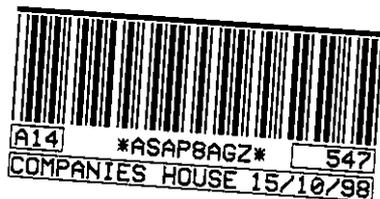


YORKSHIRE WATER SERVICES LIMITED

Registered Number: 2366682

ANNUAL REPORT AND ACCOUNTS

For the year ended
31 March 1998



ANNUAL REPORT AND ACCOUNTS 1998

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OPERATING REVIEW

Financial Performance

The agreement with OFWAT not to increase charges to customers by more than the rate of inflation from 1 April 1997 and continuing economy in the use of water by existing measured customers, restricted the increase in turnover in the year. The success of the domestic metering programme is also estimated to have reduced the company's income by £11.2 million. In consequence, regulated water services turnover increased by only 0.6% to £547.1 million.

Operating profit was similarly affected as well as being subject to the continuing upward pressure on operating costs from the capital investment programme and customer service improvements. Provision for additional one off costs totalling £7.7 million, including £3.4 million in respect of Year 2000 modification costs, has also been made. However, non-recurring operating cost credits totalling £5.0 million and the ongoing cost reduction programme resulted in operating profit being only 4.1% lower at £219.4 million .

The previous year's high levels of capital expenditure and spending on the underground infrastructure were maintained. Total capital investment was £350.1 million in the year (1997: £360.5 million) and it is expected that a similar level of investment in service improvements will be maintained in the current year. Net cash flow from operating activities was insufficient to fund this level of investment and borrowing within the regulated water services business increased accordingly.

Operating Performance

The additional investment, now complete, of more than £200 million, to improve the flexibility of the region's water supply network, gives us one of the most advanced water grids in the UK and significantly reduces the risk of future problems related to the availability of water.

Our major leakage reduction programme is helping to tackle the problems caused by the vast and ageing system of water mains inherited in 1989. Leakage has been reduced from 420 MI/d in 1996/97 to 368 MI/d and the company is on course to achieve the OFWAT target of 363 MI/d for 1998/99. Between 1995 and 2000, leakage is targeted to be reduced by over a third, enough to supply the daily needs of a city the size of Leeds.

We are also continuing to pursue a range of water conservation initiatives and projects. Our free repair service for customers' supply pipes and Freephone 'Leakline' have proved to be successful, with around 25,000 repairs effected during the year. We have also developed, in partnership with the Groundwork Trust, education material for use in the region's schools, and have a Speakers Panel of employee volunteers who give talks to interested parties.

Due to the combination of these factors, and our pipework renewal programme, we have been able to improve our standard of service for the frequency of hosepipe bans from 1 in 8 years to around 1 in 16 years for the majority of customers. There have been no water use restrictions for customers anywhere in the region since November 1996.

The most recent OFWAT Levels of Service Report for 1996/97, published in November 1997 acknowledges the good progress the company has made in improving both its clean and waste water services.

In 1997/98 the number of properties with unsatisfactory mains pressure has been reduced by half, from 12,618 last year to 6,306. The improved performance was delivered by effective capital expenditure and improved water supply network management. Similar significant improvements have been made for properties with unplanned interruptions to supply lasting over 12 hours. These were reduced by 60% from 2,584 properties last year to 1,030 properties this year, below the target agreed with OFWAT for 1999/2000.

The quality of the drinking water we supply is of a high standard with 99.7% of the half million quality checks carried out during 1997 meeting all European and UK standards.

During the year the company is pleased to report that it has not had to issue any boil notices to customers through contamination of treated water supplies by the cryptosporidium parasite. We will continue to look at additional work, using the latest available technology, to reduce any risk of future contamination even further.

Steps have also been taken to improve the management of the region's sewer network following the decision last year to terminate agency agreements with 21 different local authorities and take in-house the task of managing Yorkshire's 30,000 kilometre sewer network.

When judging our sewerage service performance OFWAT recognise the fact that our region has three times more properties with cellars than most other parts of the country and, when allowance is made for this, our performance compares well with other companies. We continue to reduce the number of properties at risk of flooding from overloaded sewers and we have also reduced the number of properties affected from sewer flooding due to blockages, sewer collapses or pumping station failures from 716 last year to 507 this year.

We are also steadily improving performance in responding to the 1.8 million telephone calls answered a year, and have a policy of responding to all written operational and billing issues within a maximum of 10 days. The number of written complaints that we receive is decreasing, as is the number of complaints made to OFWAT about a failure of service on our part.

To achieve further improvements by 1999/2000, we are continuing to improve our Customer Call Centre, including the provision of extra telephone and communications capacity.

We also launched a 'Business Commitment' initiative during the year, which markets to our larger business customers a range of value added services and products, such as a leak detection service, waste minimisation advice and a dedicated account manager as a single point of contact with the company.

Although there is still more to be done, our recent success in improving service performance can be attributed to a variety of factors, including a better understanding of our customers' needs, more effective investment, better operating practices, the increased use of information technology and the commitment and hard work of our people. We will continue to strive to deliver even higher standards in the future.

Improving Environmental Compliance

Almost half of our investment programme relates to sewage treatment. Our "RiverCare" programme is modernising sewage works and tackling years of under-investment before privatisation. We are targeting improvements to sewers and combined sewer overflows in order to prevent untreated sewage being discharged to rivers during storms. New sewage works are being built or refurbished to treat more sewage to an even higher standard. In its latest report, the Environment Agency, which monitors treated waste water discharged into rivers, reported that more than 238 kilometres of rivers in our region had improved to Class A standard. In some parts of our most polluted rivers, like the Aire, Calder, Don and Rother, fish are returning in numbers for the first time since the Industrial Revolution.

New, tighter standards for treated waste water discharges mean even more improvements will have to be delivered. Major investment schemes now underway close to heavily industrialised urban areas, such as the new £50 million Huddersfield sewage treatment works, will help towards compliance with any likely new or anticipated legislation. We also aim to work in partnership with industry to ensure environmental benefits are sustained and improved even further.

In December 1997, we received planning permission from the Hull City and East Riding of Yorkshire Councils for a new £200 million sewage treatment works for the Hull area. Our 'Humbercare' scheme will be one of the largest engineering projects of its kind undertaken anywhere in Europe and will help to protect the environment of the Humber estuary in the long term. Work on this project is already underway and we expect to complete construction by December 2000.

Work is also underway on our £120 million "CoastCare" programme, which includes plans to build modern treatment works, including the latest ultra-violet disinfection, at Yorkshire's popular east coast resorts of Scarborough, Bridlington, Filey and Whitby. This investment will greatly improve the amenity value of the Yorkshire coastline and the bathing waters for the local communities and holidaymakers.

Our total spending on improvements to the region's water and waste water services over the next two years equates to over £1 million every day and will mean that investment in the 1990's will be double that of the 1980's.

Strategy

Following a detailed strategic review of the core business, a major change programme is now underway to transform the structure of Yorkshire Water Services. This will provide a sharper focus and address the key issues facing the company.

