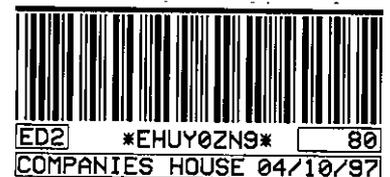


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YORKSHIRE WATER SERVICES LIMITED

ANNUAL REPORT AND ACCOUNTS

For the year ended
31 March 1997



ANNUAL REPORT AND ACCOUNTS 1997

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OPERATING REVIEW

Strategy

Following a detailed strategic review of the business in 1996, a clear framework in which to operate has been established for future years. Securing water supply for our customers and delivering customer service improvements form the keystones of this framework and in the year under review significant progress was made.

In the regulated environment in which the business operates it is also essential that operating costs are reduced at the same time as customer service standards are improved. This is the major challenge for management. The business also has a substantial capital programme which requires close control to ensure resources are utilised to the best effect.

The next periodic review of prices will take place in 1999 and this will lead to charges being set for the period after 2000. It is essential that we achieve the best possible outcome for both customers and shareholders and planning work for the review is well under way.

Financial performance

Turnover increased 4% to £547.4 million. The increase was lower than the allowed increase in tariffs from 1 April 1996 because of a further decline in consumption of water by many of our industrial customers. Underlying operating costs rose around 3% in real terms because of the residual effects of the 1995 drought and additional expenditure on service improvements for customers. Operating profit was 38.5% higher at £228.7 million, reflecting the exceptional drought costs and £16.7 million reduction in the charge for infrastructure renewals following a reassessment of the long range normalised charge.

Investment in the core water services business increased from £234.9 million to £360.5 million, including expenditure to maintain the underground infrastructure assets of £63.4 million (1996: 46.5 million).

Operating performance

All restrictions on water use were lifted in November 1996. At the end of March 1997 reservoir stocks stood at around 95% of their full capability. Despite what is already proving to be another dry start to the year, we are confident that, even if the conditions of 1995 were to be repeated in Yorkshire, water restrictions should not prove to be necessary this summer.

Despite the level of activity on drought related schemes, the Company remained on course with its major capital investment programme, much of which is to improve drinking water quality and river and coastal waters.

Operating efficiency was improved with the opening of the Regional Operations and Communications Centre in Bradford. This single building now houses the systems and personnel providing day to day operational management of the whole of the water and waste water treatment system, together with our 24 hour customer call centre where approximately 1.4 million telephone calls are handled each year.

As part of the strategic aim of delivering improved service while controlling costs it is necessary to work more closely with suppliers. During the year we launched an initiative to identify a core group of key contractors who will be asked to tender selectively for all major contracts up to the end of 1999. This lays the foundation for building long standing business partnerships based on continuity and quality, while ensuring competitive price tendering.

Greater security of supply

The major part of the £300 million discretionary investment programme, the scale and pace of which is unprecedented in the UK water industry, has improved standards of service for water supply reliability and strengthened the Yorkshire Water grid system - 240 kilometres of additional pipeline have been laid and 28 new pumping stations completed. The grid system is designed to allow the business to cope with a repeat of the drought in Yorkshire of 1995 - the worst on record - without resort to restrictions on water use this summer.

To provide an additional level of assurance, a link between the rivers Tees and Wiske has been constructed allowing access to water from the Kielder reservoir. This currently cannot be used without emergency powers and we have no intention of applying for a permanent licence to use the link before a comprehensive environmental impact assessment has been completed in 1998.

We are also in the process of creating a long term water resource plan for the region covering a period well in to the next century.

Additional resources and effort were put into reducing leakage from the 27,800 kilometres of treated water mains in our region and water loss through leakage reduced to around 330 Ml/d (Megalitres per day) in 1996/97 compared to 383 Ml/d in 1995/96. Between a quarter and a fifth of all leakage occurs from supply pipes owned by our customers. In an effort to reduce this we also introduced a free leak repair service for domestic customers' own supply pipes.

As a result of all of this activity some 100 Ml/d of water has been saved over the past two years, enough to meet the daily needs of a town larger than Huddersfield, which has a population of 120,000. We are determined to make further reductions in leakage and we are currently in discussion with OFWAT to identify targets into the next century.

In devising a framework for these targets some pioneering work has been carried out by the company. We have developed models which more fully explore the economics of leakage control and reduction against other methods of ensuring the appropriate balance between water supply and demand, such as encouraging reduction in usage by customers or increasing storage capacity.

A number of partnerships have been created with organisations in the region to promote water conservation. These include providing technical advice and part funding Calderdale District Council to reduce wastage of water in 14 of its schools; co-operating with Keighley Business Forum to help companies in their area to reduce costs through more efficient use of water, and acting with Ryedale District Council to encourage reduced use of mains water in the garden by providing subsidised water butts. The company also appointed the UK water industry's first water conservation manager.

In October 1996 we announced that water meters would be installed free of charge to customers who choose to pay by meter from 1 April 1997. In March 1996 133,000 of our domestic customers were metered; by the end of March 1997 this number had increased to 157,000 and, on the basis of the recent requests, we anticipate that some 225,000 domestic customers will have meters installed by March 1998.

In addition, after wide consultation we believe it essential to ensure that those customers who have swimming pools or garden sprinklers, and who are, therefore, high discretionary users of water are metered. This became compulsory from 1 April 1997.

Our business customer advisors worked closely with many local companies, helping them to audit and reduce their water use and effluent discharges. Businesses were also offered a free leak detection service, resulting in approximately 900 leaks being identified and repaired since July 1995.

Improving service standards

Advances in service standards have been significant, particularly in response to the recommendations made in the 1996 OFWAT report on the company performance and the Uff report in to the drought. The formal returns to OFWAT were in the process of completion at the time of writing, but early indications show that the number of properties suffering from inadequate mains pressure decreased by nearly 40% and that the number of people whose water supplies were affected by an unplanned interruptions, such as a burst main, for more than 12 hours decreased from 14,900 to below 3,000.

The number of billing queries dealt with within 10 working days is now at 100% and over 85% of telephone calls received on customer contact lines were answered within 15 seconds.

Overall compliance with water quality standards improved again in 1996 to 99.8%, up from 99.7% in 1995. A significant proportion of the current investment programme is directed at environmental improvements although compliance with effluent discharge consents at sewage treatment works is already high (97.9%).

The following overall assessment of company performance against six measures of service in 1995-96 was published by OFWAT in December 1996

Company	Sewer flooding incidents DG5	Pressure of mains water DG2	Interruptions to supply DG3	Bills for metered customers DG8	Response to billing contacts DG6	Response to written complaints DG7
Severn Trent	■	●	●	●	■	*
Anglian	*	●	●	□	**	■
North West	□	●	●	○	*	*
Northumbrian	■	■	○	●	*	*
South West	●	●	■	■	■	*
Southern	■	■	■	*	*	**
Thames	■	■	□	□	**	*
Dŵr Cymru (Welsh)	●	*	□	■	*	*
Wessex	■	□	*	*	*	**
Yorkshire	○	●	●	■	*	*

Key to assessments	Comparative (for DG2, DG3, DG5 & DG8)	Illustrative (for DG6 & DG7) +
	Well above average	Very good
	Above average	Good
	Average	Moderate
	Below average	Poor
	Well below average	Very poor

+In addition those companies matching or exceeding the best performance in other sectors have received an additional * assessment.

Source: OFWAT 1995-96 report on levels of service for the water industry in England and Wales.

It is clear from the table above that sewer flooding was an area where much needed to be done and it is pleasing to report that our provisional figures show that the instances of flooding due to blockages, collapses and equipment failures fell by some 9.6% during the year. In addition, we feel that our performance will be improved by bringing in-house the sewerage services currently carried out on our behalf under arrangements with district councils. After consultation with the local authorities we have, therefore, given 12 months' notice of termination to bring these arrangements to an end. We believe that managing the sewerage function directly, rather than through 21 agencies, will support our aim to improve services to customers through common working practices.

We were disappointed to have to issue precautionary boil advise to 4,000 households in the Pateley Bridge area in February due to the detection of very low levels of cryptosporidium in the water supplied. We believe this was caused by heavy rain washing the infected material from agricultural land into the underground water source.

Improving the environment

We have made significant investment in continuing improvements to our sewerage network and to our 620 sewage treatment works. Part of that investment came to fruition early in 1997 with the opening of the new £9.5 million tertiary treatment plant at Esholt sewage treatment works serving Bradford and the River Aire has benefitted greatly from the completion of this project.

A further major scheme at our Huddersfield works will bring similar benefits to the River Calder when completed in 1998.

A major initiative, "Coastcare", was announced in January 1997. This will make significant improvements to sewage treatment on the Yorkshire coast and is designed to go further than current legislation requires.

More detailed information on our environmental performance will appear in our next environment report which will be published later this year.

