

ANNUAL REPORT AND ACCOUNTS 2000

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OPERATING REVIEW

Operating results

Regulated turnover increased by 5.9% to £614.9m (1999: £580.9m) following an overall increase in tariffs of 6.2% from 1 April 1999. In 1999/2000, one third of the regulated turnover was from metered customers. Income from new customers helped to offset the loss of income arising from the continuing decline in consumption by the traditional measured customer base and the effect of the 21,000 new domestic meters options. At 31 March 2000 over 340,000 domestic customers were metered.

Regulated operating costs reduced by more than 5% in real terms despite additional operating costs arising from the completion of capital schemes. The savings arose primarily from the change programme efficiency initiatives, including a reduction in employees from 2,811 at the start of the financial year to 2,666 at 31 March 2000. The challenge set by the Final Determination has led to the need to accelerate planned cost reductions and exceptional restructuring costs of £17.3m, representing the additional cost of redundancies were incurred.

Operating profit after exceptional restructuring costs increased by 7.2% to £264.4m (1999: £246.6m) resulting in an improvement in the operating margin to 42.8% compared to 42.2% in 1999.

Operating Performance

Since 1996/97, Yorkshire Water's overall service performance, as assessed by the industry regulator, OFWAT, has improved faster and by more than any other water and sewerage services company. In 1998/99, the last year for which comparisons have been published, the company achieved a top ranking in five out of the eight OFWAT key levels of service indicators.

Further improvements have been made to the very high levels of service achieved in recent years. As a result of focused investment and improved operational practices the number of properties at risk of inadequate water pressure has been reduced by two thirds over the last year. Overall compliance with drinking water quality standards has never been better, reaching 99.9% in 1999 (1998: 99.8%).

As a result of improved working practices, 100.0% (1999: 99.6%) of billing enquiries were answered within 5 days and over 96.2% of telephone enquiries were answered within 30 seconds. The level of complaints has remained stable at the previous low levels, however performance in dealing with these complaints has improved and now 98% are dealt with within 5 days. OFWAT has introduced a measure known as the "Assessed Service Score" which seeks to evaluate a basket of services including opening hours, payment methods, debt recovery practices and performance guarantees. The results from OFWAT showed Yorkshire Water as the best performer in the industry.

During the year, internet capabilities have been developed through the company's website at www.yorkshirewater.co.uk to deliver a range of services extending the ways in which customers are able to contact the company. Yorkshire Water is the first water utility to offer secure methods of bill payment and direct debit initiation through the internet. Other aspects have been developed to meet the needs of different customer and stakeholder groups, including special needs, schools and the environment. Customer feedback has been excellent and investment in this media will continue to ensure that customers' service expectations are delivered.

The company's comprehensive programme of work over the last three years to ensure Year 2000 compliance of its equipment and systems, including assessment of key customers and suppliers, ensured that customers' water supplies were safeguarded and that service was uninterrupted over the

millennium period. Our action plans were used as an example of best practice by Action 2000 and the National Audit Office and were awarded 'Blue' status as a result of an independent assessment carried out by OFWAT.

Investment in the environment

Capital investment by Yorkshire Water Services in 1999/2000, the final year of the current investment period, was £452.4m (1999: £382.8m) which means that a total of £1,781m has been invested over the five year period to March 2000.

Under the company's Rivercare programme, work has continued to improve the quality of discharges from our major waste water treatment plants with schemes being completed at Knostrop (Leeds), Mitchell Laithes (Dewsbury), Caldervale and Sandall (Wakefield), Halifax, North Bierley and Spenborough (Cleckheaton). This will further improve the quality of the rivers Aire and Calder.

The Coastcare programme has progressed well during the year with the first major scheme nearing completion at Bridlington, to be followed by the schemes at Scarborough, Filey and Whitby later this year in advance of their target completion dates.

The first major improvement to the untreated discharges to the Humber estuary was made with the completion of the waste water treatment plant at Goole. Work has progressed on the Humbercare scheme and, despite the problems associated with a collapse in one section of the tunnel, the project is on target to end the discharge of raw sewage from Hull into the Humber Estuary before the regulatory compliance date of December 2000. The programme of improvements to Combined Sewer Overflows within the current five year period has been completed.

The company has met all the outputs required by OFWAT within the five year period to March 2000. Against the Mains Quality Undertaking of 1,770km, a total length of water mains of 1,818km has been rehabilitated. All the DWI Undertakings for the five year period have been completed.

Leakage reduction remains an integral part of the company's long-term water supply strategy. For the past three years we have met and surpassed the mandatory leakage targets set by the industry regulator OFWAT. Total leakage from the Yorkshire Water network and customers pipes in 1999/2000 was 308 MI/d (1999: 333MI/d) compared with the OFWAT target of 329 MI/d.

The OFWAT Periodic Review

The Director General of Water Services announced the Final Determination of price limits for the next five years, 2000 to 2005, on 25 November 1999. During the period leading up to the Determination, significant customer research was carried out to ensure that OFWAT was aware of customer priorities and expectations when reviewing the pricing structure. Yorkshire Water was recognised as being amongst the most efficient of the water companies. As a result customers will benefit through significant price reductions whilst still receiving excellent levels of service.

The price reductions required in 2000/01 combined with broadly stable prices in the following years up to 2004/05, are extremely challenging but, on balance, the board of Yorkshire Water decided to accept the outcome. However, an extensive drinking water and environmental improvement programme will have to be delivered and at the same time prices reduced significantly. This has wide ranging implications for Yorkshire Water and means that operating costs will have to be reduced significantly over the next few years. As a result, the existing change programme, which was already delivering efficiencies, was accelerated. Plans to reduce manpower levels by around 500 over a 12 month period were announced in early December 1999. Despite these challenges the company is

committed to maintaining and where possible improving upon the very high levels of service that it has already achieved.

Yorkshire Water published its Monitoring Plan on 31 March 2000. The plan informs customers of the outcome of the 1999 Periodic Review. In addition to advising on price limits, the plan includes the key objectives that Yorkshire Water expects to deliver for the period 2000 to 2005 on drinking water, environmental quality and levels of service.

York Waterworks

The investment in York Waterworks made by the Kelda Group in 1998/99 was transferred to Yorkshire Water during the year. The company has worked to integrate fully the two water businesses in order to deliver a seamless service to customers and make available to them enhanced service standards and guarantees. This has been completed successfully and customers can now look forward to these benefits coupled with future price reductions. The two companies will operate under a single licence with effect from 1 April 2000.

During 1999/2000 York Waterworks continued to maintain, and in some cases improve, its very high levels of service and compliance record.