We have a number of competing stakeholders and the interests of these must be balanced by the company. Increased regulatory pressures and higher expectations of service standards and product quality from customers form part of this pressure. We must also take into account the increased pressure on capital employed as a result of our substantial investment programme, and the longer term impact of price regulation post the review of prices in April 2000.

Service - Compliance - Value

With effect from 1 April 1998, the business has been restructured into two distinct operational business units, water and waste water, reflecting our two core services to customers. This framework will provide the focus for further improvements in operational efficiency.

Our aim is to make Yorkshire Water Services a water sector leader. The new management team have developed and are fully committed to three strategic objectives, 'Service, Compliance, Value' to reconcile and balance conflicting demands. For service, our target is to be in the top three for our sector against all our regulatory standard measures by 2000. Our objective, irrespective of monopoly status, is to be perceived as the 'supplier of choice'. For compliance, our target is to improve our environmental performance and to move progressively towards zero prosecutions and zero non-compliance through the effective management of risk. For value, we aim to deliver further capital and operational efficiencies to maintain current margins.

We have a comprehensive communication programme to involve and engage all employees in this change programme as we continue to develop our future vision for the business.

The Periodic Review of Prices

In 1999, OFWAT, our industry regulator, will set revised price limits for water and sewerage services from 1 April 2000. We are currently preparing a submission of proposals to OFWAT covering future levels of capital expenditure that will be required to meet regulatory and customer demands. This will take into account how much it will cost to run services as they are at present, and how much more should be invested in future.

Since privatisation, customer bills in Yorkshire have risen at a lower percentage than any of the other principal water companies. This has been achieved, in part, by effective management of operating costs, though future efficiencies will be harder to achieve in view of the progress we have already made.

In the five years to 2000, we will have completed a £1.8 billion investment programme to maintain and improve services. However, new environmental legislation will place a heavy demand on future investment for which choices will have to be made.

We are currently undertaking a major customer consultation programme to ensure customers have the opportunity to give us their views on future service priorities. This programme includes detailed consultations with organisations, representations to the community in the region, open days at our works, roadshows in a number of locations, and customer research by telephone and personal interview. This will help us formulate our final submission to OFWAT in April 1999.

DIRECTORS' REPORT

The Directors have pleasure in presenting their ninth report, for the year 1 April 1997 to 31 March 1998.

Share Capital

During the year the company's share capital increased by £500m to £775m in shares of £1 each fully paid, all of which is held by Yorkshire Water plc and its nominees. As a capital restructuring dividend of £500m was paid to Yorkshire Water plc, the increase in the share capital of the company had a neutral overall effect on the shareholder's funds and net debt position in the balance sheet of the company.

Principal Activities

The principal activity of the company is the provision of drinking water and waste water 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
Jonson Cox	Managing Director
Richard Ackroyd	
Tracy Flanders	
Andy Hinton	(appointed 1 October 1997)
John Layfield	
Karen Moir	
Clive Stones	
Kevin Whiteman	(appointed 3 November 1997)

Non-executive Directors

Charles Brandon Gough	(appointed 1 September 1997)
Elizabeth Kerry	(appointed 1 September 1997)
Derek Roberts	(appointed 1 September 1997)

Margot Nichols and Margaret Stewart resigned as directors of the company on 7 May 1997 and 27 January 1998 respectively.

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

Financial Results for the year

Profit on ordinary activities was £181m, and there were no exceptional costs reported in the year.

Dividends

The total dividend for the year of £595.3m, payable to the parent company, Yorkshire Water plc, comprises the following:

	Regulated Activities £m	Non-regulated Activities £m	Total Dividend £m
Restructuring dividend	500.0	0.0	500.0
Interim dividend	22.6	0.3	22.9
Proposed final dividend	<u>72.3</u>	<u>0.1</u>	<u>72.4</u>
Total dividend for the year	<u>594.9</u>	<u>0.4</u>	<u>595.3</u>

In order to reorganise the holding of distributable reserves in the Yorkshire Water group, a capital restructuring dividend of £500m was paid in July 1997. This dividend was conditional upon Yorkshire Water plc subscribing for 500,000,000 ordinary shares of £1 each in the capital of the company for cash at par. This had a neutral overall effect on the shareholder's funds and net debt position in the balance sheet of the company.

The company's dividend policy is to deliver real growth in dividends recognising the management of economic risks, the continuing need for investment of profits in the business and to pay additional dividends which reflect efficiency improvements, and particularly improvements beyond those assumed in the determination of price limits.

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

Reserves

An amount of £414.3m has been transferred from reserves, bringing the balance held in reserve to £689.3m.

Research & Development

The company undertakes a major programme of research in pursuit of improvements in service and operating efficiency. In 1997/98 £4.9m was committed to research and development including £3.5m 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. As reported last year, with effect from 1 April 1996, only those transfers with a value of 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 £350.1m.

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 (ICChemEng).

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 46 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 Yorkshire Water Publicity Department, Buttershaw, Halifax Road, Bradford, BD6 2LZ.

Employees

The company's human resource policy recognises the importance of employee involvement. There is an extensive consultation and communication process with employees and their representatives, including trade unions, to keep employees informed and involved. The company seeks to be an equal opportunity employer by responding to, and respecting the needs of, special interest groups, the disabled and ethnic minorities. It continues to set and achieve high standards in its health and safety policies. The company has continued to encourage staff to enhance their competence and develop new skills.

Community Projects

During the year the company provided support to a wide range of voluntary and charitable organisations in the areas in which it operates via its community investment programme. Support is provided through financial assistance, gifts in kind and professional expertise through secondment and advice. The company is a member of the Per Cent Club.

Year 2000

Many computer systems store or process information using only the last two digits of the year and will therefore require modification or replacement in order to avoid malfunctions and disruption from the Year 2000 and beyond.

A wide ranging assessment programme to identify risks associated with the Year 2000 problem has been completed. Risks identified have been prioritised based on the impact of failure. Risks given high priority include protection of public health, business continuity and safety of employees. The company has comprehensive project plans in place to address the issues identified and is seeking to work towards the British Standards Institution BSI/DISC/PD2000/1 definition of Year 2000 conformity. The majority of systems and equipment will have been assessed, and modified or replaced, by December 1998. The project plans includes confirming key customer and supplier compliance.

The total cost of the plans is estimated at £4.5m and £1.4m has been spent in 1997/98, of which £1.2m has been charged to the profit and loss account and £0.2m capitalised. The majority of the further expenditure is also expected to be written off and a provision of £2.2m, charged to the profit and loss account, has been made at 31 March 1998 accordingly.

Environmental Policy

The company is fully committed to environmental improvements and during 1998 a separate report will be produced on its environmental policy and achievements.

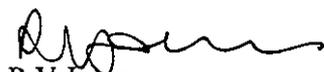
Going Concern

After making enquiries, the directors have a reasonable expectation, given the nature of the regulated water services business, that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Auditors

A resolution will be proposed at the Annual General Meeting of the company to re-appoint Ernst & Young as auditors of the company and to authorise the directors to determine their remuneration.

By order of the Board.



