

**YORKSHIRE WATER SERVICES LIMITED**

***ANNUAL REPORT AND ACCOUNTS***

For the year ended  
31 March 2001

Registered Number: 2366682



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COMPANIES HOUSE 26/10/01

# ANNUAL REPORT AND ACCOUNTS 2001

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## **OPERATING REVIEW**

### **Operating results**

A strong performance in cost reduction and improved efficiencies helped Yorkshire Water partly to mitigate the full effects of the regulatory review. The 14.5% price cut in April 2000 led to a reduction in turnover to £546.7m (2000: £617.8m). The company reduced underlying operating costs by around 2% in real terms after the absorption of the additional operating costs on new capital schemes. This equates to a 5% outperformance of the operating cost target assumed by Ofwat in the 1999 determination. Operating profit reduced to £211.6m (2000: £264.4m, after exceptional restructuring costs of £17.3m).

### **Operating performance**

At the same time, service levels were enhanced and there were continued improvements in water quality measures and environmental performance. The savings result from continuing efficiency initiatives and the consequent reduction in manpower numbers, for which exceptional restructuring costs were provided in the previous year. These cost savings and efficiencies were delivered early in the five year price review period to achieve the maximum possible value.

A new organisation design has been introduced to create an internal asset owner and two operating businesses providing clean and waste water services. This builds on the valuable lessons learned from the mutualisation proposal and will provide the basis for future cost savings and income generation.

### **Levels of service**

During the year, Yorkshire Water has either maintained or improved its performance on the majority of service indicators. In particular, the company's performance improved markedly on low pressure and planned interruptions to customers' supplies. Performance on the sewer flooding measures has continued to improve in spite of the exceptional flooding during the year. Leakage has continued to reduce and has now fallen by over 40% since 1994/95.

Customer service measures continue to show an improvement in performance on billing and telephone enquiries, and Ofwat results on assessed service scores show Yorkshire Water to be one of the best performers in the industry. It is the company's intention to publish an annual report to customers this year to outline its service performance.

### **Environmental performance**

Yorkshire Water's exceptional record for waste water treatment works' compliance continued, with 100% compliance for the year ended 31 December 2000. This was achieved despite one of the wettest years on record and even tighter discharge consents. There was also a further reduction in the number of major pollution incidents in the region, from 26 to 18.

More proactive pollution prevention initiatives, along with ever improving operating practices and greater interaction with the Environment Agency are on course to deliver further reductions in 2001 and should enable a target of 12 incidents for the year ahead to be reached.

As a result of the CoastCare programme outlined below, Yorkshire Water now has no unsatisfactory sea outfalls. More details on Yorkshire Water's environmental performance can be found on the Kelda environment and community website [www.keldagroup.com/environment](http://www.keldagroup.com/environment)

### **Extraordinary events**

Yorkshire Water's commitment to operational excellence was demonstrated in its response to two major events to affect the county in the year, major flooding and the foot and mouth outbreak. Both events required an emergency response. Robust contingency plans ensured customers suffered only very minor disruption to their water and waste water services. Yorkshire Water staff played a major part in ensuring, that despite the scale of the floods, water supply was maintained without interruption. This contribution was widely recognised outside the company and a number of staff were amongst those invited to a special reception by the Prime Minister.

In March this year, the first confirmed outbreaks of foot and mouth disease were reported on farms in the Yorkshire region, prompting widespread changes to operating practices. This involved the suspension of capital works crossing farmland to assist containment. The company, the county's biggest landowner, also appealed to the public to stay off its landholdings.

### **Capital investment**

Regulated capital investment during the year was £265.5m (2000: £452.4m).

Five years of intense activity on Yorkshire's East Coast culminated with the commissioning of four new waste water treatment plants at the popular holiday resorts of Filey, Scarborough, Bridlington and Whitby. Ultra-violet disinfection processes have been installed at each of the works to ensure discharges into the marine environment are treated to a standard beyond that required under current EU legislation. The national environmental pressure group Surfers Against Sewage has publicly applauded this forward looking approach to coastal waste water treatment which is already helping to improve the quality of local bathing waters.

