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YORKSHIRE WATER SERVICES LIMITED

ANNUAL REPORT AND ACCOUNTS

For the year ended
31 March 1999



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ANNUAL REPORT AND ACCOUNTS 1999

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OPERATING REVIEW

Financial Performance

Regulated turnover increased by 6.2% following an overall increase in tariffs of 7.6% from 1 April 1998. Charges within the tariff basket calculation represented 98% of turnover, of which two thirds are unmeasured charges. Charges from new customers amounted to over £4 million but were offset both by the effect of domestic metering and the continuing decline in consumption by industrial and commercial customers. Consumption by the latter group of customers was approximately 3% lower in 1998/99, similar to the reduction experienced in recent years and a trend expected to continue into the future. 20,000 new domestic meters were installed during the year and by the year-end 302,500 (17%) domestic customers were paying for their water by meter.

The reduction in underlying regulated operating costs was more than 3% in real terms, despite the upward pressure on operating costs from the continuing investment programme. Operating cost savings were secured in a number of areas, including through outsourcing and resulted in a reduction of directly employed staff from 3,082 at the start of the financial year to 2,811 at 31 March 1999. A further £7.4 million was incurred on restructuring costs arising from the change programme designed to secure future service improvements and operating efficiencies.

FRS 12 (Provisions) and FRS 15 (Measurement of Tangible Fixed Assets) in combination have required a new accounting policy to be applied to infrastructure assets. This is fully described in the notes to the financial statements but has not affected reported profits for the year. The fixed assets note to the financial statements has been restated accordingly, including adjustment of the previous provision for infrastructure renewals. Following the change in accounting policy for infrastructure assets, depreciation comprises two elements. The depreciation charge on above ground assets was £83.3 million after amortisation of grants and contributions (1998: £79.5 million) and that in respect of infrastructure assets £35.0 million (1998: £34.2 million). The continuing increases in depreciation are a reflection of the major ongoing investment programme described below.

Profit before interest and taxation increased 11.8% to £245.3 million (1998: £219.4 million) representing an improvement in the operating margin to 42.0% compared to 40.0% in 1998.

Operating Performance

Over the last five years there have been major improvements in service, shown particularly in water quality indicators and customer service measures. In 1994 around 30,000 properties in the Yorkshire Water area suffered low pressure – now the figure is below 1,000. Over the same period the number of properties subject to interruptions of supply for more than 12 hours has reduced from nearly 20,000 to around 400.

Customer service performance has also improved to the point at which we respond to 99% of billing contacts within five days. In 1994, this figure was less than 90%. Our response to telephone calls has also improved and 95% are now answered within 15 seconds.

These considerable advancements in customer service continue and have been recognised with third party endorsements. The most recent OFWAT assessment showed Yorkshire Water Services to be the fastest improving of the major water companies and we intend to move further up the OFWAT rankings. In January 1999, the company was awarded the prestigious Charter Mark in recognition of the quality of service it provides to its 4.5 million customers.

In response to customers' expectations, we are developing new service measures and internal targets. These will measure the *reliability* of our services, the quality of our *response* when problems occur and the speed of *resolution* of the problem. These measures – known as R3 – will help us to drive further service improvements and will also help to increase customer perceptions of that service.

Further improvements to the main OFWAT measures of service are planned. These should see more reductions to the number of properties affected by sewer flooding and also targets 100 per cent performance in key customer response measures.

The structural changes in the company, which aim to make Yorkshire Water a sector leader, have been in place for 12 months and are starting to deliver significant benefits in driving efficiency, in improving customer service and also in boosting operational and regulatory performance.

In particular the separation of the services of water supply provision and the treatment and disposal of waste water into two distinct business units at the beginning of the year has gone exceptionally well. The next 12 months will see a consolidation of these changes as YWS moves towards meeting its targets under the three strategic objectives – service, compliance and value.

Investment in the environment

Capital investment in 1998/99, the fourth year of the current investment period, was £382.8 million (1998: £350.1 million). It is expected that over £400 million will be spent in 1999/2000 giving a total investment over the five-year period to March 2000 of some £1.8 billion.

The extensive capital programme means that Yorkshire Water Services is the biggest single investor in *environmental improvements* in the region. As the programme progresses and new sewage treatment works are completed, the benefits are being seen in the region's rivers. The Coastcare programme is implementing standards of cleanliness well above the statutory level. New plants at a number of sites will bring the latest ultra-violet treatment technology to the East Coast and greatly improve Yorkshire's bathing water.

Under the company's Rivercare programme, urban rivers such as the Aire, Dearne and Calder have all benefited from *improvements to waste water treatment plants, which discharge into their waters*. In Barnsley, a newly completed £3.3 million scheme has increased the capacity of the town's sewerage system and eliminated the overflows that occasionally discharged sewage into the Dearne. In addition, the coming year will see the next step in cleaning up the Aire. Already benefiting from the advanced new treatment plant at Esholt, the Aire will be further improved by the completion of a £46 million sewage treatment plant at Knostrop.

Work is well advanced on the £170 million Humbercare scheme – one of the largest civil engineering projects of its type in Europe. Involving 11km of tunnels under the city, the scheme will end the discharge of raw sewage into the Humber and improve the quality of the estuary.

Leakage reduction remains an integral part of the company's long-term water supply strategy. For the past two years we have met and surpassed the mandatory leakage targets set by the industry regulator OFWAT, which recently acknowledged the company's "sound" approach to tackling the issue. Yorkshire Water Services has reduced leakage from its own and its customer's pipes by more than a third since 1995 and now saves enough water every day to meet the domestic and industrial demands of a city the size of Leeds.

Another major component of our water resources strategy was the application for renewed time limited abstraction licences on the rivers Ure, Wharfe and Ouse. The Environment Agency recently granted these for a five-year period. The new licences will give even greater protection to all three rivers by introducing staged abstraction rates for different river flows, ensuring that the licences are utilised effectively when the rivers are running at their highest flow levels.

The OFWAT Periodic Review

In April 1999, Yorkshire Water Services submitted its draft business plan for future standards and prices to the Director General of Water Services (OFWAT). After submissions from the water companies, government, customers and other industry stakeholders, the Director General will set new price limits for water and sewerage charges for the period 2000 to 2005.

The draft plan was put together following an extensive consultation and research programme involving representatives from over 60 organisations as well as one-to-one discussions with 1,100 domestic and business customers. It reflects a consensus view of the Yorkshire constituency on future standards.

The consensus was that customers in the region prefer an even profile of relatively modest price increases to pay for specified improvements.

The plan submitted to OFWAT included a five year £1.7 billion investment programme, to be funded in part by price rises of no more than 2.5% a year in real terms.

DIRECTORS' REPORT

The Directors present their report for the year to 31 March 1999.

Financial Results for the year

Profit on ordinary activities was £191.6m, and there were no exceptional costs reported in the year.