R V Jones
Company Secretary
22 June 1998

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

Registered in England Number 2366682

STATUTORY ACCOUNTS

Profit and Loss Account
for the Year Ended 31 March 1998

	<i>Notes</i>	1998 £m	1997 £m
Turnover - continuing operations		549.1	547.4
Operating costs	2	<u>(329.7)</u>	<u>(318.7)</u>
Operating profit		219.4	228.7
Interest	7	<u>(27.5)</u>	<u>(23.4)</u>
Profit before taxation		191.9	205.3
Taxation	8	<u>(10.9)</u>	<u>(11.0)</u>
Profit for the year		181.0	194.3
Dividends -restructuring	9	(500.0)	-
-interim	9	(22.9)	(22.1)
-final	9	<u>(72.4)</u>	<u>(44.0)</u>
Transfer (from) / to reserves	23	<u>(414.3)</u>	<u>128.2</u>

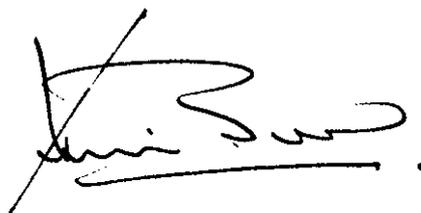
Statement of Recognised Gains and Losses

There are no other recognised gains and losses arising other than the profit for the year of £181.0m (1997: £194.3m).

Balance Sheet
as at 31 March 1998

	Notes	1998 £m	1997 £m
Fixed assets			
Tangible assets	12	2,316.5	2,114.4
Investments	11	0.2	0.2
		<u>2,316.7</u>	<u>2,114.6</u>
Current assets			
Stocks	13	1.3	1.3
Debtors	14	320.4	235.1
		<u>321.7</u>	<u>236.4</u>
Creditors: amounts falling due within one year			
Short term borrowings	16	(24.7)	(24.4)
Other creditors	17	(254.3)	(199.3)
		<u>(279.0)</u>	<u>(223.7)</u>
Net current (liabilities)/assets		<u>42.7</u>	<u>12.7</u>
Total assets less current liabilities		2,359.4	2,127.3
Creditors: amounts falling due after more than one year			
Long term borrowings	15	(673.7)	(512.9)
Other creditors	17	(135.3)	(116.5)
Provisions for liabilities and charges	19	(86.1)	(119.3)
		<u>1,464.3</u>	<u>1,378.6</u>
Capital and reserves			
Called up equity share capital	22	775.0	275.0
Profit and loss account	23	689.3	1,103.6
		<u>1,464.3</u>	<u>1,378.6</u>

Approved by the board and signed on its behalf on 22 June 1998



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.

Notes to the Accounts

Accounting standards

The accounts of the company are prepared in compliance with all applicable accounting standards.

2. OPERATING COSTS

	1998 £m	1997 £m
Wages and salaries	70.8	66.0
Social security costs	5.5	5.8
Other pension costs	6.8	6.8
Raw materials and consumables	20.0	21.1
Other external charges	141.2	159.8
Research and development	1.3	1.1
Operating lease rentals		
- plant and equipment	1.3	0.9
- other	0.8	0.8
Infrastructure renewals charge	34.2	33.1
Depreciation of tangible assets:		
- on owned assets	70.9	59.1
- on assets held under finance leases	11.4	10.3
Amortisation of grants & contributions	(2.8)	(2.8)
Year 2000 modification costs	3.4	-
Other operating income	(3.7)	(3.6)
Own work capitalised	(31.4)	(39.7)
	<u>329.7</u>	<u>318.7</u>
Auditor's remuneration		
Statutory audit fees and expenses	0.1	0.1
Non-audit work	0.1	-
	<u>0.2</u>	<u>0.1</u>
Employees		
The average number of persons employed by the company during the year was:	<u>3,208</u>	<u>3,176</u>

Notes to the Accounts

3. DIRECTORS

Remuneration of the Board	1998			1997		1998	1997
	Salary payments £000	Bonus £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	-	-	-	-	-	-	-
Directors:							
R. K. Ackroyd	83	15	8	106	85	7	10
J. Cox	-	-	-	-	-	-	-
T. Flanders	82	15	8	105	86	7	9
C. B. Gough (appointed 1.9.97)	-	-	-	-	-	-	-
A. P. Hinton (appointed 1.10.97)	38	9	4	51	-	3	-
E. A. Kerry (appointed 1.9.97)	9	-	-	9	-	-	-
J. R. Layfield	81	15	7	103	86	6	9
M. K. Moir (appointed 2.9.96)	78	14	9	101	46	6	4
M. Nichols (resigned 7.5.97)	64	-	1	65	60	-	6
D. F. Roberts (appointed 1.9.97)	-	-	-	-	-	-	-
M. Stewart (resigned 27.1.98)	73	20	6	99	98	6	10
C. J. Stones	94	16	9	119	95	7	10
K. I. Whiteman (appointed 3.11.97)	33	6	3	42	-	3	-
	635	110	55	800	556	45	58

The Chairman, K. Bond, and the Managing Director, J. Cox, were executive directors of the holding company, Yorkshire Water plc, and their emoluments are shown in the accounts of that company. Similarly, C. B. Gough and D. Roberts were non-executive directors of the holding company and their emoluments are also shown in those accounts.

All the directors of the company have in principle agreed to new service contracts, which are rolling twelve month contracts (previously on a two year basis). These determine eligibility to join the company bonus scheme.

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 1997/98 this scheme paid £426 to each participant.

Salary amount for M. Nichols includes £56,000 relating to other non-pensionable payments made on resignation from the Board.

During 1997/98, all executive directors were contributory members of the Water Pension Scheme, a defined benefit scheme and at 31 March 1998 C. Stones, the highest paid director, had accrued pension benefit of £39,266 per annum.

Notes to the Accounts

4. DIRECTORS' SHARE OPTIONS

	<i>Balance at 1 April 1997</i>	<i>Granted during year</i>	<i>Exercised/ Lapsed during year</i>	<i>Balance at 31 March 1998</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	3,492	-	(3,492)	-	207.5	506.5	1.3.98	31.8.98
Sharesave	5,072	-	-	5,072	204.0	-	1.3.00	31.8.00
T. Flanders	-	-	-	-	-	-	-	-
A. P. Hinton								
Sharesave	1,746	-	(1,746)	-	207.5	510.0	1.3.98	31.8.98
Sharesave	-	1,773	-	1,773	389.0	-	1.3.03	31.8.03
E. A. Kerry	-	-	-	-	-	-	-	-
J. R. Layfield	-	-	-	-	-	-	-	-
M. K. Moir	-	4,434	-	4,434	389.0	-	1.3.03	31.8.03
M. Nichols								
Sharesave	1,690	-	(1,690)	-	204.0	-	1.3.00	31.8.00
Sharesave	1,322	-	(1,322)	-	295.0	-	1.5.00	31.10.00
M. Stewart	-	-	-	-	-	-	-	-
C. J. Stones								
Sharesave	3,492	-	(3,492)	-	207.5	506.5	1.3.98	31.8.98
Sharesave	5,072	-	-	5,072	204.0	-	1.3.00	31.8.00
Sharesave	-	1,002	-	1,002	389.0	-	1.3.01	31.8.01
K. I. Whiteman	-	-	-	-	-	-	-	-

The Chairman, K. Bond, and the Managing Director, J. Cox, were executive directors of the holding company, Yorkshire Water plc, and their share options are shown in the accounts of that company.