A committee of the board of Yorkshire Water plc, chaired by David Perry, was established during the year with the specific remit to monitor the environmental performance of the group and recommend to the board any changes in its existing environmental policy. In this, the company is committed to achieving environmental best practice throughout its business activities. We recognise that the pursuit of economic growth and a healthy environment must be closely linked and that ecological protection and sustainable development are collective responsibilities in which governments, businesses, individuals and communities all have a role to play.

DIRECTORS' REPORT

The Directors have pleasure in presenting their eighth report, for the year 1 April 1996 to 31 March 1997.

Share capital

There has been no change, during the year, to the company's share capital of £275 million in shares of £1 each fully paid, all of which is held by Yorkshire Water plc and its nominees.

Principal activities

The principal activity of the company is the provision of drinking water and waste water management services to the Yorkshire region, for which the company is the water and sewerage undertaker.

Directors

The Directors for the year, including any changes, are shown below:

Kevin Bond	Chairman and Managing Director (appointed 1.4.96)
Richard Ackroyd	
Tracy Flanders	
John Layfield	
Karen Moir	(appointed 2.9.96)
Margot Nichols	(appointed 20.6.96)
Margaret Stewart	(appointed 18.4.96)
Clive Stones	

Kevin Bond relinquished the position of Managing Director on 1 April 1997 on becoming Chief Executive of Yorkshire Water plc.

Jonson Cox was appointed Managing Director on 1 April 1997.

Margot Nichols resigned on 7 May 1997 to take up another position within the group.

The directors' interests in shares are disclosed in Note 5 of the accounts.

Financial results for the year

Profit on ordinary activities was £194.3 million, and there were no exceptional costs reported in the year.

Windfall levy

The government intends to impose a "windfall levy" on utility companies. Details of the application of this levy and its basis of calculation had not been published at the time of writing. Therefore it was not possible for the company to ascertain whether it will be liable to a levy or any amount to be charged.

Future charges

Following publication in July 1996 of the OFWAT report into its performance, the company agreed not to raise its charges by more than the rate of inflation from 1 April 1997. Customers' bills in 1998/99 and 1999/2000 will also be lower than allowed for in the original price limits. The loss of revenue over the three years will amount to approximately £44 million.

Dividends

The total dividend for the year payable to the parent company, Yorkshire Water Plc, of £66.1 million comprises the following:

	Regulated Activities £m	Non-regulated Activities £m	Total Dividend £m
Interim Dividend	21.5	0.6	22.1
Proposed Final Dividend	<u>42.9</u>	<u>1.1</u>	<u>44.0</u>
Total Dividend for the year	<u>64.4</u>	<u>1.7</u>	<u>66.1</u>

Following the OFWAT enquiry into the performance of YWS, the Company agreed to amendments of its licence conditions, effective from 30 August 1996. In respect of dividends, the company has agreed to pay dividends in accordance with the principles that the Company's ability to finance the regulated business will not be impaired and that under a system of incentive regulation, dividends would be expected to reward efficiency and the management of economic risk.

The directors believe that the dividends payable for the year are in accordance with these principles.

Reserves

An amount of £128.2 million has been transferred to reserves, bringing the balance held in reserves to £1,103.6 million.

Research and development

The company undertakes a major programme of research in pursuit of improvements in service and operating efficiency. In 1996/97 £4.4 million was committed to research and development including £3.3 million on fixed assets for research and development purposes.

Fixed assets

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

Movements in fixed assets are shown in Note 12 to the Accounts and include transfers to Yorkshire Water Estates Limited, which have all been made on the basis of independent external valuations obtained specifically for the purpose and approved by the Office of Water Services. With effect from the 1 April 1996, only those transfers with a value over £500,000 will be subject to approval by the Office of Water Services.

Capital and infrastructure renewals expenditure

Total expenditure on regulated activities during the year amounted to £360.5 million.

Payment of Suppliers

The company's policy on the payment of suppliers is to ensure that all payments are made in accordance with the terms and conditions agreed with suppliers, normally within 42 or 60 days net. For construction contracts, payment terms are covered by the appropriate Conditions of Contract, such as ICE 6th Edition and Model Form of Conditions of Contract for Process Plants (I Chem Eng).

The payment day ratio (the figure, expressed in days, which bears the same proportion to the number of days in the year as the amount owed to trade creditors at the year end bears to the amounts invoiced by suppliers during the year) is 35 days.

Instrument of appointment

Condition F of the company's Instrument of Appointment as a water and sewerage undertaker requires the company to publish regulatory accounting information in a prescribed format in addition to that required for the statutory accounts. This additional information is included on pages 27 to 46. Further copies of these statements can be obtained, free of charge, by writing to Customer Communications, PO Box 201, Broadacre House, Vicar Lane, Bradford, BD1 5PX.

Employees

The company operates a human resource policy which recognises the importance of employee involvement in the significant changes being implemented in the company. There is an extensive communication process with employees and their representatives, including trade unions, to keep employees informed and involved in the change programme.

The company seeks to be an equal opportunity employer by adopting a positive approach to the development of women's potential and by responding to and reflecting the needs of special interest groups, the disabled and ethnic minorities.

The company continues to set and achieve high standards in its health and safety policies and to promote and achieve quality objectives throughout its businesses.

The company has continued to develop facilities - including open access opportunities - for staff to enhance their competence and develop new skills and interests for application in and outside the workplace.

Environmental policy

The company is fully committed to environmental improvement and during 1997 a separate report will be produced on its environmental policy and achievements.

Auditors

Ernst and Young have expressed their willingness to be re-appointed as auditors of the company. A resolution will be proposed at the Annual General Meeting to re-appoint them.

By order of the Board.



D. J. Brimblecombe
Company Secretary

Registered Office:
2 The Embankment
Sovereign Street
Leeds
LS1 4BG.

19 June 1997

Registered in England No. 2366682.

STATUTORY ACCOUNTS

Profit and Loss Account
for the Year Ended 31 March 1997

	<i>Notes</i>	<i>1997</i> £m	<i>1996</i> £m
Turnover - continuing operations			
Operating costs	2	547.4 <u>(318.7)</u>	526.2 <u>(313.9)</u>
Operating profit before exceptional costs		228.7	212.3
Drought costs	2	<u>-</u>	<u>(47.2)</u>
Operating profit		228.7	165.1
Interest	7	<u>(23.4)</u>	<u>(17.1)</u>
Profit before taxation		205.3	148.0
Taxation	8	<u>(11.0)</u>	<u>-</u>
Profit for the year		194.3	148.0
Dividends -restructuring	9	-	(125.0)
-interim	9	(22.1)	(62.5)
-final	9	<u>(44.0)</u>	<u>-</u>
Transfer to / (from) reserves		<u>128.2</u>	<u>(39.5)</u>

All recognised gains and losses are accounted for in the profit and loss account

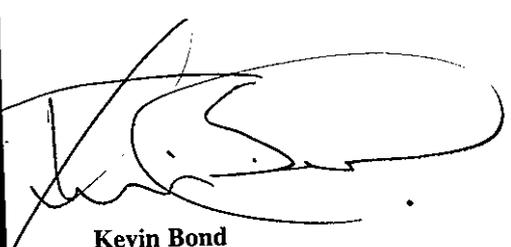
The movement on reserves is shown in Note 23

Balance Sheet

as at 31 March 1997

	Notes	1997 £m	1996 £m
Fixed assets			
Tangible assets	12	2,114.4	1,904.1
Investments	11	0.2	0.2
		<u>2,114.6</u>	<u>1,904.3</u>
Current assets			
Stocks	13	1.3	1.8
Debtors	14	235.1	167.1
		<u>236.4</u>	<u>168.9</u>
Creditors: amounts falling due within one year			
Short term borrowings		(24.4)	(21.3)
Other creditors	17	(199.3)	(177.7)
		<u>(223.7)</u>	<u>(199.0)</u>
Net current (liabilities)/assets		<u>12.7</u>	<u>(30.1)</u>
Total assets less current liabilities		2,127.3	1,874.2
Creditors: amounts falling due after more than one year			
Long term borrowings	15	(512.9)	(357.8)
Other creditors	17	(116.5)	(120.7)
Provisions for liabilities and charges	19	(119.3)	(145.3)
		<u>1,378.6</u>	<u>1,250.4</u>
Capital and reserves			
Called up equity share capital	22	275.0	275.0
Profit and loss account	23	1,103.6	975.4
		<u>1,378.6</u>	<u>1,250.4</u>

Approved by the board and signed on its behalf on 19 June 1997


Kevin Bond
Chairman

Notes to the Accounts

1. ACCOUNTING POLICIES

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

Accounting convention and basis of preparation

These accounts have been prepared under the historical cost convention and, except as disclosed below, in accordance with applicable accounting standards and the Companies Act 1985. Certain comparative figures have been restated in order to correspond to the form of analysis adopted in the current year.