September saw the part commissioning of a new £200m waste water treatment works in Hull, one of the biggest civil engineering schemes of modern times. Following discussions with the Environment Agency over delays caused by a tunnel collapse, the new works is on course to become fully operational by December 2001. The people of Hull and surrounding areas are also benefiting from the opening of Keldgate Water Treatment Works, one of the world's largest ultra-membrane filtration plants, which provides an exceptionally high level of protection against the harmful parasite cryptosporidium.

### **Commercial activity**

In May 2000, Kelda Group, along with Balfour Beatty and Earth Tech Engineering, reached financial close on an £80m public private partnership deal with the North of Scotland Water Authority to provide new sewage treatment facilities to serve 450,000 customers in Aberdeen, Stonehaven, Peterhead and Fraserburgh. Construction work has progressed very well during the year, with full commissioning on course for completion in autumn 2001. Yorkshire Water, through its dedicated operating company Grampian Wastewater Services, has a 30 year contract to run the new plant.

Building on this success north of the border, Yorkshire Water is now bidding for a separate contract to provide sewage sludge disposal facilities to serve the Inverness, Perth and Dunfermline areas. Another joint venture is being progressed to bid for the contract to provide water and sewerage services to Ministry of Defence sites in Wales and South West England. A consortium called Brey Utilities has been formed, including Brown and Root and Earth Tech Engineering, which has been short-listed as one of only four to go through to the detailed tendering phase.

Further afield, a separate bid is also being made for the contract to design, build and operate a new waste water treatment works in Delft, Holland, which would serve a population equivalent to some 1.7 million.

### **Business services**

During the year Yorkshire Water signed its first national agreement with a major customer. In future the company will be responsible for providing water and sewerage services to many Princes Soft Drinks' sites across the UK. The company is also in final discussions with a number of other large manufacturers to provide similar services.

The company has also launched an innovative new product, Safe-Move, which provides detailed drainage, sewerage and flooding information to house purchasers and their solicitors.

### **Award-winning Yorkshire Water**

During the year Yorkshire Water won a variety of awards in recognition of the work carried out by its employees. The company won "Team of the Year" at the prestigious Utility Industry Achievement Awards in London for its exceptional response to a burst water main in Bradford. The sensitive approach to the environment also led to accolades for engineering work carried out at Robin Hood's Bay on the East Coast, Lower Barden Reservoir in the Yorkshire Dales, the Seven Arches Aqueduct in Adel Woods, Leeds and Worsborough Waste Water Treatment Works in Barnsley.

### **Customer communications**

A major new public information campaign was launched in the regional press and media to increase public awareness of the hard work, skill and technical expertise involved in providing water and sewerage services to the region's 4.5 million domestic and 136,000 business customers.

The initiative, which was welcomed by the Yorkshire Customer Services Committee of Ofwat, is designed to address customers' key areas of interest; water quality, the reliability of their supplies, value for money and the environment.

At the same time Yorkshire Water has announced a complete overhaul of its consultation processes so that in future customers and other stakeholders can have a greater say on company related issues.

### **Community involvement**

During the year, support was provided to a range of community based initiatives through sponsorship, donations in kind and a highly successful and ever-increasing employee volunteer scheme. One of the major success stories was the employees' growing involvement with Right to Read, a regional campaign aimed at improving the literacy skills of children aged between 7 and 11. Over 100 Yorkshire Water employees, more than any other company in the region, now spend an hour a week in local schools where they sit and read with children to ensure they achieve their maximum learning potential.

Yorkshire Water cofounded this highly successful initiative along with Yorkshire Post Newspapers and Yorkshire Television. Full details of the scheme are available at [www.righttoread.com](http://www.righttoread.com)

## DIRECTORS' REPORT

The Directors present their report for the year to 31 March 2001.

### Financial Results for the year

Profit on ordinary activities was £136.1m.

### 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 activities of the company are 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.