The market price of the shares subject to these options at 31 March 1998 was 523.5p (1997:347.5p) and has ranged from 546p to 331p during the year.

M. Nichols' options were cancelled on her resignation from the Board.

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 1998 and at the beginning of the year (or date of appointment if later) are set out below:

	<i>Ordinary shares of 15 5/9p each at 1 April 1997</i>	<i>Ordinary shares of 15 5/9p each bought in year</i>	<i>Ordinary shares of 15 5/9p each sold in year</i>	<i>Options exercised in year</i>	<i>Ordinary shares of 15 5/9p each at 31 Mar 1998</i>
R. K. Ackroyd	16,443	217	(217)	3,492	19,935
T. Flanders	-	-	-	-	-
A. P. Hinton (appointed 1.10.97)	7,016	50	-	1,746	8,812
E. A. Kerry (appointed 1.9.97)	-	-	-	-	-
J. Layfield	9,782	16	(4,935)	-	4,863
M. K. Moir	-	-	-	-	-
M. Nichols (resigned 7.5.97)	4,145	206	-	-	4,351
M. Stewart (resigned 27.1.98)	-	-	-	-	-
C. J. Stones	22,000	814	(3,224)	3,492	23,082
K. I. Whiteman (appointed 3.11.97)	-	-	-	-	-

The Chairman, K. Bond, and the Managing Director, J. Cox, were executive directors of the holding company, Yorkshire Water plc, and their interests in the ordinary shares of Yorkshire Water plc are shown in the accounts of that company. Similarly, C. B. Gough and D. Roberts were non-executive directors of the holding company and their share options are also shown in those accounts.

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. LONG TERM INCENTIVES

Yorkshire Water plc operates a new long-term incentive plan for executive directors of that company which is described in detail in their accounts.

Under this scheme, conditional awards of shares have been made to J. Cox and K. Bond in the year and these are disclosed in the accounts of Yorkshire Water plc. The shares will be vested after 3 years dependent on the company's performance during that period.

Notes to the Accounts

7. INTEREST

	1998	1997
	£m	£m
Interest payable on:		
Bank loans and overdrafts	8.6	8.9
Amounts due to parent company	-	0.4
Finance charges in respect of finance leases	28.1	16.6
Other	0.2	0.1
	<u>36.9</u>	<u>26.0</u>
Interest receivable:		
Inter-company loans	(8.6)	(1.5)
Other	(0.8)	(1.1)
	<u>(9.4)</u>	<u>(2.6)</u>
	<u>27.5</u>	<u>23.4</u>

8. TAXATION

	1998	1997
	£m	£m
Taxation comprises:		
Corporation tax	30.2	39.0
ACT surrendered	(19.5)	(23.6)
Group relief - payment for previously surrendered losses	0.2	(4.4)
	<u>10.9</u>	<u>11.0</u>
Prior year adjustments:		
Corporation tax	-	3.0
Group relief receivable	-	(3.0)
	<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 31% is:

	1998	1997
	£m	£m
Accelerated capital allowances	212	219
Short term timing differences	(31)	(45)
	<u>181</u>	<u>174</u>

This is currently unprovided in the accounts.

Notes to the Accounts

9. DIVIDENDS

	1998 £m	1997 £m
Capital restructuring dividend	500.0	-
First interim dividend	22.9	22.1
Proposed final dividend	<u>72.4</u>	<u>44.0</u>
	<u>595.3</u>	<u>66.1</u>

10. PENSIONS

The holding company operates two funded defined benefit final pay schemes, the Water Mirror Image Scheme (WMIS) and the Water Pension Scheme (WPS). At present, most employees are members of one or other of these schemes, but the company also operates a new pension arrangement, the Yorkshire Water Pension Plan (YWPP) which commenced on 1 July 1997. It has defined benefit and defined contribution categories.

The assets and liabilities of WPS will be transferred to YWPP on 1 April 1998. The employer's contributions to WPS and WMIS 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. In determining the actuarial assumptions William M. Mercer Ltd have given due consideration to the impact of the taxation change made in the July 1997 Budget on the Scheme. 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 1997 and 31 March 1998	-	0.2	0.2

Other unlisted investments

The company owns 12% 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 1,000 cumulative redeemable preference shares of £1 each in Capita Business 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 1997	829.0	710.9	721.8	371.3	2,633.0
Reclassification (see note below)	-	-	-	(10.7)	(10.7)
Additions	55.3	63.5	134.8	34.3	287.9
Disposals	-	-	(3.7)	(4.0)	(7.7)
Grants and contributions	-	-	-	8.5	8.5
At 31 March 1998	<u>884.3</u>	<u>774.4</u>	<u>852.9</u>	<u>399.4</u>	<u>2,911.0</u>
Depreciation					
At 1 April 1997	263.3	-	255.3	-	518.6
Disposals	-	-	(2.4)	(4.0)	(6.4)
Depreciation for the year	19.6	-	58.7	4.0	82.3
At 31 March 1998	<u>282.9</u>	<u>-</u>	<u>311.6</u>	<u>-</u>	<u>594.5</u>
Net book amount at 31 March 1998	601.4	774.4	541.3	399.4	2,316.5
Net book amount at 31 March 1997	565.7	710.9	466.5	371.3	2,114.4
At 31 March 1998 assets included above held under finance leases amounted to:					
Cost	112.3	-	267.3	134.3	513.9
Depreciation	6.7	-	36.9	-	43.6
Net book amount at 31 March 1998	<u>105.6</u>	<u>-</u>	<u>230.4</u>	<u>134.3</u>	<u>470.3</u>
Net book amount at 31 March 1997	84.8	-	147.7	196.1	428.6
The net book amount of land and buildings comprised:	Cost at 31 March 1998	Depreciation at 31 March 1998	Net book value at 31 March 1998		Net book value at 31 March 1997
	£m	£m	£m		£m
Freehold properties	883.7	282.8	600.9		565.3
Properties held on long lease	0.2	-	0.2		0.2
Properties held on short lease	0.4	0.1	0.3		0.2
	<u>884.3</u>	<u>282.9</u>	<u>601.4</u>		<u>565.7</u>

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 £68.8 million lower than it would have been had this treatment not been adopted.

£10.7m of the balance brought forward for infrastructure assets under construction has been redesignated as revenue and charged to the provision for infrastructure renewals expenditure analysed in Note 19.