Share Capital

There has been no change during the year to the company's issued share capital of £775 million in shares of £1 each fully paid, which is held by Yorkshire Water plc and its nominees.

Principal Activities

The principal activity of the company is the supply of clean water and the treatment and disposal of waste water in Yorkshire, 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	
John Layfield	
Karen Moir	
John O'Kane	(appointed 1 October 1998)
Clive Stones	
Kevin Whiteman	

Non-executive Directors

Charles Brandon Gough
Elizabeth Kerry
Derek Roberts

Tracy Flanders resigned as a director of the company on 24 March 1999.

Additional information relating to directors, including interests in shares, is disclosed in Note 5 of the accounts.

Dividends

The total dividend for the year payable to the parent company, Yorkshire Water plc, of £86.3m, comprises the following:

	Regulated Activities £m	Non-regulated Activities £m	Total Dividend £m
Interim Dividend	25.8	0.6	26.4
Proposed Final Dividend	59.7	0.2	59.9
Total Dividend for the year	85.5	0.8	86.3

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

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

Reserves

An amount of £105.3m has been transferred to reserves, bringing the balance held in reserve to £794.6m.

Research & Development

The company undertakes a major programme of research in pursuit of improvements in service and operating efficiency. In 1998/99 £4.1m was committed to research and development including £2.7m on fixed assets.

Fixed Assets

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

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 1 April 1996, only those transfers with a value of over £500,000 have been subject to approval by the Office of Water Services.

Capital and Infrastructure Renewals Expenditure

Total expenditure on regulated activities during the year amounted to £382.8m.

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 48 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 48. 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.

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 disruptions from the year 2000 and beyond.

We have made excellent progress to ensure that our equipment and systems are Year 2000 compliant, with the majority having been modified or replaced by December 1998. We are confident that this will give a high level of protection against equipment failures and their potential impact on customers' services.

A wide-ranging assessment programme identified the risks associated with the Year 2000 problem. Risks given high priority include protection of public health, business continuity and safety of employees. Our programme has also included assessing key customers and suppliers.

We have signed Pledge 2000 and made a significant contribution to the Cabinet Office's National Infrastructure Project aimed at ensuring there is no material disruption to public services as a result of the Year 2000 issue.

We are currently working on contingency plans for the millennium weekend. These contingency plans will be over and above our existing business continuity/emergency procedures which are developed and tested with emergency planning officers from a range of organisations, including the emergency services and local authorities.

The total cost of our work is estimated at £7.0 million, including millennium weekend contingency costs. £3.7 million has been spent in 1998/99, of which £2.2m was provided at 31 March 1998, £0.7 million has been charged to the profit and loss account and £0.8m was capitalised.

Environmental Policy

The group, of which the company forms part, is fully committed to environmental improvements and during 1998/99 a separate report was 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.

Auditor

A resolution will be proposed at the annual general meeting to re-appoint Ernst & Young as auditor of the company and to authorise the directors to determine their remuneration.



BY ORDER OF THE BOARD R V JONES, COMPANY SECRETARY, 7 JULY 1999
REGISTERED OFFICE: 2 THE EMBANKMENT, SOVEREIGN STREET, LEEDS LS1 4BG
REGISTERED IN ENGLAND NO 2366682

STATUTORY ACCOUNTS

Profit and Loss Account
for the Year Ended 31 March 1999

	<i>Notes</i>	1999 £m	1998 £m
Turnover - continuing operations		584.1	549.1
Operating costs	2	<u>(338.8)</u>	<u>(329.7)</u>
Operating profit		245.3	219.4
Net interest payable	7	<u>(35.6)</u>	<u>(27.5)</u>
Profit before taxation		209.7	191.9
Taxation	8	<u>(18.1)</u>	<u>(10.9)</u>
Profit for the year		191.6	181.0
Dividends -restructuring	9	-	(500.0)
-interim	9	(26.4)	(22.9)
-final	9	<u>(59.9)</u>	<u>(72.4)</u>
Transfer to / (from) reserves	23	<u>105.3</u>	<u>(414.3)</u>

Statement of Recognised Gains and Losses

There are no other recognised gains and losses arising other than the profit for the year of £191.6m (1998: £181.0m).

Balance Sheet

as at 31 March 1999

	Notes	1999 £m	1998 £m
Fixed assets			
Tangible assets	12	2,475.8	2,230.4
Investments	11	0.2	0.2
		<u>2,476.0</u>	<u>2,230.6</u>
Current assets			
Stocks	13	0.5	1.3
Debtors	14	232.8	320.4
		<u>233.3</u>	<u>321.7</u>
Creditors: amounts falling due within one year			
Short term borrowings	16	(47.8)	(24.7)
Other creditors	17	(240.5)	(254.3)
		<u>(288.3)</u>	<u>(279.0)</u>
Net current (liabilities)/assets		<u>(55.0)</u>	<u>42.7</u>
Total assets less current liabilities		2,421.0	2,273.3
Creditors: amounts falling due after more than one year			
Long term borrowings	15	(697.3)	(673.7)
Other creditors	17	(154.1)	(135.3)
Provisions for liabilities and charges	19	-	-
		<u>1,569.6</u>	<u>1,464.3</u>
Capital and reserves			
Called up equity share capital	22	775.0	775.0
Profit and loss account	23	794.6	689.3
		<u>1,569.6</u>	<u>1,464.3</u>

Approved by the board and signed on its behalf on 7 July 1999


Jonson Cox
Managing Director

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.

Financial instruments

Capital instruments issued as a means of raising finance are accounted for in accordance with the requirements of FRS4. In respect of debt instruments, the carrying amount is the net proceeds from the issue together with the appropriate portion of the issue costs. The issue costs are accrued over the term of the instrument.

The only derivative financial instruments used by the company are interest rate swaps. Payments and receipts in respect of interest differentials on derivatives are adjusted on the corresponding interest payable or receivable.

Infrastructure assets

Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams and sea outfalls) comprise a network of systems. Expenditure on infrastructure assets relating to increases in capacity or enhancement of the network and on maintaining the operating capability of the network in accordance with defined standards of service is treated as an addition to fixed assets and included at cost after deducting grants and contributions.

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 generally 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.

Notes to the Accounts

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. The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network which is based on the Company's independently certified asset management plan.

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 receivable 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 do not have determinable finite economic lives and grants and contributions relating to such assets would not be taken to the profit and loss account and 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. It has been necessary to change the method of accounting for infrastructure maintenance expenditure following the introduction of FRS12 (Provisions, Contingent Assets and Contingent Liabilities) as it is no longer allowable to account for the difference between planned and actual expenditure on infrastructure renewals as a provision or prepayment. As a consequence, the balance sheet has been adjusted to take account of the necessary changes since 31 March 1989, when renewals accounting was first adopted in the accounts, and the previous provision has been subsumed into fixed assets. Further information is given in Note 12 on page 20. Comparative balance sheet figures on page 11 have been adjusted. This change of accounting policy has no effect on the profit and loss account other than to reclassify the renewals charge as depreciation.

