15 July 2022

Sustainable Development Goals

Supporting the Sustainable Development Goals

We support the Sustainable Development Goals (SDGs) and are ensuring our strategy and activities grow our contribution to them. Through the United Nations, the global community has formally adopted a set of 17 Goals which define and drive towards sustainable development. The 17 SDGs are underpinned by 169 targets. You can find out more about the SDGs at: sdgs.un.org. We have identified eight SDGs that are of particular relevance to Yorkshire Water's activities. Here we show how we are working to support these goals.

Ensure healthy lives and promote wellbeing for all at all ages.

We play a vital role in health and wellbeing by providing safe drinking water and supporting effective sanitation and flood management. We also offer many opportunities for outdoor recreation that support physical and mental health. It is a top priority to protect the safety of our colleagues and visitors, with a focus on health, safety and wellbeing.

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

Supporting this SDG is our core business. Our investment plan to 2025 has a focus on demand management techniques to support affordable, resilient water and wastewater services. We are working with customers and in our own operations to reduce water use in Yorkshire to less than 120 litres per person per day by 2025, compared to the current national average (per statistics from the UN) of 141 litres and 135 litres in Yorkshire currently.

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

Our infrastructure and services underpin the region's economy. Our strategy focuses on reducing demand to enable sustainable growth using the existing water and wastewater networks and water abstractions. We are a substantial and permanent employer in Yorkshire, striving to be as diverse as the society we serve.

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

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

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

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

Ensure sustainable consumption and production patterns.

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

Take urgent action to combat climate change and its impacts.

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

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

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


YorkshireWater

yorkshirewater.com

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