Business Environment

In response to the changing business environment, the company is developing initiatives to generate new income. Opportunities are being evaluated for developing new products and services which improve the range of services offered to our customers whilst adding value to the company.

Under the new Competition Act, which came into force on 1 March 2000, companies were required to publish a Network Access Code, setting out principles to facilitate the operation of common carriage. Yorkshire Water has taken a leading role in the industry and has been represented on national steering groups.

In May 2000, Kelda Group, along with the BICC Group and Earth Tech Engineering signed a contract with the North of Scotland Water Authority for an £80m Private Finance Initiative scheme to provide new waste water treatment plants and other facilities in Scotland. The consortium, which will operate under the name 'Aberdeen Environmental Services Ltd', will finance, design, build and operate new waste water treatment plants capable of servicing 450,000 customers in Aberdeen, Stonehaven, Peterhead and Fraserburgh. Yorkshire Water will operate the new waste water treatment plants under a 30 year contract through a dedicated operating company, 'Grampian Waste Water Services Ltd', following completion of construction which is likely to be in Autumn 2001.

DIRECTORS' REPORT

The Directors present their report for the year to 31 March 2000.

Financial Results for the year

Profit on ordinary activities was £213.3m.

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, all of which is held by Kelda Group plc.

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 who served during the year, including any changes, are shown below.

Kevin Bond	Chairman
Jonson Cox	Managing Director
Richard Ackroyd	
Andy Hinton	
John Layfield	
Karen Moir	
John O'Kane	
Clive Stones	
Kevin Whiteman	

Non-executive Directors

Charles Brandon Gough
Elizabeth Kerry
Derek Roberts

Clive Stones resigned as a director of the company on 13 December 1999. Brandon Gough, Jonson Cox, John Layfield and Karen Moir resigned as directors of the company on 31 March 2000. On the same date, Kevin Whiteman became Managing Director.

Since the end of the year, Kevin Bond resigned as Chairman and a director of the company on 10 April 2000. John Napier (executive Chairman of Kelda Group plc) has been appointed as Chairman and a director of the company (on 18 April 2000) and Charles Firlotte as a director (on 1 April 2000). Additional information relating to directors who served during the year, including interests in shares, is disclosed in Note 5 of the accounts.

Dividends

The total dividend for the year payable to the parent company, Kelda Group plc, of £94.3m, comprises the following:

	Regulated Activities £m	Non-regulated Activities £m	Total Dividend £m
Interim Dividend	28.0	0.6	28.6
Proposed Final Dividend	<u>64.8</u>	<u>0.9</u>	<u>65.7</u>
Total Dividend for the year	<u>92.8</u>	<u>1.5</u>	<u>94.3</u>

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 £119.0m has been transferred to reserves, bringing the balance held in reserve to £915.6m.

Research & Development

The company undertakes a major programme of research in pursuit of improvements in service and operating efficiency. In 1999/00 £4.3m was committed to research and development including £2.9m 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 Keyland Developments 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 £452.4m.

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 44 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 Community Affairs 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 encourages 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

The company's Year 2000 project began in 1997 with a wide-ranging assessment programme to identify the risks associated with the Year 2000 problem. Risks given high priority included protection of public health, business continuity and safety of employees. The plans also included assessing key customers and suppliers.

The pre 2000 compliance work the company undertook gave a high level of protection against systems and equipment failures and their potential impact on customers. There were no Millennium or leap year rollover related failures or malfunctions of any systems or equipment.

Expenditure in 1999/2000 was £1.9m, including the costs of the contingency arrangements for the millennium weekend and, of this sum, £1.7m has been charged to the profit and loss account. The total cost of the work over a three year period has been £7.0m.

Environmental Policy

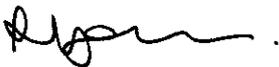
The Kelda group, of which the company forms part, is fully committed to environmental improvements and during the year a separate report was produced on its environmental policy and achievements.

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, 26 JUNE 2000
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 2000

	<i>Notes</i>	2000	1999
		£m	Restated
			£m
Turnover - continuing operations		617.8	584.1
Operating costs	2	<u>(336.1)</u>	<u>(337.5)</u>
Operating profit before exceptional costs		281.7	246.6
Exceptional restructuring costs	2	<u>(17.3)</u>	<u>-</u>
Operating profit		264.4	246.6
Income from shares in group undertakings		<u>1.3</u>	<u>-</u>
Profit on ordinary activities before interest		265.7	246.6
Net interest payable	7	<u>(42.2)</u>	<u>(35.6)</u>
Profit before taxation		223.5	211.0
Taxation	8	<u>(10.2)</u>	<u>(18.1)</u>
Profit for the year		213.3	192.9
Dividends	9	<u>(94.3)</u>	<u>(86.3)</u>
Retained profit for the financial year	22	<u>119.0</u>	<u>106.6</u>

Statement of Recognised Gains and Losses

There are no other recognised gains and losses arising other than the profit for the year of £213.3m (1999: £192.9m).

Balance Sheet

as at 31 March 2000

	Notes	2000 £m	1999 Restated £m
Fixed assets			
Tangible assets	12	2,768.8	2,477.8
Investments	11	<u>34.7</u>	<u>0.2</u>
		<u>2,803.5</u>	<u>2,478.0</u>
Current assets			
Stocks	13	0.7	0.5
Debtors	14	<u>210.0</u>	<u>232.8</u>
		<u>210.7</u>	<u>233.3</u>
Creditors: amounts falling due within one year			
Short term borrowings	16	(22.7)	(47.8)
Other creditors	17	<u>(254.5)</u>	<u>(240.5)</u>
		<u>(277.2)</u>	<u>(288.3)</u>
Net current liabilities		<u>(66.5)</u>	<u>(55.0)</u>
Total assets less current liabilities		2,737.0	2,423.0
Creditors: amounts falling due after more than one year			
Long term borrowings	15	(686.4)	(697.3)
Other creditors	17	<u>(360.0)</u>	<u>(154.1)</u>
		<u>1,690.6</u>	<u>1,571.6</u>
Capital and reserves			
Called up equity share capital	21	775.0	775.0
Profit and loss account	22	<u>915.6</u>	<u>796.6</u>
		<u>1,690.6</u>	<u>1,571.6</u>

Approved by the board of directors on 26 June 2000 and signed on their behalf by:



Kevin Whiteman
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.

Basis of accounting

The accounts of the Company are prepared under the historical cost convention in compliance with all applicable accounting standards and, except where otherwise stated in the notes to the accounts, with 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.

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.

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.

Taxation

The taxation charge in the profit and loss account is based on the profit for the year as adjusted for disallowable and non-taxable items using current rates.

Deferred taxation in respect of capital allowances and other material timing differences is provided for to the extent that there is reasonable probability that a liability will crystallise in the foreseeable future.