Notes to the Accounts

2. OPERATING COSTS	1999	1998
	£m	£m
Wages and salaries	66.7	70.8
Social security costs	5.6	5.5
Other pension costs	6.6	6.8
Raw materials and consumables	16.6	20.0
Other external charges	137.7	141.2
Research and development	1.4	1.3
Operating lease rentals		
- plant and equipment	1.0	1.3
- other	0.2	0.8
Depreciation of tangible assets:		
- on infrastructure assets	33.3	34.2
- on other owned assets	72.4	70.9
- on infrastructure assets held under finance leases	1.7	-
- on assets held under finance leases	14.7	11.4
Amortisation of grants & contributions	(3.8)	(2.8)
Year 2000 modification costs	0.7	3.4
Other operating income	(2.1)	(3.7)
Own work capitalised	(21.3)	(31.4)
Restructuring costs	7.4	-
	<u>338.8</u>	<u>329.7</u>
Auditor's remuneration		
Statutory audit fees and expenses	0.1	0.1
Non-audit work	-	0.1
	<u>0.1</u>	<u>0.2</u>
Employees		
The average number of persons employed by the company during the year was:	<u>3,003</u>	<u>3,208</u>

Notes to the Accounts

3. DIRECTORS

	1999			1998		1999	1998
	Salary	Bonus	Benefits	Total	Total	Pension	Pension
Remuneration of the Board	£000	£000	£000	emoluments	emoluments	contri-	contri-
				excluding	excluding	butions	butions
				pension	pension		
				contributions	contributions		
				£000	£000	£000	£000
Chairman:							
K. Bond	-	-	-	-	-	-	-
Directors:							
R. K. Ackroyd	87	16	9	112	106	10	7
J. Cox	-	-	-	-	-	-	-
T. Flanders (resigned 24.3.99)	85	15	9	109	105	10	7
C. B. Gough (appointed 1.9.97)	-	-	-	-	-	-	-
A. P. Hinton (appointed 1.10.97)	81	15	7	103	51	10	3
E. A. Kerry (appointed 1.9.97)	16	-	-	16	9	-	-
J. R. Layfield	85	16	7	108	103	10	6
M. K. Moir	82	15	12	109	101	10	6
J. P. O'Kane (appointed 1.10.98)	40	8	12	60	-	3	-
M. Nichols (resigned 7.5.97)	-	-	-	-	65	-	-
D. F. Roberts (appointed 1.9.97)	-	-	-	-	-	-	-
M. Stewart (resigned 27.1.98)	-	-	-	0	99	-	6
C. J. Stones	98	18	10	126	119	12	7
K. I. Whiteman (appointed 3.11.97)	83	16	10	109	56	10	3
	657	119	76	852	814	75	45

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 signed new service contracts, which are on a rolling twelve month basis (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 1998/99 this scheme paid £456 to each participant.

Salary amount for M. Nichols in 1997/98 includes £56,000 relating to other non-pensionable payments made on resignation from the Board. Emoluments for K. Whiteman for 1997/98 have been restated to include an additional £14,000 relating to benefits in kind.

During 1998/99, all executive directors were contributory members of the Yorkshire Water Pension Plan, a defined benefit scheme and at 31 March 1999 C. Stones, the highest paid director, had accrued pension benefit of £42,625 per annum.

Notes to the Accounts

4. DIRECTORS' SHARE OPTIONS

	<i>Balance at 1 April 1998</i>	<i>Granted during year</i>	<i>Exercised/ Lapsed during year</i>	<i>Balance at 31 March 1999</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	5,072	-	-	5,072	204.0	-	1.3.00	31.8.00
Sharesave	-	847	-	847	457.0	-	1.3.02	31.8.02
T. Flanders	-	-	-	-	-	-	-	-
A. P. Hinton								
Sharesave	1,773	-	-	1,773	389.0	-	1.3.03	31.8.03
Sharesave	-	1,477	-	1,477	457.0	-	1.3.04	31.8.04
E. A. Kerry	-	-	-	-	-	-	-	-
J. R. Layfield	-	-	-	-	-	-	-	-
M. K. Moir								
Sharesave	4,434	-	-	4,434	389.0	-	1.3.03	31.8.03
J. P. O'Kane								
Sharesave	-	423	-	423	457.0	-	1.3.02	31.8.02
C. J. Stones								
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								
Sharesave	-	2,119	-	2,119	457.0	-	1.3.02	31.8.02

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 1999 was 445.5p (1998: 523.5p) and has ranged from 425.5p to 579.0p 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 1999 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 1998</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 1999</i>
R. K. Ackroyd	19,935	-	(1,780)	-	18,155
A. P. Hinton	8,812	86	-	-	8,898
J. Layfield	4,863	-	-	-	4,863
C. J. Stones	23,082	1,354	(1,152)	-	23,284

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 interests 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

The company operates a long-term incentive plan for executive directors of the company which is described in detail in the accounts of the holding company.

Under this scheme, conditional awards of shares have been made to directors in the year and are shown below. The awards relating to J. Cox and K. Bond are disclosed in the accounts of Yorkshire Water plc. Some or all of the shares may be vested after 3 years dependent upon the company's performance during that period.

	<i>Date of award</i>	<i>Max no. of shares</i>	<i>Earliest vesting date</i>
R. K. Ackroyd	18.8.98	4,035	18.8.01
T. Flanders	18.8.98	3,948	18.8.01
A. P. Hinton	18.8.98	3,778	18.8.01
J. R. Layfield	18.8.98	3,938	18.8.01
M. K. Moir	18.8.98	3,801	18.8.01
J. P. O'Kane	30.11.98	2,117	30.11.01
C. J. Stones	18.8.98	4,527	18.8.01
K. I. Whiteman	18.8.98	3,858	18.8.01

The market price of the shares on 5 July 1999 was 472.5p.

Notes to the Accounts

7. INTEREST

	<i>1999</i>	<i>1998</i>
	£m	£m
Interest payable on:		
Bank loans and overdrafts	15.9	8.6
Finance charges in respect of finance leases	33.9	28.1
Other	0.2	0.2
	<u>50.0</u>	<u>36.9</u>
Interest receivable:		
Inter-company loans	(13.6)	(8.6)
Other	(0.8)	(0.8)
	<u>35.6</u>	<u>27.5</u>

8. TAXATION

	<i>1999</i>	<i>1998</i>
	£m	£m
Taxation comprises:		
Corporation tax	53.8	30.2
ACT surrendered	(34.7)	(19.5)
Group relief payments	0.6	0.2
Prior year adjustments	(1.6)	-
	<u>18.1</u>	<u>10.9</u>

The full potential deferred tax liability on timing differences, calculated using the liability method, at a tax rate of 31% is:

	<i>1999</i>	<i>1998</i>
	£m	£m
Accelerated capital allowances	219	212
Short term timing differences	(23)	(31)
	<u>196</u>	<u>181</u>

This is currently unprovided in the accounts.