John Napier	Chairman
Kevin Whiteman	Managing Director
Richard Ackroyd	
Kevin Bond	
Charles Firlotte	
Andy Hinton	
Karen Moir	
John O'Kane	
Paul Wynn	

### Non-executive Directors

Elizabeth Kerry  
Derek Roberts

Kevin Bond resigned as Chairman and a director of the company on 10 April 2000. John Napier (executive Chairman of Kelda Group plc) was appointed as Chairman and a director of the company on 18 April 2000 and Charles Firlotte and Paul Wynn as directors on 1 April 2000 and 1 December 2000 respectively. Andy Hinton resigned as a director on 21 November 2000. Karen Moir was reappointed as a director on 26 June 2000 and subsequently resigned on 10 November 2000. Richard Ackroyd resigned on 24 July 2000 and was subsequently reappointed as a director on 25 September 2000. Since the end of the year, Graham Dixon and Alan Harrison were appointed as directors on 1 April 2001 and 1 May 2001 respectively. 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 £193.8m comprises the following:

	Regulated Activities £m	Non-regulated Activities £m	Total Dividend £m
Interim Dividend	28.9	0.3	29.2
Efficiency Dividend	98.0	0.0	98.0
Proposed Final Dividend	<u>66.6</u>	<u>0.0</u>	<u>66.6</u>
Total Dividend for the year	<u>193.5</u>	<u>0.3</u>	<u>193.8</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 efficiency dividend of £98.0m was paid to reflect out-performance against the 1995-2000 Price Determination.

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

## Reserves

An amount of £57.7m has been transferred from reserves, bringing the balance held in reserve to £857.9m.

## Research & Development

The company undertakes a major programme of research in pursuit of improvements in service and operating efficiency. In 2000/01 £4.0m was committed to research and development including £3.0m 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 11 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 £265.5m.

### **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 49 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 Kelda Group plc, Company Secretary's Department, Western House, Halifax Road, Bradford, BD6 2SZ.

### **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.

### **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**

Ernst & Young has stated that it is intending to transfer its business to a limited liability company partnership incorporated under the Limited Liability Partnership Act 2000, to be called Ernst & Young LLP, on 28 June 2001. A resolution to reappoint Ernst & Young as the Company's auditor will be put to the forthcoming Annual General Meeting. The Directors have consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001.



BY ORDER OF THE BOARD S D McFARLANE, COMPANY SECRETARY, 26 JUNE 2001  
REGISTERED OFFICE: Western House, Halifax Road, Bradford BD6 2SZ  
REGISTERED IN ENGLAND NO 2366682

***Profit and Loss Account***  
***for the Year Ended 31 March 2001***

	<i>Notes</i>	<b>2001</b>	<b>2000</b>
		<b>£m</b>	<b>£m</b>
<b>Turnover - continuing operations</b>		<b>546.7</b>	617.8
Operating costs	2	<u>(335.1)</u>	<u>(336.1)</u>
<b>Operating profit before exceptional costs</b>		<b>211.6</b>	281.7
Exceptional restructuring costs	2	<u>-</u>	<u>(17.3)</u>
<b>Operating profit</b>		<b>211.6</b>	264.4
Profit on disposal of investment	12	0.1	-
Income from shares in group undertakings		<u>0.1</u>	<u>1.3</u>
<b>Profit on ordinary activities before interest</b>		<b>211.8</b>	265.7
Net interest payable	7	<u>(56.9)</u>	<u>(42.2)</u>
<b>Profit before taxation</b>		<b>154.9</b>	223.5
Taxation	8	<u>(18.8)</u>	<u>(10.2)</u>
<b>Profit for the year</b>		<b>136.1</b>	213.3
Dividends	9	<u>(193.8)</u>	<u>(94.3)</u>
<b>Retained (loss)/profit for the financial year</b>	20	<u>(57.7)</u>	<u>119.0</u>

***Statement of Recognised Gains and Losses***

There are no other recognised gains and losses arising other than the profit for the year of £136.1m (2000: £213.3m).