Notes to the Accounts

13. STOCKS

	1998 £m	1997 £m
Raw materials and consumables	1.0	1.1
Work in progress	0.3	0.2
	<u>1.3</u>	<u>1.3</u>

14. DEBTORS

	1998 £m	1997 £m
Trade debtors	34.9	34.2
Amounts owed by group undertakings	3.7	5.3
Amounts owed by parent company	216.0	147.0
Prepayments and accrued income	50.0	43.1
Other debtors:		
Receivable within one year	15.5	5.1
Receivable after more than one year	0.3	0.4
	<u>320.4</u>	<u>235.1</u>

15. LONG TERM BORROWINGS

	1998 £m	1997 £m
Maturities		
Repayable between one and two years:		
Bank loans	20.0	-
Finance leases	0.8	0.8
Repayable between two and five years:		
Bank loans	-	20.0
Repayable by instalments and maturing after five years:		
Bank loans	164.8	50.3
Other loans	0.3	0.4
Finance leases	487.8	441.4
	<u>673.7</u>	<u>512.9</u>

Notes to the Accounts

16. AGGREGATE BORROWINGS AND CASH

	<i>Bank loans and overdrafts</i>	<i>Other loans</i>	<i>Finance leases</i>	<i>Total</i>
	£m	£m	£m	£m
Repayments				
Within one year or on demand	19.0	0.1	5.6	24.7
Between one and two years	30.8	0.1	6.3	37.2
Between two and five years	31.6	0.2	16.4	48.2
After five years	122.4	0.0	465.9	588.3
	203.8	0.4	494.2	698.4
Amounts owed by parent company				(216.0)
Net debt				482.4

As shown above, the net debt as at 31 March 1998 was £482.4m (1997: £390.3m).

Borrowings, any part of which is repayable after five years, have been negotiated at fixed and variable interest rates which at 31 March 1998 ranged between 6.48% and 11.5%.

17. OTHER CREDITORS

	<i>1998</i>	<i>1997</i>
	£m	£m
Amounts falling due within one year:		
Trade creditors	47.7	38.1
Capital creditors	64.6	51.0
Deferred grants and contributions on depreciating fixed assets	3.0	1.9
Amounts owed to parent company - proposed dividend	72.4	44.0
Amounts owed to group undertakings	1.2	1.9
Social security and payroll deductions	2.6	2.6
Taxation	10.7	15.4
Receipts in advance	31.7	25.1
Other creditors	20.4	19.3
	254.3	199.3
Amounts falling due after more than one year:		
Capital creditors	3.2	2.7
Deferred grants and contributions on depreciating fixed assets	91.1	74.6
Other creditors	41.0	39.2
	135.3	116.5

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	(482.4)	(391.0)	(298.8)	207.4	7.7	8.5

19. PROVISIONS FOR LIABILITIES AND CHARGES

	<i>Infrastructure renewals</i>	<i>Landslip reinstatement</i>	<i>Total</i>
	£m	£m	£m
At 1 April 1997	118.7	0.6	119.3
Reclassification of infrastructure expenditure (see note 12)	(10.7)	-	(10.7)
Expenditure in the year	(62.3)	-	(62.3)
Receipts	6.2	0.6	6.8
Transferred to creditors due within 1 year	-	(0.3)	(0.3)
Charged in profit and loss account	34.2	(0.9)	33.3
At 31 March 1998	86.1	-	86.1

A charge is made to the profit and loss account for infrastructure renewals expenditure which reflects planned expenditure on maintaining the operating capability of infrastructure assets. The provision represents the unexpended balance of the profit and loss charge carried forward. The other provision relates to remedial works at Deighton Waste Water Treatment works following a landslip in 1992.

20. COMMITMENTS

	<i>1998</i>	<i>1997</i>
	£m	£m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	306.7	135.0

At 31 March 1998 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>1998</i>	<i>1998</i>	<i>1997</i>	<i>1997</i>
	£m	£m	£m	£m
Leases which expire:				
Within one year	0.8	0.6	0.1	0.4
Between one and five years	0.2	0.1	0.7	0.1
	1.0	0.7	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>
Ordinary shares of £1 each at 1 April 1997	275,000,000	275,000,000
Ordinary shares of £1 each issued in year (see note 23)	<u>500,000,000</u>	<u>500,000,000</u>
Ordinary shares of £1 each at 31 March 1998	<u>775,000,000</u>	<u>775,000,000</u>

23. MOVEMENT IN SHAREHOLDER'S FUNDS

	<i>Reserves £m</i>	<i>Share capital £m</i>	<i>Total funds £m</i>
At 1 April 1997	1,103.6	275.0	1,378.6
Transfer from profit and loss account	(414.3)	-	(414.3)
Issue of new shares	<u>-</u>	<u>500.0</u>	<u>500.0</u>
At 31 March 1998	<u>689.3</u>	<u>775.0</u>	<u>1,464.3</u>

During the year, the company issued 500 million ordinary shares of £1 each at nominal value. All shares issued are held by Yorkshire Water plc and its nominees. At the same time, a capital restructuring dividend for the same amount was paid to Yorkshire Water plc.

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 cashflows of the company are consolidated in the cashflow statement of the holding company in accordance with Financial Reporting Standard 1 (Revised).

Notes to the Accounts

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 or investees of the group qualifying as related parties.

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.

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 relation to the accounts

The following statement, which should be read in conjunction with the Auditor's Report, is made with a view to distinguishing the respective responsibilities of the directors and of the auditor in relation to the accounts. The directors are required by law to present accounts 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 or loss of the company for the financial year.

The directors consider that in preparing the accounts on pages 10 to 25, 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 accounts.

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.

AUDITOR'S REPORT

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

Respective responsibilities of directors and auditor

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

Basis of opinion

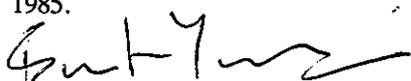
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 March 1998 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

2 July 1998

Regulatory Accounting Information 1998

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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 1998

	1998			1997		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
Turnover	547.1	2.0	549.1	544.0	3.4	547.4
Operating costs	(331.9)	(1.5)	(333.4)	(319.6)	(2.7)	(322.3)
Operating income	2.4	-	2.4	1.2	-	1.2
Operating profit	217.6	0.5	218.1	225.6	0.7	226.3
Other income	1.3	-	1.3	1.2	1.2	2.4
Interest payable	(27.5)	-	(27.5)	(23.4)	-	(23.4)
Profit on ordinary activities before taxation	191.4	0.5	191.9	203.4	1.9	205.3
Taxation	(10.8)	(0.1)	(10.9)	(10.8)	(0.2)	(11.0)
Profit on ordinary activities after taxation	180.6	0.4	181.0	192.6	1.7	194.3
Dividends - restructuring	(500.0)	-	(500.0)	-	-	-
- interim	(22.6)	(0.3)	(22.9)	(21.5)	(0.6)	(22.1)
- final	(72.3)	(0.1)	(72.4)	(42.9)	(1.1)	(44.0)
Transfer to / (from) reserves	(414.3)	-	(414.3)	128.2	-	128.2

The accounting policies set out on pages 12 to 14 apply to the historical cost regulatory accounting information.