Notes to the Accounts

9. DIVIDENDS

	1999	1998
	£m	£m
Capital restructuring dividend	-	500.0
Interim dividend	26.4	22.9
Proposed final dividend	59.9	72.4
	<u>86.3</u>	<u>595.3</u>

10. PENSIONS

The holding company operates two defined benefit final pay pension schemes, the Yorkshire Water Pension Plan (YWPP) and the Water Mirror Image Pension Scheme (WMIS). At present, most employees are members of one or other of these schemes.

The pension cost under the accounting standard SSAP24 for YWPP and WMIS has been assessed in accordance with the advice of William M Mercer Ltd, using the projected unit method for YWPP and the attained age method for WMIS. For this purpose, the actuarial assumptions adopted are based upon investment growth of 6.5% per annum, pay growth of 5% per annum and increases to pensions in payments and deferred pensions of 3% per annum. The actuarial value of the assets was taken as 82% of the market value as at 31 March 1998.

The last actuarial valuation of the two schemes was carried out at 31 March 1998 and details of the results of this valuation can be found in the accounts of the parent company.

11. INVESTMENTS

	Interest in associated undertakings £m	Other unlisted investments £m	Total £m
At 1 April 1998 and 31 March 1999	<u>-</u>	<u>0.2</u>	<u>0.2</u>

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.

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 1998	884.3	774.4	852.9	399.4	2,911.0
Prior period adjustment (see note below)	-	423.3	-	-	423.3
Additions	91.6	52.7	162.7	75.8	382.8
Disposals	(7.4)	-	(17.5)	(1.9)	(26.8)
Grants and contributions	-	-	-	(13.6)	(13.6)
At 31 March 1999	968.5	1,250.4	998.1	459.7	3,676.7
Depreciation					
At 1 April 1998	282.9	-	311.6	-	594.5
Prior period adjustment (see note below)	-	509.4	-	-	509.4
Disposals	(6.8)	-	(16.4)	(1.9)	(25.1)
Depreciation for the year	21.9	35.0	63.3	1.9	122.1
At 31 March 1999	298.0	544.4	358.5	0.0	1,200.9
Net book amount at 31 March 1999	670.5	706.0	639.6	459.7	2,475.8
Net book amount at 31 March 1998	601.4	688.3	541.3	399.4	2,230.4

As a result of the adoption of FRS12 and its application to provisions, the provision for infrastructure renewals expenditure accumulated since 1988/89, standing at £86.1m at 31 March 1998, has been allocated to infrastructure assets. Over the period from 1988/89 to 1997/98, the accrual for planned expenditure, totalling £509.4m, is shown above as depreciation and the actual expenditure of £423.3m is added to the cost of infrastructure assets. In the year ended 31 March 1999, net expenditure of £54.6m compared to depreciation of £35.0m.

At 31 March 1999 assets included above held under finance leases amounted to:

Cost	150.8	59.4	280.9	34.8	525.9
Depreciation	9.0	1.7	49.0	-	59.7
Net book amount at 31 March 1999	141.8	57.7	231.9	34.8	466.2
Net book amount at 31 March 1998	105.6	-	230.4	134.3	470.3

	Cost at 31 March 1999 £m	Depreciation at 31 March 1999 £m	Net book value at 31 March 1999 £m	Net book value at 31 March 1998 £m
The net book amount of land and buildings comprised:				
Freehold properties	968.1	297.9	670.2	600.9
Properties held on long lease	-	-	-	0.2
Properties held on short lease	0.4	0.1	0.3	0.3
	968.5	298.0	670.5	601.4

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 £129.3 million lower than it would have been had this treatment not been adopted.

Notes to the Accounts

13. STOCKS

	1999	1998
	£m	£m
Raw materials and consumables	0.4	1.0
Work in progress	0.1	0.3
	<u>0.5</u>	<u>1.3</u>

14. DEBTORS

	1999	1998
	£m	£m
Trade debtors	37.2	34.9
Amounts owed by group undertakings	5.6	3.7
Amounts owed by parent company	123.0	216.0
Amounts owed by associated undertakings	0.1	-
Prepayments and accrued income	48.4	50.0
Other debtors:		
Receivable within one year	18.2	15.5
Receivable after more than one year	0.3	0.3
	<u>232.8</u>	<u>320.4</u>

15. LONG TERM BORROWINGS

	1999	1998
	£m	£m
Maturities		
Repayable between one and two years:		
Bank loans	-	20.0
Finance leases	-	0.8
Repayable between two and five years:		
Bank loans	-	-
Repayable by instalments and maturing after five years:		
Bank loans	204.0	164.8
Other loans	0.2	0.3
Finance leases	493.1	487.8
	<u>697.3</u>	<u>673.7</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	42.1	0.1	5.6	47.8
Between one and two years	11.2	0.1	5.5	16.8
Between two and five years	45.6	0.1	17.6	63.3
After five years	147.1	0.0	470.1	617.2
	<u>246.0</u>	<u>0.3</u>	<u>498.8</u>	<u>745.1</u>
Amounts owed by parent company				(123.0)
Net debt				<u>622.1</u>

As shown above, the net debt as at 31 March 1999 was £622.1m (1998: £482.4m).

Borrowings, any part of which is repayable after five years, have been negotiated at fixed and variable interest rates which at 31 March 1999 ranged between 5.41% and 11.5%.

17. OTHER CREDITORS

	<i>1999</i>	<i>1998</i>
	£m	£m
Amounts falling due within one year:		
Trade creditors	38.0	47.7
Capital creditors	68.6	64.6
Deferred grants and contributions on depreciating fixed assets	2.8	3.0
Amounts owed to parent company - proposed dividend	59.9	72.4
Amounts owed to group undertakings	2.0	1.2
Social security and payroll deductions	2.5	2.6
Taxation	19.1	10.7
Receipts in advance	31.0	31.7
Other creditors	16.6	20.4
	<u>240.5</u>	<u>254.3</u>
Amounts falling due after more than one year:		
Capital creditors	4.1	3.2
Deferred grants and contributions on depreciating fixed assets	95.6	91.1
Other creditors	54.4	41.0
	<u>154.1</u>	<u>135.3</u>

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>Average interest</i>		<i>Average years to maturity</i>
				<i>Cash and deposits</i>	<i>rate of fixed borrowings</i>	
	£m	£m	£m	£m	%	years
Sterling	(622.1)	(409.8)	(324.0)	111.7	7.4	8.8

19. PROVISIONS FOR LIABILITIES AND CHARGES

	<i>Infrastructure renewals</i>
	£m
At 1 April 1998	86.1
Prior period adjustment (see Note 12)	(86.1)
At 31 March 1999	-

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 represented the unexpended balance of the profit and loss charge carried forward but has now been reversed in accordance with FRS 12 and the balances incorporated within the fixed assets statement (see Note 12).