**Balance Sheet**  
as at 31 March 2001

	Notes	2001	2000
		£m	£m
<b>Fixed assets</b>			
Intangible assets	10	17.0	-
Tangible assets	11	2,882.9	2,768.8
Investments	12	16.7	34.7
		<u>2,916.6</u>	<u>2,803.5</u>
<b>Current assets</b>			
Stocks	13	0.6	0.7
Debtors	14	192.5	210.0
Cash and short term deposits		0.2	-
		<u>193.3</u>	<u>210.7</u>
<b>Creditors: amounts falling due within one year</b>			
Short term borrowings	17	(20.2)	(22.7)
Other creditors	15	(268.3)	(253.4)
		<u>(288.5)</u>	<u>(276.1)</u>
<b>Net current liabilities</b>		<u>(95.2)</u>	<u>(65.4)</u>
<b>Total assets less current liabilities</b>		<b>2,821.4</b>	<b>2,738.1</b>
<b>Creditors: amounts falling due after more than one year</b>			
Long term borrowings	16	(669.2)	(686.4)
Other creditors	15	(518.2)	(360.0)
Provisions for liabilities and charges	18	(1.1)	(1.1)
		<u>1,632.9</u>	<u>1,690.6</u>
<b>Capital and reserves</b>			
Called up equity share capital	19	775.0	775.0
Profit and loss account	20	857.9	915.6
<b>Total equity shareholder's funds</b>		<u>1,632.9</u>	<u>1,690.6</u>

Approved by the board of directors on 26 June 2001 and signed on their behalf by:

  
Kevin Whiteman  
Managing Director

# Notes to the Accounts

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## 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 (*Financial Reporting Standards 'FRS', Statement of Standard Accounting Practice 'SSAP'* and Urgent Issues Task Force abstract 'UITF') 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 and is derived only from the United Kingdom.

### *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.

### *Investments*

Investments are stated at the lower of cost and net realisable value.

### *Intangible assets*

Goodwill is the excess of the fair value of the consideration paid for a business or an associate over the fair value of the identifiable assets and liabilities acquired. Goodwill is capitalised and amortised on a straight line basis over its economic useful life, which normally will not exceed 20 years. Impairment tests on the carrying value of goodwill are undertaken at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill arising on the transfer of the trade and net assets of The York Waterworks Ltd is being amortised over a 19 year period, as a full year has already been charged through the consolidated group accounts in 1999/2000. The net book amount of £17.0m is shown under intangible assets in the balance sheet at 31 March 2001.

# Notes to the Accounts

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## *Tangible fixed assets and depreciation*

### **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.

### **Other tangible fixed assets**

Other tangible assets are included at cost less accumulated depreciation.

Freehold land is not depreciated. Depreciation is charged on other tangible fixed assets on a straight-line basis over their estimated economic lives, or the estimated useful economic lives of their individual major components, from the month following commissioning.

Useful economic lives are principally as follows:

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.

Finance costs incurred in respect of the construction of tangible fixed assets are not capitalised.

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.

## *Notes to the Accounts*

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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.

### *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 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.

### *Provisions*

Provision is made in accordance with FRS 12 for self insured claims, including an estimate for claims incurred but not reported. Such provisions were previously disclosed under creditors and comparative figures have been restated to reflect this change.

### *Divisionalisation of subsidiary undertakings*

As the Instrument of Appointment of The York Waterworks Limited was merged with that of Yorkshire Water Services Ltd on 1 April 2000, its trade and net assets were transferred to the Company at their net book value, which was less than their fair value. As a result of the transfer, the value of the Company's investment in that subsidiary undertaking fell below the amount at which it was stated in the Company's accounting records. Schedule 4 to the Companies Act 1985 requires that the investment be written down accordingly and that the amount be charged as a loss in the Company's profit and loss account. However, the directors consider that, as there has been no overall loss to the Group, this would fail to give a true and fair view. The difference should instead be reallocated to goodwill at the time of the asset transfer, so as to recognise in the Company's individual balance sheet the effective cost to the Company of those net assets and goodwill. The effect on the Company's balance sheet of this departure is to recognise goodwill of £17.0m (2000: £nil), net of amortisation of £0.9m (2000: £nil). The Group accounts are not affected by this transfer.