Turnover

Turnover comprises charges to customers for water, sewerage and other services excluding value added tax.

Research and development expenditure

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

Pensions

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the period benefiting from the employees' services.

Taxation

Advance corporation tax in respect of dividends for the year is written off in the profit and loss account unless it can be recovered against mainstream corporation tax in the current or following year.

No provision is made for deferred taxation unless there is a reasonable probability that a liability will occur in the foreseeable future.

Infrastructure assets

Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams and sea outfalls) comprise a network of systems. Increases in capacity or enhancements of the network are treated as additions to fixed assets which are included at cost. Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost.

The charge for infrastructure renewals expenditure takes account of planned expenditure on maintaining the operating capability of infrastructure assets. The methodology used by OFWAT in the July 1994 Periodic Review process and the categorisation of assets required by Regulatory Accounting Guideline 2 (Classification of Infrastructure Expenditure) is applied in setting the charge. The charge reflects the amount which the Company plans to spend, on average, on the maintenance and renewal of infrastructure assets in each of the fifteen years up to 2005. Investment priorities and other operational considerations may result in uneven patterns of infrastructure renewals expenditure. Consequently, charges to the profit and loss account may be adjusted by way of accruals or deferrals, as appropriate, to take account of any significant fluctuations in actual or planned expenditure. Until such accruals are fully utilised, an additional charge to the profit and loss account is made each year to maintain the value of any unexpended balance brought forward from the previous year.

Notes to the Accounts

Fixed assets held under leases

Assets which are financed by leasing agreements that transfer substantially all the risks and rewards of ownership to the company are capitalised and depreciated over the shorter of their estimated useful lives and the term of the lease. However, where the operational life of an asset is longer than the lease term, and the agreement allows an extension to that term, the asset may be depreciated over its operational life. The liability to the leasing company is included within borrowings.

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

Other tangible assets

Other tangible assets are included at cost less accumulated depreciation.

Depreciation

Depreciation is charged, where appropriate, on the original cost of assets on a straight-line basis over the estimated economic lives of the assets. Freehold land is not depreciated. Depreciation is not charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

Depreciation is charged from the date of commissioning of assets and the principal economic lives used are:-

Buildings	30 - 60 years
Fixed plant	20 - 40 years
Vehicles, mobile plant and computers	3 - 10 years

Grants and Contributions

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

Grants and contributions in respect of expenditure enhancing the infrastructure network are applied in reducing that expenditure. This is not in accordance with Schedule 4 to the Companies Act 1985. The presentation is adopted because infrastructure assets, not having a finite economic life, and the related grants and contributions are not amortised and therefore, otherwise, would remain as separate assets and liabilities in perpetuity. The directors consider that the company's presentation shows a true and fair view of the investment in infrastructure assets.

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

Stocks

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

Foreign currencies

Individual transactions denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the dates of the transactions. Assets and liabilities denominated in foreign currency are translated at the rate of exchange prevailing at the balance sheet date.

Accounting standards

The accounts of the company are prepared in compliance with all applicable accounting standards. No Statement of Total Recognised Gains and Losses has been presented because total recognised gains equate to the profit for the year.

Notes to the Accounts

2. OPERATING COSTS

	1997	1996
	£m	£m
Staff costs (see note 9)		
Raw materials and consumables	78.6	79.3
Other external charges	21.1	21.4
Infrastructure renewals charge	162.6	180.8
Depreciation of tangible assets:	33.1	49.8
On owned assets		
On assets held under finance leases	59.1	52.8
Amortisation of grants & contributions	10.3	10.1
Other operating income	(2.8)	(2.4)
Own work capitalised	(3.6)	(2.2)
	<u>(39.7)</u>	<u>(28.5)</u>
	<u>318.7</u>	<u>361.1</u>
Representing:		
Operating costs	318.7	313.9
Drought costs	-	47.2
	<u>318.7</u>	<u>361.1</u>
Other external charges include:		
Drought costs	-	42.4
Research and development	1.1	1.4
Operating lease rentals	0.9	0.7
- plant and equipment		
- other	0.8	0.9
Auditors' remuneration	0.1	0.1
- audit fees and expenses		

Drought costs of £47.2m are included within the above analysis for 1996 in:

Raw materials and consumables	-	3.9
Staff costs	-	0.9
Other external charges	-	42.4

The long-term normalised charge for infrastructure renewals has been reassessed following a review of planned expenditure.

Expenditure is classified as infrastructure renewals in accordance with current Regulatory Accounting Guidelines.

Notes to the Accounts

3. DIRECTORS

Remuneration of the Board	1997			1996		1997	1996
	Salary £000	Bonus payments £000	Benefits in kind £000	Total emoluments excluding pension contributions £000	Total emoluments excluding pension contributions £000	Pension contri- butions £000	Pension contri- butions £000
Chairman:							
K. Bond (appointed 1.4.96)	-	-	-	-	-	-	-
T. Newton (resigned 31.5.96)	-	-	-	-	-	-	-
Directors:							
R. K. Ackroyd (appointed 1.3.96)	79	-	6	85	7	10	1
J. M. Dunlop (resigned 29.2.96)	-	-	-	-	74	-	11
T. Flanders	79	-	7	86	86	9	12
J. Layfield	79	-	7	86	87	9	12
K. Moir (appointed 2.9.96)	41	-	5	46	-	4	-
I. G. Murdoch (resigned 6.4.95)	-	-	-	-	1	-	-
M. Nichols (appointed 20.6.96)	60	-	0	60	-	6	-
A. J. Shuttleworth (resigned 31.3.96)	-	-	-	-	94	-	11
M. Stewart (appointed 18.4.96)	90	-	8	98	-	10	-
C. J. Stones	87	-	8	95	89	10	12
J. M. Taylor (resigned 30.6.95)	-	-	-	-	156	-	3
C. A. Tunley (resigned 6.4.95)	-	-	-	-	7	-	-
A. I. Ward (resigned 30.4.96)	-	-	-	-	113	-	17
	515	0	41	556	714	58	79

The Chairman, Dr K. Bond was an executive director of the holding company, Yorkshire Water plc and his emoluments are shown in the accounts of that company, as were the emoluments for Mr T. Newton for 1995/96.

The directors participated in a profit related pay scheme which is open to all UK employees who have been employed by the group for a minimum period. In 1996/97 this scheme paid £392 to each participant.

The total emoluments for 1996 included £15,000 paid to three of the directors in respect of bonuses earned during that year.

All directors are contributory members of the Water Pension Scheme, a defined benefit scheme, and at 31 March 1997 M. Stewart, the highest paid director, had accrued pension benefit of £9,562.

Notes to the Accounts

4. DIRECTORS' SHARE OPTIONS

	<i>Balance at 1 April 1996</i>	<i>Exercised during year</i>	<i>Lapsed during year</i>	<i>Balance at 31 March 1997</i>	<i>Exercise price (pence)</i>	<i>Market price at date of exercise (pence)</i>	<i>Date options exercisable</i>	<i>Date options expire</i>
R. K. Ackroyd								
Sharesave	1,746	-	-	3492*	207.5*	-	1.3.98	31.8.98
Sharesave	2,536	-	-	5072*	204.0*	-	1.3.00	31.8.00
T. Flanders	-	-	-	-	-	-	-	-
J. Layfield	-	-	-	-	-	-	-	-
M. Nichols								
Sharesave	845	-	-	1690*	204.0*	-	1.3.00	31.8.00
Sharesave	-	-	-	1,322	295.0	-	1.5.00	31.10.00
C. J. Stones								
Sharesave	1,746	-	-	3492*	207.5*	-	1.3.98	31.8.98
Sharesave	2,536	-	-	5072*	204.0*	-	1.3.00	31.8.00

*The number of shares subject to these options were doubled (and the exercise price halved) with effect from 28 February 1997 as a result of the capital reorganisation approved by shareholders on 26 February 1997.

The Chairman, Dr K. Bond was an executive director of the holding company, Yorkshire Water plc and his share options are shown in the accounts of that company.

The market price of the shares subject to these options at 27 March 1997 (the last dealing day before the year end) was 347.5p (1996: 683p or 341.5p adjusted for the share split effected as part of the capital reorganisation) and has ranged from 582.5p to 758p (prior to the capital reorganisation) and from 343.5p to 382.5p (after the capital reorganisation) during the year.

The Sharesave Scheme refers to shares in the holding company, Yorkshire Water Plc and is described in the accounts of that company.