Historical Cost Balance Sheet

as at 31 March 1998

	1998			1997		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
Fixed assets						
Tangible assets	2,308.1	8.4	2,316.5	2,105.8	8.6	2,114.4
Investments	0.1	0.1	0.2	0.1	0.1	0.2
	<u>2,308.2</u>	<u>8.5</u>	<u>2,316.7</u>	<u>2,105.9</u>	<u>8.7</u>	<u>2,114.6</u>
Current assets						
Stocks	1.3	-	1.3	1.3	-	1.3
Debtors	104.2	0.2	104.4	87.1	1.0	88.1
Short term investments	216.0	-	216.0	146.9	0.1	147.0
	<u>321.5</u>	<u>0.2</u>	<u>321.7</u>	<u>235.3</u>	<u>1.1</u>	<u>236.4</u>
Creditors: amounts falling due within one year						
Borrowings	(23.8)	(0.9)	(24.7)	(24.4)	-	(24.4)
Dividends payable	(72.3)	(0.1)	(72.4)	(42.9)	(1.1)	(44.0)
Other creditors	(178.9)	(0.1)	(179.0)	(152.4)	(1.0)	(153.4)
	<u>(275.0)</u>	<u>(1.1)</u>	<u>(276.1)</u>	<u>(219.7)</u>	<u>(2.1)</u>	<u>(221.8)</u>
Net current assets	<u>46.5</u>	<u>(0.9)</u>	<u>45.6</u>	<u>15.6</u>	<u>(1.0)</u>	<u>14.6</u>
Total assets less current liabilities	<u>2,354.7</u>	<u>7.6</u>	<u>2,362.3</u>	<u>2,121.5</u>	<u>7.7</u>	<u>2,129.2</u>
Creditors: amounts falling due after more than 1 year						
Borrowings	(673.7)	-	(673.7)	(512.9)	-	(512.9)
Other creditors	(44.2)	-	(44.2)	(41.9)	-	(41.9)
	<u>(717.9)</u>	<u>-</u>	<u>(717.9)</u>	<u>(554.8)</u>	<u>-</u>	<u>(554.8)</u>
Provisions for liabilities and charges	<u>(86.1)</u>	<u>-</u>	<u>(86.1)</u>	<u>(119.3)</u>	<u>-</u>	<u>(119.3)</u>
Deferred income	<u>(86.4)</u>	<u>(7.6)</u>	<u>(94.0)</u>	<u>(68.8)</u>	<u>(7.7)</u>	<u>(76.5)</u>
	<u>1,464.3</u>	<u>-</u>	<u>1,464.3</u>	<u>1,378.6</u>	<u>-</u>	<u>1,378.6</u>
Capital and reserves						
Called up share capital	775.0	-	775.0	275.0	-	275.0
Profit and loss account	689.3	-	689.3	1,103.6	-	1,103.6
	<u>1,464.3</u>	<u>-</u>	<u>1,464.3</u>	<u>1,378.6</u>	<u>-</u>	<u>1,378.6</u>

Current Cost Profit and Loss Account
for the Appointed Business
for the year ended 31 March 1998

	<i>Notes</i>	1998 £m	1997 £m
Turnover	5	547.1	544.0
Current cost operating costs	6	(365.2)	(356.3)
Operating income	5	<u>2.2</u>	<u>0.4</u>
		184.1	188.1
Working capital adjustment		<u>0.3</u>	<u>2.8</u>
Current cost operating profit		184.4	190.9
Other income		1.3	1.2
Interest payable		(27.5)	(23.4)
Financing adjustment		<u>22.8</u>	<u>11.9</u>
Current cost profit on ordinary activities before taxation		181.0	180.6
Taxation		<u>(10.8)</u>	<u>(10.8)</u>
Current cost profit on ordinary activities after taxation		170.2	169.8
Dividends		<u>(594.9)</u>	<u>(64.4)</u>
Current cost transfer to / (from) reserves		<u>(424.7)</u>	<u>105.4</u>

Current Cost Balance Sheet
for the Appointed Business
as at 31 March 1998

	<i>Notes</i>	1998 £m	1997 £m
Fixed assets			
Tangible assets	7	15,829.6	15,168.7
Third party contributions since 1989/90		(160.5)	(146.2)
Working capital	8	69.5	(8.7)
Net operating assets		15,738.6	15,013.8
Cash and investments		0.1	0.1
Non-trade debtors		18.3	6.8
Non-trade creditors due within one year		(54.9)	(59.0)
Creditors due after one year		(717.9)	(554.6)
Dividends payable		(72.3)	(42.9)
Net assets employed		14,911.9	14,364.2
Capital and reserves			
Called up share capital		775.0	275.0
Profit and loss account		258.8	683.5
Current cost reserve	9	13,878.1	13,405.7
		14,911.9	14,364.2

Current Cost Cash Flow Statement

for the year ended 31 March 1998

		1998			1997		
	Notes	Appointed	Non-	Total	Appointed	Non-	Total
		£m	appointed	£m	£m	appointed	£m
			£m			£m	
Net cash flow from operating activities	10	323.5	0.6	324.1	331.8	2.2	334.0
Returns on investments and servicing of finance							
Interest received		7.1	-	7.1	3.1	-	3.1
Interest paid		(8.5)	-	(8.5)	(9.8)	-	(9.8)
Interest in finance lease rentals		(21.1)	-	(21.1)	(22.7)	-	(22.7)
Net cash flow from returns on investments and servicing of finance		(22.5)	-	(22.5)	(29.4)	-	(29.4)
Taxation							
UK corporation tax paid		(10.8)	(0.2)	(11.0)	-	-	-
Capital expenditure and financing of investment							
Gross cost of purchase of fixed assets		(273.9)	-	(273.9)	(295.6)	(0.1)	(295.7)
Receipt of grants and contributions		11.3	(0.1)	11.2	8.7	-	8.7
Infrastructure renewals expenditure		(56.1)	-	(56.1)	(58.6)	-	(58.6)
Disposal of fixed assets		2.9	-	2.9	3.6	-	3.6
Net cash outflow from investing activities		(315.8)	(0.1)	(315.9)	(341.9)	(0.1)	(342.0)
Equity dividends paid		(565.5)	(1.4)	(566.9)	(62.6)	(1.2)	(63.8)
Net cash (outflow)/ inflow before financing		(591.1)	(1.1)	(592.2)	(102.1)	0.9	(101.2)
Financing							
New leasing finance		53.7	-	53.7	199.6	-	199.6
Capital element in finance lease rentals		(7.1)	-	(7.1)	(8.4)	-	(8.4)
New bank loans		125.0	-	125.0	0.0	-	-
Movement in inter-company loans		(69.0)	-	(69.0)	(57.0)	-	(57.0)
Repayment of bank loans		(5.3)	-	(5.3)	(34.9)	-	(34.9)
Proceeds from share issues		500.0	-	500.0	-	-	-
Net cash inflow/ (outflow) from financing		597.3	-	597.3	99.3	-	99.3
Increase/(decrease) in cash		6.2	(1.1)	5.1	(2.8)	0.9	(1.9)

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 1997/98 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 in the event of a special administration order.

3. APPOINTED AND NON-APPOINTED BUSINESS

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

The Appointed Business is defined to be the regulated activities of the Appointee, 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.

Notes to the Regulatory Accounting Information

4. DIRECTORS' CERTIFICATE - CONDITION F

The Directors declare that the company will have available, for at least the next 12 months, sufficient financial resources and facilities to enable it to carry out its regulated activities and sufficient management resources to enable it to carry out its functions. This assessment is based on the net worth of the company as shown in the accounts and on its Business Plan for the forthcoming year.

The Directors also declare that all contracts entered into with Associated Companies include all necessary provisions and requirements concerning the standard of service to be supplied to ensure that the company is able to meet all its obligations as a water and sewerage undertaker, as required in Section 6A.2A (3)(a) of Condition F. This opinion has been formed following examination of the documents in question.