Tangible fixed assets and depreciation

Tangible fixed assets comprised the following:-

Infrastructure assets

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

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

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

Notes to the Accounts

Other tangible fixed assets

Other tangible assets are included at cost less accumulated depreciation. Finance costs incurred in respect of the construction of other tangible fixed assets are not capitalised.

Freehold land is not depreciated. Depreciation is charged on other tangible fixed assets on a straight-line basis over their estimated economic lives.

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

Assets in the course of construction are not depreciated until commissioned.

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Leased assets

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

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

Grants and contributions

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

Grants and contributions in respect of expenditure enhancing the infrastructure network are applied in reducing that expenditure. This is not in accordance with Schedule 4 to the Companies Act 1985, which requires tangible fixed assets to be shown at cost and hence grants and contributions as deferred income. The presentation is adopted because infrastructure assets do not have determinable finite lives and therefore such grants and contributions would remain as liabilities in perpetuity. The directors consider that the Company's presentation shows a true and fair view of the investment in infrastructure assets.

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

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.

Notes to the Accounts

Foreign currencies

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

Financial instruments

Interest rate swaps are used to hedge the Company's exposure to fluctuations in interest rates on its borrowings. The amounts payable or receivable in respect of interest rate swaps are accounted for on an accruals basis through adjustments to the interest expense of the corresponding liability.

Change in accounting policy

In accordance with Financial Reporting Standard (FRS) 15 'Tangible Fixed Assets', plant and equipment comprising two or more major components with substantially different useful economic lives have been identified and treated separately for depreciation purposes. The changes in net book values of tangible fixed assets as a result of the different useful economic lives of the major components have been accounted for as a prior year adjustment and comparative figures for the year ended 31 March 1999 have been adjusted as follows:

	Profit for the year after dividends £m	Net assets £m
As previously reported	105.3	1,569.6
Effect of the change to component depreciation	<u>1.3</u>	<u>2.0</u>
As restated	<u>106.6</u>	<u>1,571.6</u>

Profit before taxation for the year ended 31 March 2000 has increased by £1.5m following the change in accounting policy in respect of FRS 15.

Notes to the Accounts

3. DIRECTORS

	2000		1999		2000	1999
	<i>Bonus</i>		<i>Total</i>		<i>Pension</i>	<i>Pension</i>
<i>Remuneration of the Board</i>	<i>Salary</i>	<i>payments</i>	<i>Benefits</i>	<i>emoluments</i>	<i>emoluments</i>	<i>contributions</i>
	£000	£000	in kind	excluding	excluding	contributions
	£000	£000	£000	pension	pension	£000
				contributions	contributions	£000
				£000	£000	£000
Chairman:						
K. Bond	-	-	-	-	-	-
Directors:						
R. K. Ackroyd	90	19	10	119	112	11
J. Cox (resigned 31.3.2000)	-	-	-	-	-	-
T. Flanders (resigned 24.3.99)	-	-	-	-	109	10
C. B. Gough (resigned 31.3.2000)	-	-	-	-	-	-
A. P. Hinton	87	18	9	114	103	10
E. A. Kerry	16	-	-	16	16	-
J. R. Layfield (resigned 31.3.2000)	88	-	8	96	108	10
M. K. Moir (resigned 31.3.2000)	85	18	10	113	109	10
J. P. O'Kane (appointed 1.10.98)	87	19	10	116	60	3
D. F. Roberts	-	-	-	-	-	-
C. J. Stones (resigned 13.12.99)	71	18	10	99	126	8
K. I. Whiteman	88	19	11	118	109	11
	612	111	68	791	852	70
						75

The Chairman, K. Bond, and the Managing Director, J. Cox, were executive directors of the holding company, Kelda Group 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 executive directors have service agreements which are terminable by the company on twelve months' notice. A payment of £30,000 made to J. Layfield on his resignation a director does not appear in the table of emoluments as it was not paid during or in respect of the year. A further £260,100 was paid to the pension scheme in respect of this resignation.

The executive 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 of permanent employment. In 1999/2000 this scheme paid £473 to each participant and this is included in the emoluments table above.

During 1999/2000, all executive directors were contributory members of the Kelda Group Pension Plan, a defined benefit scheme and at 31 March 2000 R. Ackroyd, the highest paid director, had accrued pension benefit of £22,223 per annum.

Notes to the Accounts

4. DIRECTORS' SHARE OPTIONS

	<i>Balance at 1 April 1999</i>	<i>Granted during year</i>	<i>Exercised/ Lapsed during year</i>	<i>Balance at 31 March 2000</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
Sharesave	-	1,614	-	1,614	240.0	-	1.3.03	31.8.03
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
Sharesave	-	7,031	-	7,031	240.0	-	1.3.05	31.8.05
E. A. Kerry								
	-	-	-	-	-	-	-	-
J. R. Layfield (resigned 31.3.2000)								
	-	-	-	-	-	-	-	-
M. K. Moir (resigned 31.3.2000)								
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
Sharesave	-	3,229	-	3,229	240.0	-	1.3.03	31.8.03
C. J. Stones (resigned 13.12.99)								
Sharesave	5,072	-	(5,072)	-	204.0	236.0	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, Kelda Group 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 2000 was 265.25p (1999: 445.5p) and has ranged from 501.0p to 193.5p during the year.

The Sharesave Scheme refers to shares in the holding company, Kelda Group 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, Kelda Group plc, as at 31 March 2000 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 1999</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 2000</i>
R. K. Ackroyd	18,155	-	-	-	18,155
A. P. Hinton	8,898	800	-	-	9,698
J. Layfield (resigned 31.3.2000)	4,863	-	-	-	4,863
C. J. Stones (resigned 13.12.99)	23,284	-	-	5,072	28,356

The Chairman, K. Bond, and the Managing Director, J. Cox, were executive directors of the holding company, Kelda Group plc, and their interests in the ordinary shares of Kelda Group 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 the holding company. Some or all of the shares may be vested after 3 years dependent on company performance during that period. The market price of the shares on 22 June 2000 was 348.75p.