Notes to the Accounts

5. DIRECTORS' SHARE INTERESTS

The interests of the directors who held office at the end of the year, and their immediate families, in the ordinary shares of the holding company, Yorkshire Water Plc, as at 31 March 1997 and at the beginning of the year (or date of appointment if later) are set out below:

	<i>Ordinary Shares of £1 each as at 1 April 1996</i>	<i>Ordinary Shares of £1 each bought/ (sold) in year</i>	<i>Ordinary Shares of £1 each as at 28 Feb 1997</i>	<i>B shares of 36p each sold in year</i>	<i>Ordinary Shares of 15 5/9p each at 31 Mar 1997</i>
R. K. Ackroyd	10,835	(1,700)	9,135	(18,270)	16,443
T. Flanders	-	-	-	-	-
J. Layfield	6,824	(1,400)	5,435	(10,870)	9,782
K. Moir (appointed 2.9.96)	-	-	-	-	-
M. Nichols (appointed 20.6.96)	2,196	107	2,303	(4,606)	4,145
M. Stewart (appointed 18.4.96)	-	-	-	-	-
C. J. Stones	11,357	-	9,134	(18,268)	22,000

The number of shares held at 31 March 1997 and their nominal value were affected by the reorganisation approved by shareholders on 26 February 1997 and for which the record date was 28 February 1997.

The Chairman, Dr K. Bond was an executive director of the holding company, Yorkshire Water plc, and his interests in the ordinary shares of Yorkshire Water Plc are disclosed in the accounts of that company.

At no time during the year has any director had a material interest in a contract with any company in the group, being a contract which was significant in relation to the business of that company.

6. EMPLOYEES

The average number of persons employed by the company during the year was 3,176 (1996: 3,263).

	<i>1997</i>	<i>1996</i>
	<i>£m</i>	<i>£m</i>
Total employment costs:		
Wages and salaries	66.0	65.1
Social security contributions	5.8	5.4
Other pension costs	6.8	8.8
	<hr/>	<hr/>
	78.6	79.3

Notes to the Accounts

7. INTEREST

	1997 £m	1996 £m
Interest payable on:		
Bank loans and overdrafts	8.9	11.6
Other loans	-	0.1
Amounts due to parent company	0.4	0.9
Finance charges in respect of finance leases	16.6	15.7
Other	<u>0.1</u>	<u>0.2</u>
	26.0	28.5
Interest receivable:		
Inter-company loans	(1.5)	(9.8)
Other	<u>(1.1)</u>	<u>(1.6)</u>
	<u>23.4</u>	<u>17.1</u>

8. TAXATION

	1997 £m	1996 £m
Taxation comprises:		
Corporation tax	39.0	-
ACT surrendered	(23.6)	-
Group relief - payment for previously surrendered losses	<u>(4.4)</u>	<u>-</u>
	<u>11.0</u>	<u>-</u>
Prior year adjustments:		
Corporation tax	3.0	-
Group relief receivable	<u>(3.0)</u>	<u>-</u>
	<u>-</u>	<u>-</u>

The surrender of tax losses from previous years has been recompensed as the company is now liable to mainstream corporation tax.

The full potential deferred tax liability on timing differences, calculated using the liability method, at a tax rate of 33% is:

	1997 £m	1996 £m
Accelerated capital allowances	219	210
Unrelieved advance corporation tax	(54)	(63)
Short term timing differences	<u>(45)</u>	<u>(54)</u>
	<u>120</u>	<u>93</u>

This is currently unprovided in the accounts.

Notes to the Accounts

9. DIVIDENDS

	1997 £m	1996 £m
Capital restructuring dividend	-	125.0
First interim dividend	22.1	20.8
Second interim dividend	-	41.7
Proposed final dividend	44.0	-
	<u>66.1</u>	<u>187.5</u>

10. PENSIONS

The holding company operates two funded defined benefit final pay schemes, the Water Mirror Image Pension Scheme (WMIS) and the Water Pension Scheme (WPS).

The employer's contributions and the pensions cost have been assessed in accordance with the advice of the group's actuaries William M Mercer Limited, using the projected unit method for the WPS and the attained age method for the WMIS. For this purpose, the main actuarial assumptions adopted are based upon investment growth 2% greater than the rise in pay levels. Full allowance is also made for increases to pensions and deferred pensions under each scheme.

The last actuarial valuation of the two schemes was carried out at 31 March 1996 and details of the results of this valuation can be found in the accounts of the parent company.

11. INVESTMENTS

	Interests in associated undertakings £m	Other unlisted investments £m	Total £m
At 1 April 1996 and 31 March 1997	-	0.2	0.2

Other unlisted investments

The company owns 14% of the issued share capital of Water Pension Fund Holdings Limited, a company which is incorporated and operates in the UK providing administrative and like services to water company and other pension funds. The company also holds £26,583 of 8% Unsecured Loan Stock and £26,583 of 'A' ordinary shares in Water Research Centre (1989) Plc, which conducts research on behalf of the water industry, and 1000 cumulative redeemable preference shares of £1 each in Capita Managed Services Limited.

Notes to the Accounts

12. TANGIBLE ASSETS

	Land and buildings £m	Infrastructure Assets £m	Plant and equipment £m	Under construction £m	Total £m
Cost					
At 1 April 1996	778.4	645.9	631.2	302.3	2,357.8
Additions	2.5	3.2	4.8	286.6	297.1
Transfers on commissioning	48.7	61.8	88.7	(199.2)	0.0
Disposals	(0.6)	-	(2.9)	(1.8)	(5.3)
Grants and contributions	-	-	-	(16.6)	(16.6)
At 31 March 1997	829.0	710.9	721.8	371.3	2,633.0
Depreciation					
At 1 April 1996	244.8	-	208.9	-	453.7
Disposals	(0.4)	-	(2.3)	(1.8)	(4.5)
Depreciation for the year	18.9	-	48.7	1.8	69.4
At 31 March 1997	263.3	-	255.3	-	518.6
Net book amount at 31 March 1997	565.7	710.9	466.5	371.3	2,114.4
Net book amount at 31 March 1996	533.6	645.9	422.3	302.3	1,904.1
At 31 March 1997 assets included above held under finance leases amounted to:					
Cost	89.6	-	176.0	196.1	461.7
Depreciation	4.8	-	28.3	-	33.1
Net book amount at 31 March 1997	84.8	-	147.7	196.1	428.6
Net book amount at 31 March 1996	74.2	-	126.6	39.7	240.5
	Cost at 31 March 1997 £m	Depreciation at 31 March 1997 £m	Net book value at 31 March 1997 £m		Net book value at 31 March 1996 £m
The net book amount of land and buildings comprised:					
Freehold properties	828.5	263.2	565.3		533.2
Properties held on long lease	0.2	0.0	0.2		0.2
Properties held on short lease	0.3	0.1	0.2		0.2
	829.0	263.3	565.7		533.6

The costs of assets transferred to the former Authority on 1 April 1974 are included in land and buildings. Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets. This is a departure from the Companies Act 1985 requirements and is adopted, as explained in the Accounting Policy note on page 13, in order to show a true and fair view of the investment in infrastructure assets. As a consequence, the net book amount of fixed assets is £64.0 million lower than it would have been had this treatment not been adopted.

Notes to the Accounts

13. STOCKS

	1997	1996
	£m	£m
Raw materials and consumables	1.1	1.5
Work in progress	0.2	0.3
	<u>1.3</u>	<u>1.8</u>

14. DEBTORS

	1997	1996
	£m	£m
Trade debtors	34.2	30.4
Amounts owed by group undertakings	5.3	2.7
Amounts owed by parent company	147.0	90.0
Prepayments and accrued income	43.1	30.4
Other debtors:		
Receivable within one year	5.1	13.1
Receivable after more than one year	0.4	0.5
	<u>235.1</u>	<u>167.1</u>

15. LONG TERM BORROWINGS

	1997	1996
	£m	£m
Maturities		
Repayable between one and two years:		
Bank loans	-	0.1
Finance leases	0.8	0.8
Repayable between two and five years:		
Bank loans	20.0	20.0
Finance leases	-	0.8
Repayable by instalments and maturing after five years:		
Bank loans	50.3	82.3
Other loans	0.4	0.5
Finance leases	441.4	253.3
	<u>512.9</u>	<u>357.8</u>

Notes to the Accounts

16. AGGREGATE BORROWINGS AND CASH

	<i>Bank loans and overdrafts</i> £m	<i>Other loans</i> £m	<i>Finance leases</i> £m	<i>Total</i> £m
Repayments				
Within one year or on demand	18.9	0.1	5.4	24.4
Between one and two years	5.4	-	5.5	10.9
Between two and five years	38.8	0.1	14.7	53.6
After five years	26.0	0.3	422.1	448.4
	89.1	0.5	447.7	537.3
Amounts owed by parent company				(147.0)
Net debt				390.3

As shown above, the net debt as at 31 March 1997 was £390.3m (1996: £289.1m).

Borrowings, any part of which is repayable after five years, have been negotiated at fixed and variable interest rates which at 31 March 1997 ranged between 6.61% and 11.5%.