20. COMMITMENTS

	<i>1999</i>	<i>1998</i>
	£m	£m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	<u>260.5</u>	<u>306.7</u>

At 31 March 1999 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>Land and buildings</i>	
	<i>1999</i>	<i>Other</i>	<i>1998</i>	<i>Other</i>
	£m	£m	£m	£m
Leases which expire:				
Within one year	-	0.6	0.8	0.6
Between one and five years	0.1	0.1	0.2	0.1
	<u>0.1</u>	<u>0.7</u>	<u>1.0</u>	<u>0.7</u>

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.

The company has guaranteed a 6 7/8% Guaranteed Bond due 2010 issued by the parent company. The liability under this guarantee amounted to £198.4 million at 31 March 1999.

22. CALLED UP SHARE CAPITAL

	<i>Authorised</i>	<i>Allotted and fully paid</i>
Ordinary shares of £1 each at 31 March 1998 and 1999	<u>775,000,000</u>	<u>775,000,000</u>

23. MOVEMENT IN SHAREHOLDER'S FUNDS

	<i>Reserves</i>	<i>Share capital</i>	<i>Total funds</i>
	£m	£m	£m
At 1 April 1998	689.3	775.0	1,464.3
Transfer from profit and loss account	105.3	-	105.3
At 31 March 1999	<u>794.6</u>	<u>775.0</u>	<u>1,569.6</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 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 £0.4m from Capita, a joint venture between Yorkshire Water Services Ltd and Capita Managed Services Ltd which terminated in June 1998. 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 Auditor's 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 13.

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 1999 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young

Registered Auditor, Leeds
7 July 1999

Regulatory Accounting Information 1999

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Explanatory note

Pages 28 to 48 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 1999

	1999			1998		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
Turnover	580.9	3.2	584.1	547.1	2.0	549.1
Operating costs	(338.6)	(2.3)	(340.9)	(331.9)	(1.5)	(333.4)
Operating income	0.7	-	0.7	2.4	-	2.4
Operating profit	243.0	0.9	243.9	217.6	0.5	218.1
Other income	1.4	-	1.4	1.3	-	1.3
Interest payable	(35.6)	-	(35.6)	(27.5)	-	(27.5)
Profit on ordinary activities before taxation	208.8	0.9	209.7	191.4	0.5	191.9
Taxation	(18.0)	(0.1)	(18.1)	(10.8)	(0.1)	(10.9)
Profit on ordinary activities after taxation	190.8	0.8	191.6	180.6	0.4	181.0
Dividends - restructuring	-	-	-	(500.0)	-	(500.0)
- interim	(25.8)	(0.6)	(26.4)	(22.6)	(0.3)	(22.9)
- final	(59.7)	(0.2)	(59.9)	(72.3)	(0.1)	(72.4)
Transfer to / (from) reserves	105.3	-	105.3	(414.3)	-	(414.3)

The accounting policies set out on pages 12 to 13 apply to the historical cost regulatory accounting information, with the exception of the accounting for infrastructure assets. In the statutory accounts, FRS 12 has been implemented and the balance sheet restated, as it is no longer possible to account for the difference between planned and actual expenditure on infrastructure renewals as a provision. As a result, the provision of £66.6m shown in the historical cost balance sheet on page 30 has been netted off tangible assets in the balance sheet on page 11.

In accordance with OFWAT instructions, FRS 12 has not been implemented in the regulatory accounts and the difference between planned and actual expenditure on infrastructure renewals has been accounted for as a provision as in previous years. As a result, the fixed assets figure of £2,542.4m shown in the regulatory balance sheet is £66.6m higher than the tangible assets figure shown in the statutory accounts. There is no effect on the profit and loss account.

Historical Cost Balance Sheet

as at 31 March 1999

	1999			1998		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
Fixed assets						
	2,534.9	7.5	2,542.4	2,308.1	8.4	2,316.5
Investments	0.1	0.1	0.2	0.1	0.1	0.2
	<u>2,535.0</u>	<u>7.6</u>	<u>2,542.6</u>	<u>2,308.2</u>	<u>8.5</u>	<u>2,316.7</u>
Current assets						
Stocks	0.5	-	0.5	1.3	-	1.3
Debtors	109.5	0.3	109.8	104.2	0.2	104.4
Short term investments	123.0	-	123.0	216.0	-	216.0
	<u>233.0</u>	<u>0.3</u>	<u>233.3</u>	<u>321.5</u>	<u>0.2</u>	<u>321.7</u>
Creditors: amounts falling due within one year						
Borrowings	(47.0)	(0.8)	(47.8)	(23.8)	(0.9)	(24.7)
Dividends payable	(59.7)	(0.2)	(59.9)	(72.3)	(0.1)	(72.4)
Other creditors	(177.7)	(0.2)	(177.9)	(178.9)	(0.1)	(179.0)
	<u>(284.4)</u>	<u>(1.2)</u>	<u>(285.6)</u>	<u>(275.0)</u>	<u>(1.1)</u>	<u>(276.1)</u>
Net current assets	<u>(51.4)</u>	<u>(0.9)</u>	<u>(52.3)</u>	<u>46.5</u>	<u>(0.9)</u>	<u>45.6</u>
Total assets less current liabilities	2,483.6	6.7	2,490.3	2,354.7	7.6	2,362.3
Creditors: amounts falling due after more than 1 year						
Borrowings	(697.3)	-	(697.3)	(673.7)	-	(673.7)
Other creditors	(58.5)	-	(58.5)	(44.2)	-	(44.2)
	<u>(755.8)</u>	<u>-</u>	<u>(755.8)</u>	<u>(717.9)</u>	<u>-</u>	<u>(717.9)</u>
Provisions for liabilities and charges	(66.6)	-	(66.6)	(86.1)	-	(86.1)
Deferred income	(91.6)	(6.7)	(98.3)	(86.4)	(7.6)	(94.0)
	<u>1,569.6</u>	<u>-</u>	<u>1,569.6</u>	<u>1,464.3</u>	<u>-</u>	<u>1,464.3</u>
Capital and reserves						
Called up share capital	775.0	-	775.0	775.0	-	775.0
Profit and loss account	794.6	-	794.6	689.3	-	689.3
	<u>1,569.6</u>	<u>-</u>	<u>1,569.6</u>	<u>1,464.3</u>	<u>-</u>	<u>1,464.3</u>

Current Cost Profit and Loss Account
for the Appointed Business
for the year ended 31 March 1999

	<i>Notes</i>	1999 £m	1998 £m
Turnover	6	580.9	547.1
Current cost operating costs	7	(378.5)	(365.2)
Operating income	6	<u>1.8</u>	<u>2.2</u>
		204.2	184.1
Working capital adjustment		<u>(1.5)</u>	<u>0.3</u>
Current cost operating profit		202.7	184.4
Other income		1.4	1.3
Interest payable		(35.6)	(27.5)
Financing adjustment		<u>17.4</u>	<u>22.8</u>
Current cost profit on ordinary activities before taxation		185.9	181.0
Taxation		<u>(18.0)</u>	<u>(10.8)</u>
Current cost profit on ordinary activities after taxation		167.9	170.2
Dividends		<u>(85.5)</u>	<u>(594.9)</u>
Current cost transfer to / (from) reserves		<u>82.4</u>	<u>(424.7)</u>