	<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
	30.6.99	5,054	30.6.02
A. P. Hinton	18.8.98	3,778	18.8.01
	30.6.99	4,917	30.6.02
J. R. Layfield	18.8.98	3,938	18.8.01
	30.6.99	4,930	30.6.02
M. K. Moir	18.8.98	3,801	18.8.01
	30.6.99	4,782	30.6.02
J. P. O'Kane	30.11.98	2,117	30.11.01
	30.6.99	4,853	30.6.02
C. J. Stones	18.8.98	4,527	18.8.01
	30.6.99	5,668	30.6.02
K. I. Whiteman	18.8.98	3,858	18.8.01
	30.6.99	4,947	30.6.02

Notes to the Accounts

7. INTEREST

	2000	1999
	£m	£m
Interest payable on:		
Bank loans and overdrafts	18.9	15.9
Finance leases	26.1	33.9
Inter-company loans	0.8	-
Other loans	0.1	0.2
	<u>45.9</u>	<u>50.0</u>
Interest receivable:		
Inter-company loans	(2.8)	(13.6)
Other	(0.9)	(0.8)
	<u>42.2</u>	<u>35.6</u>

8. TAXATION

	2000	1999
	£m	£m
Taxation comprises:		
Corporation tax at 30% (1999: 31%)	3.9	53.8
ACT surrendered	-	(34.7)
Group relief payments	6.3	0.6
Adjustments in respect of prior years	-	(1.6)
	<u>10.2</u>	<u>18.1</u>

The effective tax rate exceeds the standard rate of tax because of the effect of movements in deferred tax which have not been provided.

The full potential deferred tax liability on timing differences, calculated using the liability method, at a tax rate of 30% is:

	2000	1999
	£m	£m
Accelerated capital allowances		
Infrastructure assets	169.3	157.4
Other assets	228.2	219.0
Short term timing differences	(3.3)	(2.4)
	<u>394.2</u>	<u>374.0</u>

This is currently unprovided in the accounts.

Deferred tax will crystallize only in the event of any disposal of the infrastructure assets at amounts in excess of their written down value for tax purposes. In the opinion of the directors, the likelihood of such a liability crystallizing in the future is remote.

Notes to the Accounts

9. DIVIDENDS

	2000	1999
	£m	£m
Interim paid	28.6	26.4
Final proposed	65.7	59.9
	<u>94.3</u>	<u>86.3</u>

10. PENSIONS

Most employees of the Company are members of the main pension arrangement called the Kelda Group Pension Plan (KGPP). With effect from 1 April 2000, transfers were made to the KGPP from the Water Mirror Image Scheme (WMIS) and the Water Companies' Pension Scheme. The KGPP now has a number of different defined benefit sections and one defined contribution section.

The pension cost under Statement of Standard Accounting Practice (SSAP) 24 'Accounting for Pension Costs' for KGPP has been assessed in accordance with the advice of William M Mercer Limited, using the projected unit method for YWPP and the attained age method for former WMIS members. 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 payment 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 valuations for KGPP and WMIS were 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 group undertakings	Other unlisted investments	Total
	£m	£m	£m
At 1 April 1999	-	0.2	0.2
Additions	34.5	-	34.5
At 31 March 2000	<u>34.5</u>	<u>0.2</u>	<u>34.7</u>

Shares in group undertakings

The addition in the year relates to the purchase of a 100% holding in The York Waterworks Ltd from Kelda Group plc.

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 1999	968.5	1,250.4	998.1	459.7	3,676.7
Additions	57.7	153.4	124.4	116.9	452.4
Disposals	(9.3)	(0.2)	(78.2)	(2.2)	(89.9)
Grants and contributions	-	-	-	(22.4)	(22.4)
At 31 March 2000	1,016.9	1,403.6	1,044.3	552.0	4,016.8
Depreciation					
At 1 April 1999	298.0	544.4	358.5	-	1,200.9
Prior period adjustment (see note below)	-	-	(2.0)	-	(2.0)
Disposals	(6.2)	-	(78.0)	(2.2)	(86.4)
Depreciation for the year	20.8	35.6	76.9	2.2	135.5
At 31 March 2000	312.6	580.0	355.4	0.0	1,248.0
Net book amount at 31 March 2000	704.3	823.6	688.9	552.0	2,768.8
Net book amount at 31 March 1999 (restated)	670.5	706.0	641.6	459.7	2,477.8

Accumulated depreciation at 31 March 1999 has been adjusted to reflect the adoption of component depreciation in accordance with FRS 15, as explained in the accounting policy note on page 14.

At 31 March 2000 assets included above held under finance leases amounted to:

Cost	152.0	59.4	276.8	34.9	523.1
Depreciation	11.5	3.4	61.0	-	75.9
Net book amount at 31 March 2000	140.5	56.0	215.8	34.9	447.2
Net book amount at 31 March 1999	141.8	57.7	231.9	34.8	466.2

	Cost at 31 March 2000 £m	Depreciation at 31 March 2000 £m	Net book value at 31 March 2000 £m	Net book value at 31 March 1999 £m
The net book amount of land and buildings comprised:				
Freehold properties	1,016.4	312.5	703.9	670.2
Properties held on long lease	0.1	-	0.1	-
Properties held on short lease	0.4	0.1	0.3	0.3
	1,016.9	312.6	704.3	670.5

Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets. The Company's accounting policy in respect of grants and contributions is a departure from the Companies Act 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 £151.7m lower than it would have been had this treatment not been adopted.

Notes to the Accounts

13. STOCKS

	2000	1999
	£m	£m
Raw materials and consumables	0.5	0.4
Work in progress	0.2	0.1
	<u>0.7</u>	<u>0.5</u>

14. DEBTORS

	2000	1999
	£m	£m
Trade debtors	44.0	37.2
Amounts owed by group undertakings	83.2	128.6
Amounts owed by subsidiary undertakings	1.6	-
Amounts owed by associated undertakings	0.2	0.1
Prepayments and accrued income	56.3	48.4
Other debtors:		
Receivable within one year	24.5	18.2
Receivable after more than one year	0.2	0.3
	<u>210.0</u>	<u>232.8</u>

15. LONG TERM BORROWINGS

	2000	1999
	£m	£m
Maturities		
Repayable between two and five years:		
Bank loans	22.0	-
Repayable by instalments and maturing after five years:		
Bank loans	170.7	204.0
Other loans	0.1	0.2
Finance leases	487.7	493.1
Wholly repayable after five years:		
Other loans	5.9	-
	<u>686.4</u>	<u>697.3</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	18.6	0.1	4.0	22.7
Between one and two years	11.8	-	5.5	17.3
Between two and five years	56.4	0.1	18.0	74.5
After five years	124.6	5.9	464.1	594.6
	<u>211.4</u>	<u>6.1</u>	<u>491.6</u>	709.1
Amounts owed by group undertakings				(0.1)
Amounts owed by parent company				(78.0)
Amounts owed to parent company				<u>200.0</u>
Net debt				<u>831.0</u>

As shown above, the net debt as at 31 March 2000 was £831.0m (1999: £622.1m).

Borrowings, any part of which is repayable after five years, have been negotiated at fixed and variable interest rates which at 31 March 2000 ranged between 5.25% and 11.5%.