Security against the revenues of Yorkshire Water Services Ltd has been given on £0.1m (1996: £0.1m) of the above borrowings.

17. OTHER CREDITORS

	1997 £m	1996 £m
Amounts falling due within one year:		
Trade creditors		
Capital creditors	38.1	34.1
Deferred grants and contributions on depreciating fixed assets	51.0	50.3
Amounts owed to parent company - proposed dividend	1.9	2.1
Amounts owed to group undertakings	44.0	41.7
Social security and payroll deductions	1.9	1.2
Taxation	2.6	2.8
Receipts in advance	15.4	-
Other creditors	25.1	30.2
	19.3	15.3
	199.3	177.7
Amounts falling due after more than one year:		
Capital creditors		
Deferred grants and contributions on depreciating fixed assets	2.7	1.9
Other creditors	74.6	82.4
	39.2	36.4
	116.5	120.7

Notes to the Accounts

18. CURRENCY AND INTEREST RATE EXPOSURE AND BORROWING

	<i>Total net borrowings</i>	<i>Fixed rate borrowings</i>	<i>Floating rate borrowings</i>	<i>Cash and deposits</i>	<i>Average interest rate of fixed borrowings</i>	<i>Average years to maturity</i>
	£m	£m	£m	£m	%	years
Sterling	537.3	272.6	251.0	13.7	7.6	6.4

19. PROVISIONS FOR LIABILITIES AND CHARGES

	<i>Infrastructure renewals</i>	<i>Landslip reinstatement</i>	<i>Total</i>
	£m	£m	£m
At 1 April 1996	144.2	1.1	145.3
Expenditure in the year	(58.6)	(0.5)	(59.1)
Charged in profit and loss account	33.1	-	33.1
At 31 March 1997	118.7	0.6	119.3

20. COMMITMENTS

	<i>1997</i>	<i>1996</i>
	£m	£m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	135.0	108.2

In addition Yorkshire Water Services Limited has a long term Asset Management Plan which identifies substantial future capital and infrastructure renewals expenditure.

At 31 March 1997 the company was committed to making the following payments during the next financial year under non-cancellable operating leases with terms as set out below:

	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	<i>1997</i>	<i>1997</i>	<i>1996</i>	<i>1996</i>
	£m	£m	£m	£m
Leases which expire:				
Within one year	0.1	0.4	-	0.3
Between one and five years	0.7	0.1	0.8	0.2
After five years	-	-	-	-
	0.8	0.5	0.8	0.5

Notes to the Accounts

21. CONTINGENT LIABILITIES

The banking arrangements of the company operate on a pooled basis with other group companies and the bank balances of each subsidiary can be offset against each other.

22. CALLED UP SHARE CAPITAL

	<i>Authorised</i>	<i>Allotted and fully paid</i>
At 1 April 1996 and 31 March 1997		
Ordinary shares of £1 each	<u>275,000,000</u>	<u>275,000,000</u>

23. MOVEMENT IN SHAREHOLDER'S FUNDS

	<i>Reserves £m</i>	<i>Share capital £m</i>	<i>Total funds £m</i>
At 1 April 1996	975.4	275.0	1,250.4
Transfer from profit and loss account	<u>128.2</u>	<u>-</u>	<u>128.2</u>
At 31 March 1997	<u>1,103.6</u>	<u>275.0</u>	<u>1,378.6</u>

24. ULTIMATE HOLDING COMPANY

Yorkshire Water plc, which is registered in England and Wales, is the company's ultimate parent company and is the parent undertaking of the largest group to consolidate these accounts. Copies of the group accounts may be obtained from the Company Secretary, Yorkshire Water plc, 2 The Embankment, Sovereign Street, Leeds LS1 4BG.

25. CASHFLOW STATEMENT

The accounts do not include a cashflow statement because the accounts of the holding company contain a cashflow statement in accordance with Financial Reporting Standard 1 (Revised).

26. RELATED PARTY TRANSACTIONS

As a wholly owned subsidiary of Yorkshire Water Plc, where consolidated statutory accounts are publicly available, the company has taken advantage of the exemption provided by Financial Reporting Standard 8 not to report on related party transactions pertaining to companies within the group.

During the year the company purchased management services amounting to £1.4m from Capita, a joint venture between Yorkshire Water Services Ltd and Capita Managed Services Ltd. There were no amounts outstanding at the year end. The transactions were at arm's length and on commercial terms.

Notes to the Accounts

27. SEGMENTAL INFORMATION

The Regulatory Accounting Information, commencing at page 27 of this document, shows a split of the company's activities between the Appointed Business (provision of water and sewerage services) and Non-Appointed Business.

Directors' Responsibilities and Auditors' Report

DIRECTORS' RESPONSIBILITIES

In respect of the preparation of the financial statements

The directors are required by law to present financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit and loss of the company for the financial year.

The directors confirm that appropriate accounting policies, as described in the notes to the accounts, have been applied consistently and that applicable accounting standards have been followed. In addition, reasonable and prudent judgement and estimates have been used in the preparation of the financial statements.

The directors are also responsible for maintaining adequate accounting records, for safeguarding the assets of the company and for ensuring that steps are taken with a view to preventing and detecting fraud and other irregularities.

AUDITORS' REPORT

We have audited the financial statements on pages 10 to 11 and 14 to 25 which have been prepared under the historical cost convention and the accounting policies set out on pages 12 to 13.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 March 1997 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young

Chartered Accountants
and Registered Auditor
Leeds

1 July 1997

Regulatory Accounting Information 1997

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Explanatory note

Pages 28 to 46 include the regulatory accounting information which the company is required to publish under the company's Instrument of Appointment as a water and sewerage undertaker. The information has been prepared in accordance with the requirements of Regulatory Accounting Guidelines issued by the Director General of Water Services.

Historical Cost Profit and Loss Account
for the year ended 31 March 1997

	1997			1996		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
Turnover	544.0	3.4	547.4	522.6	3.6	526.2
Operating costs	(319.6)	(2.7)	(322.3)	(360.5)	(2.8)	(363.3)
Operating income	1.2	-	1.2	1.2	-	1.2
Operating profit	225.6	0.7	226.3	163.3	0.8	164.1
Other income	1.2	1.2	2.4	1.0	-	1.0
Interest payable	(23.4)	-	(23.4)	(17.1)	-	(17.1)
Profit on ordinary activities before taxation	203.4	1.9	205.3	147.2	0.8	148.0
Taxation	(10.8)	(0.2)	(11.0)	-	-	-
Profit on ordinary activities after taxation	192.6	1.7	194.3	147.2	0.8	148.0
Dividends - restructuring	-	-	-	(125.0)	-	(125.0)
- interim	(21.5)	(0.6)	(22.1)	(61.7)	(0.8)	(62.5)
- final	(42.9)	(1.1)	(44.0)	-	-	-
Transfer to / (from) reserves	128.2	-	128.2	(39.5)	-	(39.5)

The accounting policies set out on pages 12 to 13 apply to the historical cost regulatory accounting information.

Historical Cost Balance Sheet

as at 31 March 1997

	1997			1996		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
Fixed assets						
Tangible assets	2,105.8	8.6	2,114.4	1,895.4	8.7	1,904.1
Investments	0.1	0.1	0.2	0.1	0.1	0.2
	<u>2,105.9</u>	<u>8.7</u>	<u>2,114.6</u>	<u>1,895.5</u>	<u>8.8</u>	<u>1,904.3</u>
Current assets						
Stocks	1.3	-	1.3	1.8	-	1.8
Debtors	87.1	1.0	88.1	75.7	1.4	77.1
Short term investments	146.9	0.1	147.0	90.0	-	90.0
	<u>235.3</u>	<u>1.1</u>	<u>236.4</u>	<u>167.5</u>	<u>1.4</u>	<u>168.9</u>
Creditors: amounts falling due within one year						
Borrowings	(24.4)	-	(24.4)	(20.5)	(0.7)	(21.2)
Dividends payable	(42.9)	(1.1)	(44.0)	(41.1)	(0.6)	(41.7)
Other creditors	(152.4)	(1.0)	(153.4)	(132.8)	(1.1)	(133.9)
	<u>(219.7)</u>	<u>(2.1)</u>	<u>(221.8)</u>	<u>(194.4)</u>	<u>(2.4)</u>	<u>(196.8)</u>
Net current assets	<u>15.6</u>	<u>(1.0)</u>	<u>14.6</u>	<u>(26.9)</u>	<u>(1.0)</u>	<u>(27.9)</u>
Total assets less current liabilities	<u>2,121.5</u>	<u>7.7</u>	<u>2,129.2</u>	<u>1,868.6</u>	<u>7.8</u>	<u>1,876.4</u>
Creditors: amounts falling due after more than 1 year						
Borrowings	(512.9)	-	(512.9)	(357.8)	-	(357.8)
Other creditors	(41.9)	-	(41.9)	(38.4)	-	(38.4)
	<u>(554.8)</u>	<u>-</u>	<u>(554.8)</u>	<u>(396.2)</u>	<u>-</u>	<u>(396.2)</u>
Provisions for liabilities and charges	<u>(119.3)</u>	<u>-</u>	<u>(119.3)</u>	<u>(145.3)</u>	<u>-</u>	<u>(145.3)</u>
Deferred income	(68.8)	(7.7)	(76.5)	(76.7)	(7.8)	(84.5)
	<u>1,378.6</u>	<u>-</u>	<u>1,378.6</u>	<u>1,250.4</u>	<u>-</u>	<u>1,250.4</u>
Capital and reserves						
Called up share capital	275.0	-	275.0	275.0	-	275.0
Profit and loss account	1,103.6	-	1,103.6	975.4	-	975.4
	<u>1,378.6</u>	<u>-</u>	<u>1,378.6</u>	<u>1,250.4</u>	<u>-</u>	<u>1,250.4</u>