The arrangements with relevant authorities for the discharge of any of the company's sewerage functions were terminated by 31 December 1997. These arrangements were historical and thus did not incorporate the requirements of Section 6A.2A (3)(b) of Condition F (as outlined in the paragraph above) for agreements operating after 30 November 1997. However, of these agreements, only 3 (with Leeds City Council, Craven District Council and Hambleton District Council) continued after 30 November 1997 and these were all under notice (served on 13 January 1997) to terminate with effect from 31 December 1997.

5. ANALYSIS OF TURNOVER AND OPERATING INCOME FOR THE APPOINTED BUSINESS for the year ended 31 March 1998

	1998			1997		
	Water services £m	Sewerage services £m	Appointed Business £m	Water services £m	Sewerage services £m	Appointed Business £m
Turnover						
Measured	100.1	65.6	165.7	92.4	56.1	148.5
Unmeasured	159.1	185.0	344.1	165.8	192.4	358.2
Trade effluent	-	26.8	26.8	-	27.7	27.7
Other sources	1.1	2.7	3.8	1.2	2.2	3.4
Third party services	6.3	0.4	6.7	5.9	0.3	6.2
Total turnover	266.6	280.5	547.1	265.3	278.7	544.0
Operating income						
Current cost profit on fixed assets net of expenses	1.4	0.8	2.2	0.4	-	0.4
Total operating income	1.4	0.8	2.2	0.4	-	0.4
Working capital adjustment	0.2	0.1	0.3	1.4	1.4	2.8

Notes to the Regulatory Accounting Information

6. ANALYSIS OF OPERATING COSTS AND ASSETS for the year ended 31 March 1998

	Resources and treatment £m	Distribution £m	Water supply sub total £m
Direct costs			
Employment costs	6.9	6.9	13.8
Power	5.1	4.3	9.4
Agencies	-	-	-
Hired and contracted services	4.1	7.7	11.8
Associated companies	-	-	-
Materials and consumables	4.9	1.3	6.2
Service charges	4.0	-	4.0
Bulk supply imports	2.0	-	2.0
Other direct costs	0.7	1.1	1.8
Total direct costs	27.7	21.3	49.0
General and support expenditure	13.2	18.7	31.9
Functional expenditure	40.9	40.0	80.9
Total business activities			16.4
Rates			17.5
Doubtful debts			2.6
Total Opex less third party services			117.4
Third party services - opex			6.4
Total operating expenditure			123.8
Capital costs			
Infrastructure renewals expenditure	13.2	30.0	43.2
Movement in infrastructure renewals accrual/prepayment	(5.1)	(8.3)	(13.4)
Current cost depreciation (allocated)	36.6	13.2	49.8
Amortisation of deferred credits			(1.2)
Business activities current cost depreciation (non-allocated)			0.2
Total Capital Maintenance			78.6
TOTAL OPERATING COSTS			202.4
CCA GROSS MEA VALUES			
Service activities	3,087.6	3,946.1	7,033.7
Business activities			1.1
Service totals			7,034.8
Services for third parties			-
TOTAL			7,034.8

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
0.9	4.8	2.6	7.4	8.3			
1.0	5.4	1.3	6.7	7.7			
5.4	-	-	-	5.4			
3.2	2.2	3.3	5.5	8.7			
-	-	0.2	0.2	0.2			
0.3	1.7	1.8	3.5	3.8			
0.6	1.3	-	1.3	1.9			
-	-	-	-	-			
0.6	0.9	0.5	1.4	2.0			
12.0	16.3	9.7	26.0	38.0	15.5	7.2	2.1
9.0	15.4	6.0	21.4	30.4	4.6	2.0	0.6
21.0	31.7	15.7	47.4	68.4	20.1	9.2	2.7
				15.6			
				8.5			
				1.8			
				94.3			
				0.2			
				94.5			
12.9	-	-	0.0	12.9			
(8.5)	-	-	0.0	(8.5)			
7.6	51.4	6.2	57.6	65.2			
				(1.5)			
				0.2			
				68.3			
				162.8			
8,246.6	2,358.1	33.8	2,391.9	10,638.5			
				1.4			
				10,639.9			
				-			
				10,639.9			

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

7. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE as at 31 March 1998

	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 1997	1,205.7	16.6	5,219.2	247.4	6,688.9
Adjustment re. 1997 charge	-	-	(10.7)	-	(10.7)
RPI adjustment	39.8	0.5	172.2	8.2	220.7
Disposals	(2.1)	(0.1)	-	(1.3)	(3.5)
Additions	84.6	1.2	47.0	6.6	139.4
At 31 March 1998	1,328.0	18.2	5,427.7	260.9	7,034.8
Depreciation					
At 1 April 1997	393.7	1.3	-	45.3	440.3
RPI adjustment	13.0	-	-	1.5	14.5
Disposals	(2.0)	-	-	(0.7)	(2.7)
Charge for year	33.4	0.3	-	16.2	49.9
At 31 March 1998	438.1	1.6	-	62.3	502.0
Net book amount at 31 March 1998	889.9	16.6	5,427.7	198.6	6,532.8
Net book amount at 1 April 1997	812.0	15.3	5,219.2	202.1	6,248.6
SEWERAGE SERVICES					
Gross replacement cost					
At 1 April 1997	2,137.1	29.6	7,679.0	313.9	10,159.6
RPI adjustment	70.5	1.0	253.4	10.4	335.3
Disposals	(2.1)	(0.1)	-	(1.3)	(3.5)
Additions	126.3	1.7	13.9	6.6	148.5
At 31 March 1998	2,331.8	32.2	7,946.3	329.6	10,639.9
Depreciation					
At 1 April 1997	1,194.4	4.5	-	40.6	1,239.5
RPI adjustment	39.4	0.1	-	1.4	40.9
Disposals	(1.9)	(0.1)	-	(0.7)	(2.7)
Charge for year	52.3	0.2	-	12.9	65.4
At 31 March 1998	1,284.2	4.7	-	54.2	1,343.1
Net book amount at 31 March 1998	1,047.6	27.5	7,946.3	275.4	9,296.8
Net book amount at 1 April 1997	942.7	25.1	7,679.0	273.3	8,920.1

Notes to the Regulatory Accounting Information

7. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE (continued) as at 31 March 1998

	Specialised operational assets £m	Non- specialised operational properties £m	Infrastructure assets £m	Other tar gible assets £m	Total £m
TOTAL					
Gross replacement cost					
At 1 April 1997	3,342.8	46.2	12,898.2	561.3	16,848.5
Adjustment re. 1997 charge	-	-	(10.7)	-	(10.7)
RPI adjustment	110.3	1.5	425.6	18.6	556.0
Disposals	(4.2)	(0.2)	0.0	(2.6)	(7.0)
Additions	210.9	2.9	60.9	13.2	287.9
At 31 March 1998	3,659.8	50.4	13,374.0	590.5	17,674.7
Depreciation					
At 1 April 1997	1,588.1	5.8	-	85.9	1,679.8
RPI adjustment	52.4	0.1	-	2.9	55.4
Disposals	(3.9)	(0.1)	-	(1.4)	(5.4)
Charge for year	85.7	0.5	-	29.1	115.3
At 31 March 1998	1,722.3	6.3	-	116.5	1,845.1
Net book amount at 31 March 1998	1,937.5	44.1	13,374.0	474.0	15,829.6
Net book amount at 1 April 1997	1,754.7	40.4	12,898.2	475.4	15,168.7