17. OTHER CREDITORS

	2000	1999
	£m	£m
Amounts falling due within one year:		
Trade creditors	43.5	38.0
Capital creditors	85.1	68.6
Deferred grants and contributions on depreciating fixed assets	2.9	2.8
Amounts owed to group undertakings	75.7	61.9
Amounts owed to subsidiary undertakings	2.2	-
Social security and payroll deductions	2.3	2.5
Taxation	1.9	19.1
Receipts in advance	29.8	31.0
Other creditors	11.1	16.6
	<u>254.5</u>	<u>240.5</u>
Amounts falling due after more than one year:		
Capital creditors	3.0	4.1
Amounts owed to parent company	200.0	-
Deferred grants and contributions on depreciating fixed assets	95.9	95.6
Other creditors	61.1	54.4
	<u>360.0</u>	<u>154.1</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	831.0	609.0	292.7	(70.7)	7.0	6.7

19. COMMITMENTS

	<i>2000</i>	<i>1999</i>
	£m	£m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	142.0	260.5

At 31 March 2000 the Company was committed to making the following payments during the next financial year under non-cancellable operating leases expiring as set out below:

	<i>Land and buildings</i>		<i>Land and buildings</i>	
	<i>2000</i>	<i>Other</i>	<i>1999</i>	<i>Other</i>
	£m	£m	£m	£m
Leases which expire:				
Within one year	0.1	0.6	-	0.6
Between one and five years	0.2	0.2	0.1	0.1
	0.3	0.8	0.1	0.7

20. 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 £200 million at 31 March 2000. The company has subsequently guaranteed a further 6.625% Bond due 2031 of £150m on 17 April 2000.

Notes to the Accounts

21. CALLED UP SHARE CAPITAL

	<i>Authorised</i>	<i>Allotted and fully paid</i>
Ordinary shares of £1 each at 31 March 1999 and 2000	<u>775,000,000</u>	<u>775,000,000</u>

22. MOVEMENT IN SHAREHOLDER'S FUNDS

	<i>Reserves</i>	<i>Share capital</i>	<i>Total funds</i>
	£m	£m	£m
At 1 April 1999	794.6	775.0	1,569.6
Prior year adjustment	2.0	-	2.0
Transfer from profit and loss account	119.0	-	119.0
At 31 March 2000	<u>915.6</u>	<u>775.0</u>	<u>1,690.6</u>

Accumulated depreciation at 31 March 1999 has been adjusted to reflect the adoption of component depreciation in accordance with FRS 15, as explained in the accounting policy note on page 14.

23. ULTIMATE HOLDING COMPANY

Kelda Group 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, Kelda Group plc, 2 The Embankment, Sovereign Street, Leeds LS1 4BG.

24. 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).

25. RELATED PARTY TRANSACTIONS

As a wholly owned subsidiary of Kelda Group 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.

26. 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 the Companies Act 1985 to prepare 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, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgement and estimates, and that all applicable accounting standards have been followed.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect 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 in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Auditing Practices Board and by our profession's ethical guidance.

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 2000 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 2001

Regulatory Accounting Information 2000

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Explanatory note

Pages 28 to 49 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 2000***

	2000			1999 restated		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
Turnover	614.9	2.9	617.8	580.9	3.2	584.1
Operating costs	(356.8)	(2.1)	(358.9)	(337.3)	(2.3)	(339.6)
Operating income	3.1	-	3.1	0.7	-	0.7
Operating profit	261.2	0.8	262.0	244.3	0.9	245.2
Other income	2.9	0.8	3.7	1.4	-	1.4
Interest payable	(42.2)	-	(42.2)	(35.6)	-	(35.6)
Profit on ordinary activities before taxation	221.9	1.6	223.5	210.1	0.9	211.0
Taxation	(10.1)	(0.1)	(10.2)	(18.0)	(0.1)	(18.1)
Profit on ordinary activities after taxation	211.8	1.5	213.3	192.1	0.8	192.9
Dividends - interim	(28.0)	(0.6)	(28.6)	(25.8)	(0.6)	(26.4)
- final	(64.8)	(0.9)	(65.7)	(59.7)	(0.2)	(59.9)
Transfer to reserves	119.0	-	119.0	106.6	-	106.6

The accounting policies set out on pages 12 to 14 apply to the historical cost regulatory accounting information, with the exception of the accounting for infrastructure assets which is explained in Note 15 on page 48. In particular, the change in accounting policy relating to component depreciation, as described on page 14 of the notes to the accounts, has also been applied to the historical cost profit and loss account and balance sheet in the Regulatory Accounts.

Historical Cost Balance Sheet

as at 31 March 2000

	2000			1999 restated		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
Fixed assets						
Tangible assets	2,800.5	6.3	2,806.8	2,536.9	7.5	2,544.4
Investments	34.6	0.1	34.7	0.1	0.1	0.2
	<u>2,835.1</u>	<u>6.4</u>	<u>2,841.5</u>	<u>2,537.0</u>	<u>7.6</u>	<u>2,544.6</u>
Current assets						
Stocks	0.7	-	0.7	0.5	-	0.5
Debtors	130.8	1.1	131.9	109.5	0.3	109.8
Short term investments	78.0	0.1	78.1	123.0	-	123.0
	<u>209.5</u>	<u>1.2</u>	<u>210.7</u>	<u>233.0</u>	<u>0.3</u>	<u>233.3</u>
Creditors: amounts falling due within one year						
Borrowings	(22.7)	-	(22.7)	(47.0)	(0.8)	(47.8)
Dividends payable	(64.8)	(0.9)	(65.7)	(59.7)	(0.2)	(59.9)
Other creditors	(185.7)	(0.3)	(186.0)	(177.7)	(0.2)	(177.9)
	<u>(273.2)</u>	<u>(1.2)</u>	<u>(274.4)</u>	<u>(284.4)</u>	<u>(1.2)</u>	<u>(285.6)</u>
Net current assets	<u>(63.7)</u>	<u>0.0</u>	<u>(63.7)</u>	<u>(51.4)</u>	<u>(0.9)</u>	<u>(52.3)</u>
Total assets less current liabilities	2,771.4	6.4	2,777.8	2,485.6	6.7	2,492.3
Creditors: amounts falling due after more than 1 year						
Borrowings	(886.4)	-	(886.4)	(697.3)	-	(697.3)
Other creditors	(64.1)	-	(64.1)	(58.5)	-	(58.5)
	<u>(950.5)</u>	<u>-</u>	<u>(950.5)</u>	<u>(755.8)</u>	<u>-</u>	<u>(755.8)</u>
Provisions for liabilities and charges	(38.0)	-	(38.0)	(66.6)	-	(66.6)
Deferred income	(92.3)	(6.4)	(98.7)	(91.6)	(6.7)	(98.3)
	<u>1,690.6</u>	<u>-</u>	<u>1,690.6</u>	<u>1,571.6</u>	<u>-</u>	<u>1,571.6</u>
Capital and reserves						
Called up share capital	775.0	-	775.0	775.0	-	775.0
Profit and loss account	915.6	-	915.6	796.6	-	796.6
	<u>1,690.6</u>	<u>-</u>	<u>1,690.6</u>	<u>1,571.6</u>	<u>-</u>	<u>1,571.6</u>