Current Cost Balance Sheet
for the Appointed Business
as at 31 March 1999

	<i>Notes</i>	1999 £m	1998 £m
Fixed assets			
Tangible assets	8	16,358.2	15,829.6
Third party contributions since 1989/90		(177.0)	(160.5)
Working capital	9	<u>3.7</u>	<u>69.5</u>
Net operating assets		16,184.9	15,738.6
Cash and investments		0.1	0.1
Non-trade debtors		20.6	18.3
Non-trade creditors due within one year		(82.6)	(54.9)
Creditors due after one year		(755.9)	(717.9)
Dividends payable		<u>(59.7)</u>	<u>(72.3)</u>
Net assets employed		<u>15,307.4</u>	<u>14,911.9</u>
Capital and reserves			
Called up share capital		775.0	775.0
Profit and loss account		341.2	258.8
Current cost reserve	10	<u>14,191.2</u>	<u>13,878.1</u>
		<u>15,307.4</u>	<u>14,911.9</u>

Current Cost Cash Flow Statement

for the year ended 31 March 1999

	1999			1998			
Notes	Appointed	Non- appointed	Total	Appointed	Non- appointed	Total	
	£m	£m	£m	£m	£m	£m	
Net cash flow from operating activities	11	350.0	0.9	350.9	323.5	0.6	324.1
Returns on investments and servicing of finance							
Interest received		14.1	-	14.1	7.1	-	7.1
Interest paid		(15.9)	-	(15.9)	(8.5)	-	(8.5)
Interest in finance lease rentals		(24.2)	-	(24.2)	(21.1)	-	(21.1)
Net cash flow from returns on investments and servicing of finance		(26.0)	-	(26.0)	(22.5)	-	(22.5)
Taxation							
UK corporation tax paid		(11.1)	(0.1)	(11.2)	(10.8)	(0.2)	(11.0)
Capital expenditure and financing of investment							
Gross cost of purchase of fixed assets		(317.6)	-	(317.6)	(273.9)	-	(273.9)
Receipt of grants and contributions		15.3	-	15.3	11.3	(0.1)	11.2
Infrastructure renewals expenditure		(54.6)	-	(54.6)	(56.1)	-	(56.1)
Disposal of fixed assets		2.3	-	2.3	2.9	-	2.9
Net cash outflow from investing activities		(354.6)	-	(354.6)	(315.8)	(0.1)	(315.9)
Equity dividends paid		(98.1)	(0.7)	(98.8)	(565.5)	(1.4)	(566.9)
Net cash (outflow)/ inflow before financing		(139.8)	0.1	(139.7)	(591.1)	(1.1)	(592.2)
Financing							
New leasing finance		11.3	-	11.3	53.7	-	53.7
Capital element in finance lease rentals		(6.7)	-	(6.7)	(7.1)	-	(7.1)
New bank loans		50.0	-	50.0	125.0	-	125.0
Movement in inter-company loans		93.0	-	93.0	(69.0)	-	(69.0)
Repayment of bank loans		(10.6)	-	(10.6)	(5.3)	-	(5.3)
Proceeds from share issues		-	-	-	500.0	-	500.0
Net cash inflow from financing		137.0	-	137.0	597.3	-	597.3
(Decrease)/increase in cash		(2.8)	0.1	(2.7)	6.2	(1.1)	5.1

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.

Infrastructure assets

As noted on page 29, FRS 12 has not been implemented in the regulatory accounts and the difference between planned and actual expenditure on infrastructure renewals is shown as a provision within working capital in the current cost balance sheet.

Tangible fixed assets

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

The modern equivalent asset values arising from the last Periodic Review are incorporated in the 1998/99 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.

5. DISCLOSURE OF TRANSACTIONS WITH ASSOCIATES

Allocation of costs

All direct costs are allocated immediately to the activity to which they relate. Indirect costs and overheads are apportioned on an appropriate basis to reflect the incidence of such costs. Indirect costs include administrative expenses and the provision of common services.

Direct costs attributable to the provision of services other than the Appointed Business are separately allocated and identified as 'Non-Appointed'. Indirect costs, relating to non-appointed activities, are recovered as a fixed percentage of direct costs based upon the analysis of operating costs.

Borrowings or sums lent

During the year, surplus funds were invested with the parent company at 3 month LIBOR rates. At 31 March 1999, the sum invested was £123m. No other sums were lent to or borrowed from other associated companies.

Dividends paid to associated undertakings

Amounts paid to the parent company, Yorkshire Water plc, and the underlying dividend policy are disclosed in the Directors' Report on page 6 of these accounts.

Guarantees/securities

The bankers for Yorkshire Water group current accounts provide an arrangement whereby debit and credit balances are pooled with interest charged on the net group balance.

This facility is subject to provision of cross guarantees by each company within the pooling arrangement, guaranteeing each of the other companies' current account liabilities with the bank. This is always provided so long as the maximum liability shall not exceed the credit balance on any current account of the guarantor.

Transfer of Assets and Liabilities

During the course of the year land and buildings were sold to group companies at market value. Total sale proceeds were £0.8m (1998 - £1.3m).

Notes to the Regulatory Accounting Information

Supply of Service

Details of services supplied to the Appointee by associates during the year are disclosed below where these exceed a materiality level of £1m (in line with RAG 5.02 requirements). No services of a material value were provided by the Appointee to associates.

Service	Associate Company	Turnover of Associate £m	Terms of Supply	Value £m
Corporate charges	Yorkshire Water plc	6.3	Cost allocation	4.7
Laboratory services	Yorkshire Environmental Solutions Ltd	43.3	Cost plus rate of return	5.3
Engineering services	Babcock Water Engineering Ltd	22.9 *	Competitive tendering/ negotiated market rates	26.9

* The group's interest in Babcock Water Engineering Ltd was disposed of on 1 December 1998 and the turnover quoted above relates therefore to the period up to this date as figures are unavailable for the full year. However, to comply with the spirit of RAG 5.02, the value of trading with the associate is disclosed for all contracts awarded prior to the disposal, irrespective of the date of expenditure. As a result, the figures quoted above are not for comparable periods.