***Current Cost Profit and Loss Account
for the Appointed Business
for the year ended 31 March 1997***

	<i>Notes</i>	1997 £m	1996 £m
Turnover	5	544.0	522.6
Current cost operating costs	6	(356.3)	(399.9)
Operating income	5	<u>0.4</u>	<u>(0.7)</u>
		188.1	122.0
Working capital adjustment		<u>2.8</u>	<u>-</u>
Current cost operating profit		190.9	122.0
Other income		1.2	1.0
Interest payable		(23.4)	(17.1)
Financing adjustment		<u>11.9</u>	<u>11.3</u>
Current cost profit on ordinary activities before taxation		180.6	117.2
Taxation		<u>(10.8)</u>	<u>-</u>
Current cost profit on ordinary activities after taxation		169.8	117.2
Dividends		<u>(64.4)</u>	<u>(186.7)</u>
Current cost transfer to / (from) reserves		<u>105.4</u>	<u>(69.5)</u>

***Current Cost Balance Sheet
for the Appointed Business
as at 31 March 1997***

	<i>Notes</i>	1997 £m	1996 £m
Fixed assets			
Tangible assets	7	15,168.7	14,627.7
Third party contributions since 1989/90		(146.2)	(134.0)
Working capital	8	<u>(8.7)</u>	<u>(109.5)</u>
Net operating assets		15,013.8	14,384.2
Cash and investments		0.1	0.1
Non-trade debtors		6.8	14.8
Non-trade creditors due within one year		(59.0)	(35.8)
Creditors due after one year		(554.6)	(396.2)
Dividends payable		<u>(42.9)</u>	<u>(41.1)</u>
Net assets employed		<u>14,364.2</u>	<u>13,926.0</u>
Capital and reserves			
Called up share capital		275.0	275.0
Profit and loss account		683.5	578.1
Current cost reserve	9	<u>13,405.7</u>	<u>13,072.9</u>
		<u>14,364.2</u>	<u>13,926.0</u>

Current Cost Cash Flow Statement ***for the year ended 31 March 1997***

		1997			1996		
	Notes	Appointed	Non-	Total	Appointed	Non-	Total
		£m	appointed	£m	£m	appointed	£m
			£m			£m	
Net cash flow from operating activities	<i>10</i>	331.8	2.2	334.0	246.3	1.2	247.5
Returns on investments and servicing of finance							
Interest received		3.1	-	3.1	14.9	-	14.9
Interest paid		(9.8)	-	(9.8)	(13.1)	-	(13.1)
Interest in finance lease rentals		(22.7)	-	(22.7)	(6.0)	-	(6.0)
Net cash flow from returns on investments and servicing of finance		(29.4)	-	(29.4)	(4.2)	-	(4.2)
Taxation							
UK corporation tax paid		-	-	-	-	-	-
Capital expenditure and financing of investment							
Gross cost of purchase of fixed assets		(295.6)	(0.1)	(295.7)	(188.4)	-	(188.4)
Receipt of grants and contributions		8.7	-	8.7	18.6	-	18.6
Infrastructure renewals expenditure		(58.6)	-	(58.6)	(41.7)	-	(41.7)
Disposal of fixed assets		3.6	-	3.6	2.0	-	2.0
Net cash outflow from investing activities		(341.9)	(0.1)	(342.0)	(209.5)	-	(209.5)
Equity dividends paid		(62.6)	(1.2)	(63.8)	(218.4)	(1.0)	(219.4)
Net cash (outflow)/ inflow before financing		(102.1)	0.9	(101.2)	(185.8)	0.2	(185.6)
Financing							
New leasing finance		199.6	-	199.6	65.6	-	65.6
Capital element in finance lease rentals		(8.4)	-	(8.4)	(1.8)	-	(1.8)
Movement in inter-company loans		(57.0)	-	(57.0)	124.6	-	124.6
Repayment of bank loans		(34.9)	-	(34.9)	(2.4)	-	(2.4)
Net cash inflow/ (outflow) from financing		99.3	-	99.3	186.0	-	186.0
Increase/(decrease) in cash		(2.8)	0.9	(1.9)	0.2	0.2	0.4

Notes to the Regulatory Accounting Information

1. ACCOUNTING POLICIES - CURRENT COST INFORMATION

The current cost information has been prepared for the Appointed Business of Yorkshire Water Services Ltd in accordance with guidance issued by the Director General of Water Services for modified real terms financial statements suitable for regulation in the water industry. Profitability is measured on the basis of real financial capital maintenance in the context of assets which are valued at their modern equivalent asset value to the business.

The accounting policies used are the same as those adopted in the statutory historical cost accounts, except as set out below.

Tangible fixed assets

Assets in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for the possible funding of future replacements of assets by contributions from third parties and, to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amount.

The modern equivalent asset values arising from the last Periodic Review are incorporated in the 1996/97 Regulatory Accounting Information.

- *Land and buildings*

Non-specialised operational properties are valued on the basis of open market value for existing use and have been expressed in real terms by indexing using the Retail Price Index (RPI).

Specialised operational properties are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between periodic Asset Management Plan (AMP) reviews by adjusting for inflation as measured by changes in the RPI. The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described below).

- *Infrastructure assets*

Mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls are valued at replacement cost, determined principally on the basis of data provided by the AMP.

Values now reflect the AMP carried out at the last Periodic Review. A process of continuing refinement of asset records is expected to produce adjustments to existing values when periodic reviews of the AMP take place. In the intervening years, values are restated to take account of changes in the general level of inflation, as measured by changes in the RPI over the year.

Notes to the Regulatory Accounting Information

- *Other fixed assets*

All other fixed assets are valued periodically at depreciated replacement cost. Between periodic AMP reviews, values are restated for inflation as measured by changes in the RPI.

- *Surplus land*

Surplus land is valued at recoverable amount, taking into account that part of any proceeds to be passed on to customers under Condition B of the Licence.

Grants and other third party contributions

Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in the RPI for the year and treated as for deferred income.

Real financial capital maintenance adjustments

These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms:

- *Working capital adjustment*

This is calculated by applying the change in the RPI over the year to the opening total of trade debtors and stock less trade creditors and the provision for liabilities and charges.

- *Financing adjustment*

This is calculated by applying the change in the RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital.

2. RING FENCING

In the opinion of the Directors, the company was in compliance with paragraph 3.1 of Condition K of the Instrument of Appointment at the end of the financial year. This relates to the availability of rights and assets.

3. APPOINTED AND NON-APPOINTED BUSINESS

The historical accounting information shows separate figures for Appointed and Non-appointed Business.

The Appointed Business is defined to be the regulated activities of the Appointee, ie. those necessary to fulfil the functions and duties of a water and sewerage undertaker. The Non-appointed Business encompasses those activities for which Yorkshire Water Services is not a monopoly supplier or the activity involves the optional use of an asset owned by the Appointed Business.

4. DIRECTORS' CERTIFICATE

The Directors of the company declare that the company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least 12 months, its regulated activities and sufficient management resources to enable it to carry out its functions.