Notes to the Regulatory Accounting Information

8. WORKING CAPITAL

	1998	1997
	£m	£m
Stocks	1.3	1.3
Trade debtors	34.8	33.4
Trade creditors	(47.7)	(37.3)
Short term capital creditors	(64.6)	(51.0)
Infrastructure renewals (accrual)/prepayment	(86.1)	(118.7)
Landslip reinstatement	0.0	(0.6)
Trade payments in advance	(31.7)	(25.1)
Payroll related taxes & DSS contributions	(2.6)	(2.6)
Group trade debtors/(creditors)	218.5	150.2
Prepayments	47.6	41.7
	<hr/>	<hr/>
	69.5	(8.7)

9. MOVEMENT ON CURRENT COST RESERVE

	1998	1997
	£m	£m
Balance at 1 April 1997	13,405.7	13,072.9
AMP adjustment	-	-
RPI adjustments		
Fixed assets	500.6	351.0
Working capital	(0.3)	(2.8)
Financing	(22.8)	(11.9)
Grants & third party contributions	(5.1)	(3.5)
	<hr/>	<hr/>
Balance at 31 March 1998	13,878.1	13,405.7

Notes to the Regulatory Accounting Information

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

	1998 £m	1997 £m
Current cost operating profit	184.4	190.9
Working capital adjustment	(0.3)	(2.8)
Change in stocks	0.0	0.5
Receipts from other income	1.3	1.2
Current cost depreciation	112.6	103.2
Current cost loss / (profit) on sale of assets	(2.2)	(0.4)
Increase in debtors and prepaid expenses	(12.4)	1.7
(Decrease) / increase in creditors and accrued expenses	6.5	4.9
Infrastructure renewals expenditure	56.1	58.6
Increase / (decrease) in provisions	(22.5)	(26.0)
	<hr/>	<hr/>
Net cash flow from operating activities	<u>323.5</u>	<u>331.8</u>

11. ANALYSIS OF NET DEBT

	At 31 Mar 1997 £m	Cash flow £m	At 31 Mar 1998 £m
Cash in hand and bank	-	-	-
Overdrafts	13.7	(5.1)	8.6
Loans due within one year	5.3	5.2	10.5
Loans due after one year	70.6	114.5	185.1
Finance leases	447.7	46.5	494.2
Inter-company loan	(147.0)	(69.0)	(216.0)
	<hr/>	<hr/>	<hr/>
Total net debt	<u>390.3</u>	<u>92.1</u>	<u>482.4</u>
	<hr/>	<hr/>	<hr/>
Appointed Business	390.4	91.1	481.5
Non - Appointed Business	(0.1)	1.0	0.9
	<hr/>	<hr/>	<hr/>
Total net debt	<u>390.3</u>	<u>92.1</u>	<u>482.4</u>

Notes to the Regulatory Accounting Information

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

	1998 £m	*1997 £m	*1996 £m	*1995 £m	*1994 £m
Turnover	547.1	562.0	552.9	542.4	539.3
Current cost operating costs	(365.2)	(368.1)	(423.1)	(417.7)	(410.1)
Operating income	<u>2.2</u>	<u>0.4</u>	<u>(0.7)</u>	<u>0.9</u>	<u>6.5</u>
Working capital adjustment	<u>184.1</u>	<u>194.3</u>	<u>129.1</u>	<u>125.6</u>	<u>135.7</u>
	<u>0.3</u>	<u>2.9</u>	<u>0.0</u>	<u>1.2</u>	<u>1.1</u>
Current cost operating profit	184.4	197.2	129.1	126.8	136.8
Other income	1.3	1.2	1.1	1.2	1.0
Net interest	(27.5)	(24.2)	(18.1)	(11.2)	(15.3)
Financing adjustment	<u>22.8</u>	<u>12.3</u>	<u>12.0</u>	<u>13.3</u>	<u>8.4</u>
Current cost profit before taxation	181.0	186.5	124.1	130.1	130.9
Taxation	<u>(10.8)</u>	<u>(11.2)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Current cost profit on ordinary activities	170.2	175.3	124.1	130.1	130.9
Dividends	<u>(594.9)</u>	<u>(66.5)</u>	<u>(197.5)</u>	<u>(124.7)</u>	<u>(66.6)</u>
Current cost transfer (from)/ to reserves	<u>(424.7)</u>	<u>108.8</u>	<u>(73.4)</u>	<u>5.4</u>	<u>64.3</u>

* Figures for years prior to 1997/98 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

	1998 £m	*1997 £m	*1996 £m	*1995 £m	*1994 £m
Fixed assets					
Tangible assets	15,829.6	15,699.6	15,520.0	14,896.2	14,950.0
Third party contributions since 1989/90	(160.5)	(151.3)	(142.2)	(127.7)	(115.0)
Working capital	<u>69.5</u>	<u>(9.0)</u>	<u>(116.2)</u>	<u>(0.9)</u>	<u>(36.1)</u>
Net operating assets	<u>15,738.6</u>	<u>15,539.3</u>	<u>15,261.6</u>	<u>14,767.6</u>	<u>14,798.9</u>
Cash and investments	0.1	0.1	0.1	0.1	0.1
Non-trade debtors	18.3	7.0	15.7	18.3	9.6
Non-trade creditors due within one year	(54.9)	(61.1)	(38.0)	(23.7)	(0.5)
Creditors due after one year	(717.9)	(574.0)	(420.3)	(370.8)	(357.6)
Dividends payable	<u>(72.3)</u>	<u>(44.4)</u>	<u>(43.6)</u>	<u>(79.4)</u>	<u>(44.6)</u>
Net assets employed	<u>14,911.9</u>	<u>14,866.9</u>	<u>14,775.5</u>	<u>14,312.1</u>	<u>14,405.9</u>
Capital and reserves					
Called up share capital	775.0	284.6	291.8	299.7	310.2
Profit and loss account	258.8	707.4	613.4	705.9	725.0
Current cost reserve	<u>13,878.1</u>	<u>13,874.9</u>	<u>13,870.3</u>	<u>13,306.5</u>	<u>13,370.7</u>
	<u>14,911.9</u>	<u>14,866.9</u>	<u>14,775.5</u>	<u>14,312.1</u>	<u>14,405.9</u>

* Figures for years prior to 1997/98 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 accounts 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 accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the regulatory accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

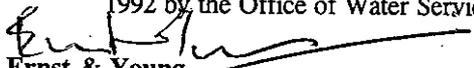
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the regulatory accounts are free from material misstatement, whether caused by fraud or other irregularity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

Opinion

In our opinion, the regulatory accounts contain the information for the year to 31 March 1998 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 accounts on pages 28 to 29 have been properly prepared from the accounts 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

2 July 1998