6. ANALYSIS OF TURNOVER AND OPERATING INCOME FOR THE APPOINTED BUSINESS for the year ended 31 March 1999

	1999			1998		
	Water services £m	Sewerage services £m	Total Appointed Business £m	Water services £m	Sewerage services £m	Total Appointed Business £m
Turnover						
Measured	108.2	74.5	182.7	100.1	65.6	165.7
Unmeasured	166.5	193.6	360.1	159.1	185.0	344.1
Trade effluent	-	27.4	27.4	-	26.8	26.8
Other sources	1.0	3.8	4.8	1.1	2.7	3.8
Third party services	5.5	0.4	5.9	6.3	0.4	6.7
Total turnover	281.2	299.7	580.9	266.6	280.5	547.1
Operating income						
Current cost profit on fixed assets net of expenses	1.3	0.5	1.8	1.4	0.8	2.2
Total operating income	1.3	0.5	1.8	1.4	0.8	2.2
Working capital adjustment	(0.8)	(0.7)	(1.5)	0.2	0.1	0.3

Notes to the Regulatory Accounting Information

7. ANALYSIS OF OPERATING COSTS AND ASSETS for the year ended 31 March 1999

	Resources and treatment	Distribution	Water supply sub total
	£m	£m	£m
Direct costs			
Employment costs	6.2	6.0	12.2
Power	5.2	5.4	10.6
Agencies	-	-	-
Hired and contracted services	3.2	10.5	13.7
Associated companies	-	-	-
Materials and consumables	4.7	0.6	5.3
Service charges	4.3	-	4.3
Bulk supply imports	2.6	-	2.6
Other direct costs	0.8	0.8	1.6
Total direct costs	27.0	23.3	50.3
General and support expenditure	14.4	16.7	31.1
Functional expenditure	41.4	40.0	81.4
Total business activities			15.0
Rates			18.2
Doubtful debts			3.2
Total Opex less third party services			117.8
Third party services - opex			5.6
Total operating expenditure			123.4
Capital costs			
Infrastructure renewals expenditure	18.8	29.8	48.6
Movement in infrastructure renewals accrual/prepayment	(11.1)	(7.2)	(18.3)
Current cost depreciation (allocated)	37.6	15.4	53.0
Amortisation of deferred credits			(1.4)
Business activities current cost depreciation (non-allocated)			0.2
Total Capital Maintenance			82.1
TOTAL OPERATING COSTS			205.5
CCA GROSS MEA VALUES			
Service activities	3,213.0	4,084.8	7,297.8
Business activities			1.3
Service totals			7,299.1
Services for third parties			-
TOTAL			7,299.1

Sewerage	Sewerage treatment	Sludge treatment and disposal	Sewage treatment and disposal	Sewerage services sub total	Customer services	Scientific services	Cost of regulation
£m	£m	£m	£m	£m	£m	£m	£m
1.6	5.7	3.2	8.9	10.5			
1.5	6.0	1.5	7.5	9.0			
-	-	-	-	-			
5.3	3.6	3.3	6.9	12.2			
-	-	0.2	0.2	0.2			
0.4	1.4	1.4	2.8	3.2			
1.0	2.4	0.1	2.5	3.5			
-	-	-	-	-			
0.5	0.7	0.3	1.0	1.5			
10.3	19.8	10.0	29.8	40.1	13.9	7.4	2.5
10.5	12.9	5.0	17.9	28.4	3.4	2.0	0.6
20.8	32.7	15.0	47.7	68.5	17.3	9.4	3.1
				14.8			
				10.3			
				3.1			
				96.7			
				0.3			
				97.0			
5.9	-	-	-	5.9			
(1.2)	-	-	-	(1.2)			
7.0	56.3	9.2	65.5	72.5			
				(1.4)			
				0.2			
				76.0			
				173.0			
8,449.1	2,573.1	44.2	2,617.3	11,066.4			
				1.5			
				11,067.9			
				-			
				11,067.9			

Notes to the Regulatory Accounting Information

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

	Resources and treatment	Distribution	Water supply sub total
	£m	£m	£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	Sewage treatment	Sludge treatment and disposal	Sewage treatment and disposal	Sewerage services sub total	Customer services	Scientific services	Cost of regulation
£m	£m	£m	£m	£m	£m	£m	£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	-	-	-	12.9			
(8.5)	-	-	-	(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

8. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE

as at 31 March 1999

	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 1998	1,328.0	18.2	5,427.7	260.9	7,034.8
RPI adjustment	27.8	0.4	114.0	5.5	147.7
Disposals	-	(0.3)	-	(0.5)	(0.8)
Additions	67.6	0.9	40.8	8.0	117.3
At 31 March 1999	1,423.4	19.2	5,582.5	273.9	7,299.0
Depreciation					
At 1 April 1998	438.1	1.6	-	62.3	502.0
RPI adjustment	9.2	-	-	1.3	10.5
Disposals	-	-	-	(0.4)	(0.4)
Charge for year	33.8	0.5	-	18.9	53.2
At 31 March 1999	481.1	2.1	-	82.1	565.3
Net book amount at 31 March 1999	942.3	17.1	5,582.5	191.8	6,733.7
Net book amount at 1 April 1998	889.9	16.6	5,427.7	198.6	6,532.8
SEWERAGE SERVICES					
Gross replacement cost					
At 1 April 1998	2,331.8	32.2	7,946.3	329.6	10,639.9
RPI adjustment	49.0	0.7	166.8	6.9	223.4
Disposals	-	(0.3)	-	(0.4)	(0.7)
Additions	173.3	2.4	21.6	8.1	205.4
At 31 March 1999	2,554.1	35.0	8,134.7	344.2	11,068.0
Depreciation					
At 1 April 1998	1,284.2	4.7	-	54.2	1,343.1
RPI adjustment	27.0	0.1	-	1.1	28.2
Disposals	-	(0.1)	-	(0.4)	(0.5)
Charge for year	58.5	0.2	-	14.0	72.7
At 31 March 1999	1,369.7	4.9	-	68.9	1,443.5
Net book amount at 31 March 1999	1,184.4	30.1	8,134.7	275.3	9,624.5
Net book amount at 1 April 1998	1,047.6	27.5	7,946.3	275.4	9,296.8

Notes to the Regulatory Accounting Information

8. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE (continued) as at 31 March 1999

	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 1998	3,659.8	50.4	13,374.0	590.5	17,674.7
RPI adjustment	76.8	1.1	280.8	12.4	371.1
Disposals	-	(0.6)	-	(0.9)	(1.5)
Additions	240.9	3.3	62.4	16.1	322.7
At 31 March 1999	3,977.5	54.2	13,717.2	618.1	18,367.0
Depreciation					
At 1 April 1998	1,722.3	6.3	-	116.5	1,845.1
RPI adjustment	36.2	0.1	-	2.4	38.7
Disposals	-	(0.1)	-	(0.8)	(0.9)
Charge for year	92.3	0.7	-	32.9	125.9
At 31 March 1999	1,850.8	7.0	-	151.0	2,008.8
Net book amount at 31 March 1999	2,126.7	47.2	13,717.2	467.1	16,358.2
Net book amount at 1 April 1998	1,937.5	44.1	13,374.0	474.0	15,829.6

Note 12 on Tangible Assets shown on page 20 of the statutory accounts makes reference to the restatement of balances relating to infrastructure assets to comply with FRS 12. In accordance with instructions received from OFWAT, FRS 12 has not been implemented in the Regulatory Accounts and the asset balances shown above have not been restated. The provision for infrastructure renewals expenditure remains therefore within Working Capital in Note 9.