Current Cost Profit and Loss Account
for the Appointed Business
for the year ended 31 March 2000

	<i>Notes</i>	2000 £m	1999 £m
Turnover	6	614.9	580.9
Current cost operating costs	7	(378.8)	(378.5)
Operating income	6	5.2	1.8
		241.3	204.2
Working capital adjustment		(0.1)	(1.5)
Current cost operating profit		241.2	202.7
Other income		2.9	1.4
Interest payable		(42.2)	(35.6)
Financing adjustment		22.8	17.4
Current cost profit on ordinary activities before taxation		224.7	185.9
Taxation		(10.1)	(18.0)
Current cost profit on ordinary activities after taxation		214.6	167.9
Dividends		(92.8)	(85.5)
Current cost transfer to reserves		121.8	82.4

***Current Cost Balance Sheet
for the Appointed Business
as at 31 March 2000***

	<i>Notes</i>	2000 £m	1999 £m
Fixed assets			
Tangible assets	8	17,636.3	16,358.2
Third party contributions since 1989/90		(198.5)	(177.0)
Working capital	9	<u>(21.1)</u>	<u>3.7</u>
Net operating assets		17,416.7	16,184.9
Cash and investments		34.6	0.1
Non-trade debtors		27.4	20.6
Non-trade creditors due within one year		(43.5)	(82.6)
Creditors due after one year		(950.5)	(755.9)
Dividends payable		<u>(64.8)</u>	<u>(59.7)</u>
Net assets employed		<u>16,419.9</u>	<u>15,307.4</u>
Capital and reserves			
Called up share capital		775.0	775.0
Profit and loss account		463.0	341.2
Current cost reserve	10	<u>15,181.9</u>	<u>14,191.2</u>
		<u>16,419.9</u>	<u>15,307.4</u>

Current Cost Cash Flow Statement
for the year ended 31 March 2000

	2000			1999		
	Appointed	Non- appointed	Total	Appointed	Non- appointed	Total
Notes	£m	£m	£m	£m	£m	£m
Net cash flow from operating activities 11	380.3	0.9	381.2	350.0	0.9	350.9
Returns on investments and servicing of finance						
Interest received	6.8	-	6.8	14.1	-	14.1
Interest paid	(17.3)	-	(17.3)	(15.9)	-	(15.9)
Interest in finance lease rentals	(28.9)	-	(28.9)	(24.2)	-	(24.2)
Net cash flow from returns on investments and servicing of finance	(39.4)	-	(39.4)	(26.0)	-	(26.0)
Taxation						
UK corporation tax paid	(17.8)	(0.1)	(17.9)	(11.1)	(0.1)	(11.2)
Capital expenditure and financing of investment						
Gross cost of purchase of fixed assets	(366.8)	0.1	(366.7)	(317.6)	-	(317.6)
Receipt of grants and contributions	18.9	-	18.9	15.3	-	15.3
Infrastructure renewals expenditure	(64.2)	-	(64.2)	(54.6)	-	(54.6)
Disposal of fixed assets	2.2	-	2.2	2.3	-	2.3
Net cash outflow from investing activities	(409.9)	-	(409.8)	(354.6)	0.0	(354.6)
Acquisitions and disposals	(34.5)	-	(34.5)	-	-	-
Equity dividends paid	(87.7)	(0.8)	(88.5)	(98.1)	(0.7)	(98.8)
Net cash (outflow)/ inflow before financing	(209.0)	0.1	(208.9)	(139.8)	0.1	(139.7)
Financing						
New leasing finance	0.0	-	0.0	11.3	-	11.3
Capital element in finance lease rentals	(7.1)	-	(7.1)	(6.7)	-	(6.7)
New bank loans	6.7	-	6.7	50.0	-	50.0
Movement in inter-company loans	244.9	-	244.9	93.0	-	93.0
Repayment of bank loans	(31.7)	-	(31.7)	(10.6)	-	(10.6)
Net cash inflow from financing	212.8	-	212.8	137.0	-	137.0
Increase/(decrease) in cash	3.8	0.1	3.9	(2.8)	0.1	(2.7)

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 1999/2000 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 2000, the sum invested was £78m. On 31 March 2000, £200m was lent by the parent company, at a fixed rate of 6.875%, repayable in 2010. No other material sums were lent to or borrowed from other associated companies.

Dividends paid to associated undertakings

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

Guarantees/securities

The bankers for Kelda 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 £4.2m (1999 - £0.8m).

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	Kelda Group plc	5.9	Cost allocation	4.6
Laboratory services	Alcontrol Ltd	10.8	Cost plus rate of return	4.2

6. ANALYSIS OF TURNOVER & OPERATING INCOME FOR THE APPOINTED BUSINESS for the year ended 31 March 2000

	2000			1999		
	Water services £m	Sewerage services £m	Total Appointed Business £m	Water services £m	Sewerage services £m	Total Appointed Business £m
Turnover						
Measured	118.8	80.2	199.0	108.2	74.5	182.7
Unmeasured	174.8	204.3	379.1	166.5	193.6	360.1
Trade effluent	-	26.5	26.5	-	27.4	27.4
Revenue grants	0.1	-	0.1	0.1	-	0.1
Other sources	0.8	3.5	4.3	0.9	3.8	4.7
Third party services	5.6	0.3	5.9	5.5	0.4	5.9
Total turnover	300.1	314.8	614.9	281.2	299.7	580.9
Operating income						
Current cost profit on fixed assets net of expenses	4.3	0.9	5.2	1.3	0.5	1.8
Total operating income	4.3	0.9	5.2	1.3	0.5	1.8
Working capital adjustment	(0.1)	-	(0.1)	(0.8)	(0.7)	(1.5)