## Notes to the Accounts

<b>2. OPERATING COSTS</b>	<b>2001</b>	<b>2000</b>
	<b>£m</b>	<b>£m</b>
Own work capitalised	(20.6)	(20.3)
Raw materials and consumables	11.1	14.4
Other external charges	162.6	136.5
Wages and salaries	53.1	64.2
Social security costs	4.6	5.3
Other pension costs	5.2	6.2
Depreciation of fixed tangible assets:		
On owned assets		
- infrastructure	29.5	33.9
- other assets	78.3	84.0
On assets held under finance leases		
- infrastructure	1.3	1.7
- on other assets	14.3	15.9
Operating lease rentals		
- plant and equipment	1.4	1.3
- other	0.2	0.4
Amortisation of grants & contributions	(3.4)	(3.3)
Amortisation of goodwill on subsidiary undertakings	0.9	-
Restructuring costs	4.3	-
Research and development	1.0	1.4
Other operating income	(8.7)	(5.5)
	<u>335.1</u>	<u>336.1</u>
Staff costs - exceptional restructuring costs	<u>-</u>	<u>17.3</u>
<b>Exceptional operating costs</b>		
<p>In 1999/00, the Company incurred exceptional restructuring costs of £17.3m, of which £13.2m were paid during 2001 (2000: £1.3m). The restructuring costs related primarily to the reductions in manpower required to achieve the Company's efficiency target implicit in the Final Determination of price limits for the five year period from 1 April 2000 announced by OFWAT in November 1999.</p>		
<b>Auditor's remuneration</b>		
Statutory audit fees and expenses	0.1	0.1
Non-audit work	<u>-</u>	<u>0.1</u>
	<u>0.1</u>	<u>0.2</u>
<b>Employees</b>		
The average number of persons employed by the company during the year was:	<u>2,108</u>	<u>2,813</u>

# Notes to the Accounts

## 3. DIRECTORS

	2001				2000		2001	2000
	Salary	Bonus	Termination	Benefits	Total	Total	Pension	Pension
	£000	£000	£000	£000	emoluments	emoluments	contri-	contri-
					excluding	excluding	butions	butions
					pension	pension	£000	£000
					contributions	contributions		
					£000	£000		
<i>Remuneration of the Board</i>								
<b>Chairman:</b>								
K. Bond (resigned 10.4.2000)	-	-	-	-	-	-	-	-
J. Napier (appointed 18.4.2000)	-	-	-	-	-	-	-	-
<b>Directors:</b>								
R. K. Ackroyd*	81	20	-	9	110	119	10	11
C. Firlotte (appointed 1.4.2000)	125	26	-	20	171	-	-	-
A. P. Hinton (resigned 21.11.2000)	64	-	-	37	101	114	8	10
E. A. Kerry	16	-	-	-	16	16	-	-
J. R. Layfield (resigned 31.3.2000)	-	-	30	-	30	96	260	10
M. K. Moir**	34	-	-	4	38	113	4	10
J. P. O'Kane	37	19	-	5	61	116	4	10
D. F. Roberts	-	-	-	-	-	-	-	-
C. J. Stones (resigned 13.12.99)	-	-	-	-	-	99	-	8
K. I. Whiteman	59	21	-	5	85	118	7	11
P. Wynn (appointed 1.12.2000)	30	7	-	3	40	-	4	-
	<b>446</b>	<b>93</b>	<b>30</b>	<b>83</b>	<b>652</b>	<b>791</b>	<b>297</b>	<b>70</b>

\* Resigned 24 July 2000 and reappointed on 25 September 2000

\*\*Reappointed on 26 June 2000 and resigned on 10 November 2000

The Chairmen, K. Bond and J. Napier, were executive directors of the holding company, Kelda Group plc, and D. Roberts a non-executive director, and their emoluments are shown in the accounts of that company. The Managing Director, K. I. Whiteman, and J. P. O' Kane were appointed as directors of the holding company on 1 September 2000 and their emoluments earned after this date are disclosed 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 was made to J. Layfield on his resignation and a further £260,100 was paid into 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 2000/01 this scheme paid £342 to each participant and this is included in the emoluments table above.