Notes to the Regulatory Accounting Information

9. WORKING CAPITAL

	1999	1998
	£m	£m
Stocks	0.5	1.3
Trade debtors	36.9	34.8
Trade creditors	(37.9)	(47.7)
Short term capital creditors	(68.6)	(64.6)
Infrastructure renewals (accrual)/prepayment	(66.6)	(86.1)
Trade payments in advance	(31.0)	(31.7)
Payroll related taxes & DSS contributions	(2.5)	(2.6)
Group trade debtors/(creditors)	126.7	218.5
Prepayments	46.2	47.6
	<hr/>	<hr/>
	3.7	69.5

10. MOVEMENT ON CURRENT COST RESERVE

	1999	1998
	£m	£m
Balance at 1 April 1998	13,878.1	13,405.7
AMP adjustment	-	-
RPI adjustments		
Fixed assets	332.4	500.6
Working capital	1.5	(0.3)
Financing	(17.4)	(22.8)
Grants & third party contributions	(3.4)	(5.1)
	<hr/>	<hr/>
Balance at 31 March 1999	14,191.2	13,878.1

Notes to the Regulatory Accounting Information

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

	1999 £m	1998 £m
Current cost operating profit	202.7	184.4
Working capital adjustment	1.5	(0.3)
Change in stocks	0.8	0.0
Receipts from other income	1.4	1.3
Current cost depreciation	123.1	112.6
Current cost loss / (profit) on sale of assets	(1.8)	(2.2)
Increase in debtors and prepaid expenses	(3.0)	(12.4)
(Decrease) / increase in creditors and accrued expenses	(9.8)	6.5
Infrastructure renewals expenditure	54.6	56.1
Increase / (decrease) in provisions	(19.5)	(22.5)
Net cash flow from operating activities	350.0	323.5

12. ANALYSIS OF NET DEBT

	At 31 Mar 1998 £m	Cash flow £m	At 31 Mar 1999 £m
Cash in hand and bank	-	-	-
Overdrafts	8.6	2.7	11.3
Loans due within one year	10.5	20.4	30.9
Loans due after one year	185.1	19.0	204.1
Finance leases	494.2	4.6	498.8
Inter-company loan	(216.0)	93.0	(123.0)
Total net debt	482.4	139.7	622.1
Appointed Business	481.5	139.8	621.3
Non - Appointed Business	0.9	(0.1)	0.8
Total net debt	482.4	139.7	622.1

Notes to the Regulatory Accounting Information

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

	1999 £m	*1998 £m	*1997 £m	*1996 £m	*1995 £m
Turnover	580.9	564.1	579.9	570.2	559.8
Current cost operating costs	(378.5)	(376.5)	(379.8)	(436.3)	(431.1)
Operating income	<u>1.8</u>	<u>2.3</u>	<u>0.4</u>	<u>(0.8)</u>	<u>0.9</u>
	204.2	189.9	200.5	133.1	129.6
Working capital adjustment	<u>(1.5)</u>	<u>0.3</u>	<u>3.0</u>	<u>0.0</u>	<u>1.2</u>
Current cost operating profit	202.7	190.2	203.5	133.1	130.8
Other income	1.4	1.3	1.3	1.1	1.2
Net interest	(35.6)	(28.4)	(24.9)	(18.7)	(11.6)
Financing adjustment	<u>17.4</u>	<u>23.5</u>	<u>12.7</u>	<u>12.3</u>	<u>13.7</u>
Current cost profit before taxation	185.9	186.6	192.6	127.8	134.1
Taxation	<u>(18.0)</u>	<u>(11.1)</u>	<u>(11.5)</u>	<u>-</u>	<u>-</u>
Current cost profit on ordinary activities	167.9	175.5	181.1	127.8	134.1
Dividends	<u>(85.5)</u>	<u>(613.3)</u>	<u>(68.7)</u>	<u>(203.7)</u>	<u>(128.7)</u>
Current cost transfer to / (from) reserves	<u>82.4</u>	<u>(437.8)</u>	<u>112.4</u>	<u>(75.9)</u>	<u>5.4</u>

* Figures for years prior to 1998/99 have been restated into pounds of the latest year using RPI indexation.

Notes to the Regulatory Accounting Information

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

	1999	*1998	*1997	*1996	*1995
	£m	£m	£m	£m	£m
Fixed assets					
Tangible assets	16,358.2	16,162.0	16,018.2	15,841.8	15,210.5
Third party contributions since 1989/90	(177.0)	(163.9)	(154.4)	(145.1)	(130.4)
Working capital	<u>3.7</u>	<u>71.0</u>	<u>(9.2)</u>	<u>(118.6)</u>	<u>(0.9)</u>
Net operating assets	<u>16,184.9</u>	<u>16,069.1</u>	<u>15,854.6</u>	<u>15,578.1</u>	<u>15,079.2</u>
Cash and investments	0.1	0.1	0.1	0.1	0.1
Non-trade debtors	20.6	18.7	7.2	16.0	18.7
Non-trade creditors due within one year	(82.6)	(56.1)	(62.3)	(38.8)	(24.2)
Creditors due after one year	(755.9)	(733.0)	(585.7)	(429.1)	(378.6)
Dividends payable	<u>(59.7)</u>	<u>(73.8)</u>	<u>(45.3)</u>	<u>(44.5)</u>	<u>(81.0)</u>
Net assets employed	<u>15,307.4</u>	<u>15,225.0</u>	<u>15,168.6</u>	<u>15,081.8</u>	<u>14,614.2</u>
Capital and reserves					
Called up share capital	775.0	791.3	290.4	297.8	306.1
Profit and loss account	341.2	264.2	721.8	626.1	720.8
Current cost reserve	<u>14,191.2</u>	<u>14,169.5</u>	<u>14,156.4</u>	<u>14,157.9</u>	<u>13,587.3</u>
	<u>15,307.4</u>	<u>15,225.0</u>	<u>15,168.6</u>	<u>15,081.8</u>	<u>14,614.2</u>

* Figures for years prior to 1998/99 have been restated into pounds of the latest year using RPI indexation.

Auditor's Report on the Regulatory Accounting Information

To the Director General of Water Services

We have audited the regulatory accounts on pages 27 to 48.

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 1999 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) except for the treatment of infrastructure assets, the summarised historical cost accounts on pages 29 to 30, which have been prepared from the accounts set out on pages 10 to 24, give in conjunction therewith a true and fair view of the revenues, costs, assets and liabilities of the Appointee and its Appointed Business. In accordance with Ofwat guidelines, the provision for infrastructure renewals remains in working capital which is contrary to the requirements of FRS 12; and
- (d) the current cost financial information on pages 31 to 33 and 37 to 48 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

Registered Auditor, Leeds
7 July 1999