Notes to the Regulatory Accounting Information

7. ANALYSIS OF OPERATING COSTS AND ASSETS for the year ended 31 March 2000

	Resources and treatment	Distribution	Water supply sub total
	£m	£m	£m
Direct costs			
Employment costs	5.2	4.5	9.7
Power	4.6	4.6	9.2
Agencies	-	-	-
Hired and contracted services	4.0	11.1	15.1
Associated companies	-	-	-
Materials and consumables	4.3	0.5	4.8
Service charges	4.4	-	4.4
Bulk supply imports	2.5	-	2.5
Other direct costs	2.5	1.6	4.1
Total direct costs	27.5	22.3	49.8
General and support expenditure	12.5	14.6	27.1
Functional expenditure	40.0	36.9	76.9
Total business activities			14.0
Rates			18.2
Doubtful debts			2.9
Exceptional items			9.2
Total Opex less third party services			121.2
Third party services - opex			5.4
Total operating expenditure			126.6
Capital costs			
Infrastructure renewals expenditure	13.9	35.2	49.1
Movement in infrastructure renewals accrual/prepayment	(6.2)	(12.4)	(18.6)
Current cost depreciation (allocated)	32.8	15.4	48.2
Amortisation of deferred credits			(1.6)
Business activities current cost depreciation (non-allocated)			0.7
Total Capital Maintenance			77.8
TOTAL OPERATING COSTS			204.4
CCA GROSS MEA VALUES			
Service activities	3,655.5	4,301.1	7,956.6
Business activities			6.7
Service totals			7,963.3
Services for third parties			-
TOTAL			7,963.3

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
2.4	5.6	2.5	8.1	10.5			
1.6	6.0	1.5	7.5	9.1			
-	-	-	-	-			
5.6	5.1	3.6	8.7	14.3			
-	-	0.1	0.1	0.1			
0.2	1.7	2.0	3.7	3.9			
1.1	2.4	0.1	2.5	3.6			
-	-	-	-	-			
0.5	0.7	0.5	1.2	1.7			
11.4	21.5	10.3	31.8	43.2	13.1	6.5	2.2
7.7	9.0	4.5	13.5	21.2	3.3	1.7	0.5
19.1	30.5	14.8	45.3	64.4	16.4	8.2	2.7
				13.3			
				8.7			
				3.2			
				8.1			
				97.7			
				0.3			
				98.0			
15.1	-	-	-	15.1			
(10.0)	-	-	-	(10.0)			
6.6	55.4	10.0	65.4	72.0			
				(1.4)			
				0.7			
				76.4			
				174.4			
8,866.7	2,441.6	237.0	2,678.6	11,545.3			
				6.9			
				11,552.2			
				-			
				11,552.2			

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	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
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

8. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE as at 31 March 2000

	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 1999	1,423.4	19.2	5,582.5	273.9	7,299.0
AMP adjustment	20.1	65.0	406.0	(160.4)	330.7
RPI adjustment	37.5	2.2	155.7	3.0	198.4
Disposals	(3.5)	(0.7)	(0.5)	(2.4)	(7.1)
Additions	75.6	4.4	48.4	13.9	142.3
At 31 March 2000	1,553.1	90.1	6,192.1	128.0	7,963.3
Depreciation					
At 1 April 1999	481.1	2.1	-	82.1	565.3
AMP adjustment	91.7	0.4	-	(29.8)	62.3
RPI adjustment	14.8	0.1	-	1.4	16.3
Disposals	(4.0)	(0.6)	-	(2.4)	(7.0)
Charge for year	35.0	0.6	-	13.3	48.9
At 31 March 2000	618.6	2.6	-	64.6	685.8
Net book amount at 31 March 2000	934.5	87.5	6,192.1	63.4	7,277.5
Net book amount at 1 April 1999	942.3	17.1	5,582.5	191.8	6,733.7
SEWERAGE SERVICES					
Gross replacement cost					
At 1 April 1999	2,554.1	35.0	8,134.7	344.2	11,068.0
AMP adjustment	(164.1)	76.4	308.6	(253.3)	(32.4)
RPI adjustment	62.1	2.9	219.5	2.3	286.8
Disposals	(6.4)	(1.1)	-	(2.4)	(9.9)
Additions	193.8	9.0	22.9	13.9	239.6
At 31 March 2000	2,639.5	122.2	8,685.7	104.7	11,552.1
Depreciation					
At 1 April 1999	1,369.7	4.9	-	68.9	1,443.5
AMP adjustment	(321.5)	12.5	-	(32.7)	(341.7)
RPI adjustment	27.2	0.5	-	0.9	28.6
Disposals	(6.4)	(1.0)	-	(2.4)	(9.8)
Charge for year	59.5	1.4	-	11.8	72.7
At 31 March 2000	1,128.5	18.3	-	46.5	1,193.3
Net book amount at 31 March 2000	1,511.0	103.9	8,685.7	58.2	10,358.8
Net book amount at 1 April 1999	1,184.4	30.1	8,134.7	275.3	9,624.5

Notes to the Regulatory Accounting Information

8. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE (continued) as at 31 March 2000

	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 1999	3,977.5	54.2	13,717.2	618.1	18,367.0
AMP adjustment	(144.0)	141.4	714.6	(413.7)	298.3
RPI adjustment	99.6	5.1	375.2	5.3	485.2
Disposals	(9.9)	(1.8)	(0.5)	(4.8)	(17.0)
Additions	269.4	13.4	71.3	27.8	381.9
At 31 March 2000	4,192.6	212.3	14,877.8	232.7	19,515.4
Depreciation					
At 1 April 1999	1,850.8	7.0	-	151.0	2,008.8
AMP adjustment	(229.8)	12.9	-	(62.5)	(279.4)
RPI adjustment	42.0	0.6	-	2.3	44.9
Disposals	(10.4)	(1.6)	-	(4.8)	(16.8)
Charge for year	94.5	2.0	-	25.1	121.6
At 31 March 2000	1,747.1	20.9	-	111.1	1,879.1
Net book amount at 31 March 2000	2,445.5	191.4	14,877.8	121.6	17,636.3
Net book amount at 1 April 1999	2,126.7	47.2	13,717.2	467.1	16,358.2

Notes to the Regulatory Accounting Information

9. WORKING CAPITAL

	2000	1999
	£m	£m
Stocks	0.7	0.5
Trade debtors	43.7	36.9
Trade creditors	(43.2)	(37.9)
Short term capital creditors	(85.1)	(68.6)
Infrastructure renewals (accrual)/prepayment	(38.0)	(66.6)
Trade payments in advance	(29.8)	(31.0)
Payroll related taxes & DSS contributions	(2.3)	(2.5)
Group trade debtors/(creditors)	79.2	126.7
Prepayments	53.7	46.2
	<hr/>	<hr/>
	(21.1)	3.7

10. MOVEMENT ON CURRENT COST RESERVE

	2000	1999
	£m	£m
Balance at 1 April 1999	14,191.2	13,878.1
AMP adjustment	577.7	-
RPI adjustments		
Fixed assets	440.3	332.4
Working capital	0.1	1.5
Financing	(22.8)	(17.4)
Grants & third party contributions	(4.6)	(3.4)
	<hr/>	<hr/>
Balance at 31 March 2000	15,181.9	14,191.2