Notes to the Regulatory Accounting Information

5. ANALYSIS OF TURNOVER AND OPERATING INCOME FOR THE APPOINTED BUSINESS for the year ended 31 March 1997

	1997			1996		
	Water services £m	Sewerage services £m	Appointed Business £m	Water services £m	Sewerage services £m	Appointed Business £m
Turnover						
Measured	92.4	56.1	148.5	90.0	51.8	141.8
Unmeasured	165.8	192.4	358.2	160.3	185.5	345.8
Trade effluent	-	27.7	27.7	-	25.8	25.8
Other sources	1.2	2.2	3.4	1.3	2.2	3.5
Third party services	5.9	0.3	6.2	5.4	0.3	5.7
Total turnover	265.3	278.7	544.0	257.0	265.6	522.6
Operating income						
Current cost profit on fixed assets net of expenses	0.4	-	0.4	0.2	(0.9)	(0.7)
Total operating income	0.4	-	0.4	0.2	(0.9)	(0.7)

Notes to the Regulatory Accounting Information

6. ANALYSIS OF OPERATING COSTS AND ASSETS for the year ended 31 March 1997

	Resources and treatment £m	Distribution £m	Water supply sub total £m
Direct costs			
Employment costs	4.1	6.0	10.1
Power	6.4	6.5	12.9
Agencies	-	-	-
Hired and contracted services	6.4	11.0	17.4
Associated companies	-	-	-
Materials and consumables	4.8	1.7	6.5
Service charges	3.9	0.1	4.0
Bulk supply imports	2.0	-	2.0
Other direct costs	2.4	2.1	4.5
Total direct costs	30.0	27.4	57.4
General and support expenditure	13.6	18.2	31.8
Functional expenditure	43.6	45.6	89.2
Total business activities			14.6
Rates			17.2
Doubtful debts			1.6
Total Opex less third party services			122.6
Third party services - opex			5.9
Total operating expenditure			128.5
Capital costs			
Infrastructure renewals expenditure	11.5	33.2	44.7
Movement in infrastructure renewals accrual/prepayment	(3.7)	(11.8)	(15.5)
Current cost depreciation (allocated)	33.5	10.6	44.1
Amortisation of deferred credits			(1.3)
Business activities current cost depreciation (non-allocated)			0.2
Total Capital Maintenance			72.2
TOTAL OPERATING COSTS			200.7
CCA GROSS MEA VALUES			
Service activities	2,918.6	3,769.3	6,687.9
Business activities			1.0
Service totals			6,688.9
Services for third parties			-
TOTAL			6,688.9

Sewerage £m	Sewage treatment £m	Sludge treatment and disposal £m	Sewage treatment and disposal £m	Sewerage services sub total £m	Customer services £m	Scientific services £m	Cost of regulation £m
0.6	5.5	2.9	8.4	9.0			
1.0	5.2	1.4	6.6	7.6			
8.5	-	-	-	8.5			
0.9	3.6	4.0	7.6	8.5			
-	-	0.1	0.1	0.1			
0.2	2.0	1.3	3.3	3.5			
0.9	2.2	-	2.2	3.1			
-	-	-	-	-			
0.5	1.3	0.5	1.8	2.3			
12.6	19.8	10.2	30.0	42.6	14.8	7.2	1.8
6.0	12.9	5.0	17.9	23.9	3.4	1.6	0.4
18.6	32.7	15.2	47.9	66.5	18.2	8.8	2.2
				14.6			
				8.3			
				1.9			
				91.3			
				0.2			
				91.5			
13.7	0.1	-	0.1	13.8			
(9.8)	(0.1)	-	(0.1)	(9.9)			
5.4	46.6	9.4	56.0	61.4			
				(1.4)			
				0.2			
				64.1			
				155.6			
7,961.5	2,175.7	21.1	2,196.8	10,158.3			
				1.3			
				10,159.6			
				-			
				10,159.6			

Notes to the Regulatory Accounting Information

6. ANALYSIS OF OPERATING COSTS AND ASSETS for the year ended 31 March 1996

	Resources and treatment £m	Distribution £m	Water supply sub total £m
Direct costs			
Employment costs	5.2	7.6	12.8
Power	5.1	7.0	12.1
Agencies	-	-	-
Hired and contracted services	2.1	6.1	8.2
Associated companies	-	0.2	0.2
Materials and consumables	4.0	1.7	5.7
Service charges	3.4	0.1	3.5
Bulk supply imports	2.1	-	2.1
Other direct costs	0.2	0.7	0.9
Total direct costs	22.1	23.4	45.5
General and support expenditure	12.9	19.1	32.0
Functional expenditure	35.0	42.5	77.5
Total business activities			15.9
Rates			16.4
Doubtful debts			2.1
Exceptional items			47.2
Total Opex less third party services			159.1
Third party services - opex			7.1
Total operating expenditure			166.2
Capital costs			
Infrastructure renewals expenditure	5.8	25.8	31.6
Movement in infrastructure renewals accrual/prepayment	2.1	8.7	10.8
Current cost depreciation (allocated)	28.6	11.6	40.2
Amortisation of deferred credits			(1.0)
Business activities current cost depreciation (non-allocated)			0.2
Total Capital Maintenance			81.8
TOTAL OPERATING COSTS			248.0
CCA GROSS MEA VALUES			
Service activities	2,726.6	3,615.3	6,341.9
Business activities			1.1
Service totals			6,343.0
Services for third parties			-
TOTAL			6,343.0

Sewerage £m	Sewage treatment £m	Sludge treatment and disposal £m	Sewage treatment and disposal £m	Sewerage services sub total £m	Customer services £m	Scientific services £m	Cost of regulation £m
0.5	5.7	3.0	8.7	9.2			
0.8	5.6	1.2	6.8	7.6			
8.9	-	-	-	8.9			
0.5	2.5	3.5	6.0	6.5			
-	-	0.1	0.1	0.1			
0.1	2.0	1.4	3.4	3.5			
0.9	2.1	-	2.1	3.0			
-	-	-	-	-			
0.2	0.4	0.2	0.6	0.8			
<hr/>							
11.9	18.3	9.4	27.7	39.6	13.9	6.8	1.7
4.4	13.2	5.1	18.3	22.7	4.5	1.9	0.5
<hr/>							
16.3	31.5	14.5	46.0	62.3	18.4	8.7	2.2
				13.4			
				6.1			
				2.0			
				-			
				83.8			
				0.3			
				84.1			
9.2	0.9	-	0.9	10.1			
(2.7)	-	-	-	(2.7)			
5.6	45.0	10.8	55.8	61.4			
				(1.2)			
				0.2			
				67.8			
				151.9			
<hr/>							
7,761.9	2,059.4	2.3	2,061.7	9,823.6			
				1.1			
				9,824.7			
				-			
				9,824.7			
<hr/>							
				9,824.7			

Notes to the Regulatory Accounting Information

7. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE as at 31 March 1997

	Specialised operational assets £m	Non- specialised operational properties £m	Infrastructure assets £m	Other tangible assets £m	Total £m
WATER SERVICES					
Gross replacement cost					
At 1 April 1996	1,102.3	15.4	4,990.6	234.7	6,343.0
RPI adjustment	26.4	0.4	119.8	5.6	152.2
Disposals	(0.3)	(0.3)	-	(1.6)	(2.2)
Additions	77.3	1.1	108.8	8.7	195.9
At 31 March 1997	1,205.7	16.6	5,219.2	247.4	6,688.9
Depreciation					
At 1 April 1996	353.7	1.3	-	33.2	388.2
RPI adjustment	8.5	-	-	0.8	9.3
Disposals	(0.2)	(0.1)	-	(1.3)	(1.6)
Charge for year	31.7	0.1	-	12.6	44.4
At 31 March 1997	393.7	1.3	-	45.3	440.3
Net book amount at 31 March 1997	812.0	15.3	5,219.2	202.1	6,248.6
Net book amount at 1 April 1996	748.6	14.1	4,990.6	201.5	5,954.8
SEWERAGE SERVICES					
Gross replacement cost					
At 1 April 1996	2,009.3	28.0	7,487.8	299.6	9,824.7
RPI adjustment	48.2	0.7	179.7	7.2	235.8
Disposals	(0.3)	(0.2)	-	(1.6)	(2.1)
Additions	79.9	1.1	11.5	8.7	101.2
At 31 March 1997	2,137.1	29.6	7,679.0	313.9	10,159.6
Depreciation					
At 1 April 1996	1,116.4	4.3	-	31.1	1,151.8
RPI adjustment	26.8	0.1	-	0.8	27.7
Disposals	(0.2)	(0.1)	-	(1.3)	(1.6)
Charge for year	51.4	0.2	-	10.0	61.6
At 31 March 1997	1,194.4	4.5	-	40.6	1,239.5
Net book amount at 31 March 1997	942.7	25.1	7,679.0	273.3	8,920.1
Net book amount at 1 April 1996	892.9	23.7	7,487.8	268.5	8,672.9

Notes to the Regulatory Accounting Information

7. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE (continued) as at 31 March 1997

	Specialised operational assets £m	Non- specialised operational properties £m	Infrastructure assets £m	Other tangible assets £m	Total £m
TOTAL					
Gross replacement cost					
At 1 April 1996	3,111.6	43.4	12,478.4	534.3	16,167.7
RPI adjustment	74.6	1.1	299.5	12.8	388.0
Disposals	(0.6)	(0.5)	0.0	(3.2)	(4.3)
Additions	157.2	2.2	120.3	17.4	297.1
At 31 March 1997	3,342.8	46.2	12,898.2	561.3	16,848.5
Depreciation					
At 1 April 1996	1,470.1	5.6	-	64.3	1,540.0
RPI adjustment	35.3	0.1	-	1.6	37.0
Disposals	(0.4)	(0.2)	-	(2.6)	(3.2)
Charge for year	83.1	0.3	-	22.6	106.0
At 31 March 1997	1,588.1	5.8	-	85.9	1,679.8
Net book amount at 31 March 1997	1,754.7	40.4	12,898.2	475.4	15,168.7
Net book amount at 1 April 1996	1,641.5	37.8	12,478.4	470.0	14,627.7