Notes to the Regulatory Accounting Information

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

	2000 £m	1999 £m
Current cost operating profit	241.2	202.7
Working capital adjustment	0.1	1.5
Change in stocks	(0.2)	0.8
Receipts from other income	1.6	1.4
Current cost depreciation	118.6	123.1
Current cost profit on sale of assets	(5.2)	(1.8)
Increase in debtors and prepaid expenses	(16.3)	(3.0)
Increase/(decrease) in creditors and accrued expenses	4.9	(9.8)
Infrastructure renewals expenditure	64.2	54.6
Decrease in provisions	(28.6)	(19.5)
Net cash flow from operating activities	380.3	350.0

12. ANALYSIS OF NET DEBT

	At 31 Mar 1999 £m	Cash flow £m	At 31 Mar 2000 £m
Cash in hand and bank	-	-	-
Overdrafts	11.3	(3.9)	7.4
Loans due within one year	30.9	(19.6)	11.3
Loans due after one year	204.1	(5.3)	198.8
Finance leases	498.8	(7.2)	491.6
Inter-company loan	(123.0)	244.9	121.9
Total net debt	622.1	208.9	831.0
Appointed Business	621.3	208.9	830.2
Non - Appointed Business	0.8	0.0	0.8
Total net debt	622.1	208.9	831.0

Notes to the Regulatory Accounting Information

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

	2000	*1999	*1998	*1997	*1996
	£m	£m	£m	£m	£m
Turnover	614.9	590.2	573.4	589.2	579.6
Current cost operating costs	(378.8)	(384.6)	(382.7)	(385.9)	(443.5)
Operating income	<u>5.2</u>	<u>1.8</u>	<u>2.3</u>	<u>0.4</u>	<u>(0.8)</u>
	241.3	207.4	193.0	203.7	135.3
Working capital adjustment	<u>(0.1)</u>	<u>(1.5)</u>	<u>0.3</u>	<u>3.0</u>	<u>0.0</u>
Current cost operating profit	241.2	205.9	193.3	206.7	135.3
Other income	2.9	1.4	1.4	1.3	1.1
Net interest	(42.2)	(36.2)	(28.8)	(25.3)	(19.0)
Financing adjustment	<u>22.8</u>	<u>17.7</u>	<u>23.9</u>	<u>12.9</u>	<u>12.5</u>
Current cost profit before taxation	224.7	188.8	189.8	195.6	129.9
Taxation	<u>(10.1)</u>	<u>(18.3)</u>	<u>(11.3)</u>	<u>(11.7)</u>	<u>-</u>
Current cost profit on ordinary activities	214.6	170.5	178.5	183.9	129.9
Dividends	<u>(92.8)</u>	<u>(86.9)</u>	<u>(623.5)</u>	<u>(69.7)</u>	<u>(207.1)</u>
Current cost transfer to/(from) reserves	<u>121.8</u>	<u>83.6</u>	<u>(445.0)</u>	<u>114.2</u>	<u>(77.2)</u>

* Figures for years prior to 1999/2000 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

	2000	*1999	*1998	*1997	*1996
	£m	£m	£m	£m	£m
Fixed assets					
Tangible assets	17,636.3	16,783.5	16,573.6	16,442.9	16,266.0
Third party contributions since 1989/90	(198.5)	(181.6)	(168.0)	(158.5)	(149.0)
Working capital	<u>(21.1)</u>	<u>3.8</u>	<u>72.8</u>	<u>(9.4)</u>	<u>(121.8)</u>
Net operating assets	17,416.7	16,605.7	16,478.4	16,275.0	15,995.2
Cash and investments	34.6	0.1	0.1	0.1	0.1
Non-trade debtors	27.4	21.1	19.2	7.4	16.5
Non-trade creditors due within one year	(43.5)	(84.7)	(57.5)	(64.0)	(39.8)
Creditors due after one year	(950.5)	(775.5)	(751.7)	(601.2)	(440.6)
Dividends payable	<u>(64.8)</u>	<u>(61.3)</u>	<u>(75.7)</u>	<u>(46.5)</u>	<u>(45.7)</u>
Net assets employed	<u>16,419.9</u>	<u>15,705.4</u>	<u>15,612.8</u>	<u>15,570.8</u>	<u>15,485.7</u>
Capital and reserves					
Called up share capital	775.0	795.1	811.4	298.1	305.8
Profit and loss account	463.0	350.1	271.0	740.9	642.8
Current cost reserve	<u>15,181.9</u>	<u>14,560.2</u>	<u>14,530.4</u>	<u>14,531.8</u>	<u>14,537.1</u>
	<u>16,419.9</u>	<u>15,705.4</u>	<u>15,612.8</u>	<u>15,570.8</u>	<u>15,485.7</u>

* Figures for years prior to 1999/2000 have been restated into pounds of the latest year using RPI indexation.

Notes to the Regulatory Accounting Information

15. RECONCILIATION OF BALANCE SHEETS IN STATUTORY AND REGULATORY ACCOUNTS

In the preparation of its statutory accounts, the company has followed common industry practice and adopted the infrastructure renewals accounting basis as set out in FRS 15 "Tangible Fixed Assets". However, for the purposes of Regulatory Accounts, OFWAT has requested that FRS 15 is not applied for infrastructure renewals accounting, thereby providing a basis consistent with prior years. A reconciliation to the balance sheet shown in the statutory accounts is set out below:-

	Infrastructure Assets £m
Cost	
At 31 March 2000 per Regulatory Accounts	861.6
Adjustment to opening balance	477.8
Infrastructure renewals capitalised in the year	<u>64.2</u>
At 31 March 2000 per Statutory Accounts	<u>1,403.6</u>
Depreciation	
At 31 March 2000 per Regulatory Accounts	0.0
Adjustment to opening balance	(544.4)
Depreciation charge for infrastructure renewals expenditure	<u>(35.6)</u>
At 31 March 2000 per Statutory Accounts	<u>(580.0)</u>
Net Book Value	
At 31 March 2000 per Regulatory Accounts	861.6
Adjustment for infrastructure renewals accounting	<u>(38.0)</u>
At 31 March 2000 per Statutory Accounts	<u>823.6</u>
Provisions and Liabilities	
At 31 March 2000 per Regulatory Accounts	(38.0)
Less infrastructure renewals accrual	<u>38.0</u>
At 31 March 2000 per Statutory Accounts	<u>-</u>

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 49.

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 2000 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 25, 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 49 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 2000