Notes to the Regulatory Accounting Information

8. WORKING CAPITAL

	1997 £m	1996 £m
Stocks	1.3	1.8
Trade debtors	33.4	29.3
Trade creditors	(37.3)	(33.2)
Short term capital creditors	(51.0)	(50.2)
Infrastructure renewals (accrual)/prepayment	(118.7)	(144.2)
Landslip reinstatement	(0.6)	(1.1)
Trade payments in advance	(25.1)	(30.2)
Payroll related taxes & DSS contributions	(2.6)	(2.8)
Group trade debtors/(creditors)	150.2	91.6
Prepayments	41.7	29.5
	<hr/>	<hr/>
	(8.7)	(109.5)

9. MOVEMENT ON CURRENT COST RESERVE

	1997 £m	1996 £m
Balance at 1 April 1996	13,072.9	12,207.8
AMP adjustment	-	428.6
RPI adjustments		
Fixed assets	351.0	451.0
Working capital	(2.8)	-
Financing	(11.9)	(11.3)
Grants & third party contributions	(3.5)	(3.2)
	<hr/>	<hr/>
Balance at 31 March 1997	13,405.7	13,072.9

Notes to the Regulatory Accounting Information

10. RECONCILIATION OF APPOINTED BUSINESS OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	1997 £m	1996 £m
Current cost operating profit	190.9	122.0
Working capital adjustment	(2.8)	-
Change in stocks	0.5	2.2
Receipts from other income	1.2	1.0
Current cost depreciation	103.2	99.8
Current cost loss / (profit) on sale of assets	(0.4)	1.8
Increase in debtors and prepaid expenses	1.7	(4.7)
(Decrease) / increase in creditors and accrued expenses	4.9	(24.5)
Infrastructure renewals expenditure	58.6	41.7
Increase / (decrease) in provisions	(26.0)	7.0
	<hr/>	<hr/>
Net cash flow from operating activities	<u>331.8</u>	<u>246.3</u>

11. ANALYSIS OF NET DEBT

	At 31 Mar 1996 £m	Cash flow £m	At 31 Mar 1997 £m
Cash in hand and bank	-		
Overdrafts	11.8	1.9	13.7
Loans due after one year	7.9	(2.6)	5.3
Loans due within one year	102.9	(32.3)	70.6
Finance leases	256.5	191.2	447.7
Inter-company loan	(90.0)	(57.0)	(147.0)
	<hr/>	<hr/>	<hr/>
Total net debt	<u>289.1</u>	<u>101.2</u>	<u>390.3</u>
Appointed Business	288.4	102.0	390.4
Non - Appointed Business	0.7	(0.8)	(0.1)
	<hr/>	<hr/>	<hr/>
Total net debt	<u>289.1</u>	<u>101.2</u>	<u>390.3</u>

Notes to the Regulatory Accounting Information

12. CURRENT COST PROFIT AND LOSS ACCOUNT FOR THE APPOINTED BUSINESS - ROLLING SUMMARY

	1997 £m	*1996 £m	*1995 £m	*1994 £m	*1993 £m
Turnover	544.0	535.1	525.0	522.0	504.4
Current cost operating costs	(356.3)	(409.5)	(404.3)	(396.9)	(379.0)
Operating income	<u>0.4</u>	<u>(0.7)</u>	<u>0.8</u>	<u>6.3</u>	<u>1.1</u>
Working capital adjustment	<u>188.1</u>	<u>124.9</u>	<u>121.5</u>	<u>131.4</u>	<u>126.5</u>
	<u>2.8</u>	<u>0.0</u>	<u>1.2</u>	<u>1.1</u>	<u>0.4</u>
Current cost operating profit	190.9	124.9	122.7	132.5	126.9
Other income	1.2	1.0	1.2	1.0	0.9
Interest receivable/(payable)	(23.4)	(17.5)	(10.9)	(14.8)	(13.3)
Financing adjustment	<u>11.9</u>	<u>11.6</u>	<u>12.9</u>	<u>8.1</u>	<u>5.3</u>
Current cost profit before taxation	180.6	120.0	125.9	126.8	119.8
Taxation	<u>(10.8)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Current cost profit on ordinary activities	169.8	120.0	125.9	126.8	119.8
Dividends	<u>(64.4)</u>	<u>(191.2)</u>	<u>(120.7)</u>	<u>(64.5)</u>	<u>(61.3)</u>
Current cost transfer (from)/ to reserves	<u>105.4</u>	<u>(71.2)</u>	<u>5.2</u>	<u>62.3</u>	<u>58.5</u>

* Figures for years prior to 1996/97 have been restated into pounds of the latest year using RPI indexation.

Notes to the Regulatory Accounting Information

13. CURRENT COST BALANCE SHEET FOR THE APPOINTED BUSINESS - ROLLING SUMMARY

	1997 £m	*1996 £m	*1995 £m	*1994 £m	*1993 £m
Fixed assets					
Tangible assets	15,168.7	15,008.0	14,404.2	14,459.6	14,345.5
Third party contributions since 1989/90	(146.2)	(137.5)	(123.5)	(111.3)	(77.0)
Working capital	<u>(8.7)</u>	<u>(112.3)</u>	<u>(0.8)</u>	<u>(34.9)</u>	<u>(45.9)</u>
Net operating assets	15,013.8	14,758.2	14,279.9	14,313.4	14,222.6
Cash and investments	0.1	0.1	0.1	0.1	1.5
Non-trade debtors	6.8	15.2	17.7	9.3	11.8
Non-trade creditors due within one year	(59.0)	(36.7)	(22.9)	(0.4)	(11.5)
Creditors due after one year	(554.6)	(406.5)	(358.6)	(345.8)	(323.8)
Dividends payable	<u>(42.9)</u>	<u>(42.2)</u>	<u>(76.7)</u>	<u>(43.2)</u>	<u>(41.1)</u>
Net assets employed	<u>14,364.2</u>	<u>14,288.1</u>	<u>13,839.5</u>	<u>13,933.4</u>	<u>13,859.5</u>
Capital and reserves					
Called up share capital	275.0	282.2	289.9	300.0	306.9
Profit and loss account	683.5	593.1	682.6	701.2	653.2
Current cost reserve	<u>13,405.7</u>	<u>13,412.8</u>	<u>12,867.0</u>	<u>12,932.2</u>	<u>12,899.4</u>
	<u>14,364.2</u>	<u>14,288.1</u>	<u>13,839.5</u>	<u>13,933.4</u>	<u>13,859.5</u>

* Figures for years prior to 1996/97 have been restated into pounds of the latest year using RPI indexation.

Auditors' Report on the Regulatory Accounting Information

To the Director General of Water Services

We have audited the regulatory financial statements on pages 28 to 45.

Respective Responsibilities of directors and auditors

As described on page 26, the company's directors are responsible for the preparation of the regulatory financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the regulatory financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the regulatory financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

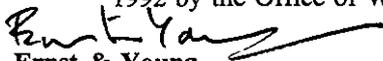
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the regulatory financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the regulatory financial statements in terms of generally accepted accounting principles, the Regulatory Accounting Guidelines and consistency with the statutory accounts.

Opinion

In our opinion, the regulatory financial statements contain the information for the year to 31 March 1997 required to be published and submitted to you by Yorkshire Water Services Limited to comply with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as a water and sewerage undertaker under the Water Industry Act 1991.

In respect of this information, we report that in our opinion:

- (a) proper accounting records have been kept by the Appointee as required by paragraph 3 of Condition F of the Instrument;
- (b) the information is in agreement with the Appointee's accounting records, complies with the requirements of Condition F of the Instrument and has been properly prepared in accordance with the Regulatory Accounting Guidelines issued by the Office of Water Services;
- (c) the summarised financial statements on pages 28 to 29 have been properly prepared from the financial statements set out on pages 10 to 24 and, in conjunction therewith give, under the historical cost convention, a true and fair view of the revenues, costs, assets and liabilities of the Appointee and its Appointed Business; and
- (d) the current cost financial information on pages 30 to 32 and 35 to 45 has been properly prepared in accordance with the Regulatory Accounting Guideline 1, Accounting for Current Costs issued in May 1992 by the Office of Water Services.


Ernst & Young
Chartered Accountants
and Registered Auditor
Leeds

1 July 1997