During 2000/01, all executive directors, apart from C. Firlotte, the highest paid director, were contributory members of the Kelda Group Pension Plan, a benefit scheme. £7,000 was paid during the year to Aquarion, a fellow subsidiary, in respect of payments made during the year relating to C. Firlotte.

## Notes to the Accounts

### 4. DIRECTORS' SHARE OPTIONS

In common with all eligible employees of the group, executive directors are entitled to participate in the group's Inland Revenue approved save-as-you-earn option scheme. The interests of directors in particular issues under the scheme are:

	<i>Balance at 1 April 2000</i>	<i>Granted during year</i>	<i>Exercised/ Lapsed during year</i>	<i>Balance at 31 March 2001</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>
<b>R. K. Ackroyd</b>								
Sharesave	5,072	-	(5,072)	-	204.0	345.0	1.3.00	31.8.00
Sharesave	1,614	-	-	1,614	240.0	-	1.3.03	31.8.03
Sharesave	-	1,943	-	1,943	299.0	-	1.3.04	31.8.04
<b>P. Wynn (appointed 1.12.2000)</b>								
Sharesave	1,138	-	(1,138)	-	242.5	348.0	1.3.01	31.8.01
Sharesave	2,338	-	-	2,338	295.0	-	1.3.02	31.8.02
Sharesave	932	-	(932)	-	-	-	1.3.01	31.8.01
Sharesave	1,776	-	-	1,776	240.0	-	1.3.03	31.8.03

The Chairman, J. Napier, the Managing Director, K. I. Whiteman, and J. P. O'Kane 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 2001 was 349.0p (2000: 265.25p) and has ranged from 260.0p to 413.0p during the year. The aggregate gain on the exercise of share options during the year was £8,352.

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 2001 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 2000</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 2001</i>
R. K. Ackroyd	18,155	-	(8,700)	5,072	14,527
P. Wynn (appointed 1.12.00)	319	-	-	1,138	1,457

The Chairman, J. Napier, the Managing Director, K. I. Whiteman, and J. P. O'Kane 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, D. Roberts was a non-executive director of the holding company and his 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 K. Whiteman and J. O'Kane 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 26 June 2001 was 387.0p.

	<i>At 1 April 2000</i>	<i>Granted during year</i>	<i>At 31 March 2001</i>	<i>Earliest vesting date</i>
R. K. Ackroyd	4,035	-	4,035	17.8.01
	5,054	-	5,054	29.6.02
	-	6,612	6,612	21.9.03
C. Firlotte	-	7,444	7,444	21.9.03
P. Wynn	3,544	-	3,544	17.8.01
	4,340	-	4,340	26.6.02
	-	5,542	5,542	21.9.03

## Notes to the Accounts

### 7. INTEREST

	2001	2000
	£m	£m
<b>Interest payable on:</b>		
Bank loans and overdrafts	15.2	18.9
Finance leases	30.6	26.1
Inter-company loans	23.3	0.8
Other loans	0.2	0.1
	<u>69.3</u>	<u>45.9</u>
<b>Interest receivable:</b>		
Inter-company loans	(10.8)	(2.8)
Other	(1.6)	(0.9)
	<u>56.9</u>	<u>42.2</u>

### 8. TAXATION

	2001	2000
	£m	£m
<b>Taxation comprises:</b>		
Corporation tax at 30% (2000: 30%)	5.0	3.9
Group relief payments	9.8	6.3
Adjustments in respect of prior years	4.0	-
	<u>18.8</u>	<u>10.2</u>

### 9. DIVIDENDS

	2001	2000
	£m	£m
Interim paid	29.2	28.6
Efficiency dividend paid	98.0	-
Final proposed	66.6	65.7
	<u>193.8</u>	<u>94.3</u>

### 10. INTANGIBLE ASSETS

	<i>Goodwill</i>
	£m
<b>Cost</b>	
Additions in year and position at 31 March 2001	17.9
<b>Amortisation</b>	
Charge for the year and provision at 31 March 2001	(0.9)
<b>Net book amount as at 31 March 2001</b>	<u>17.0</u>

The addition, which relates to The York Waterworks Ltd, has arisen due to the transfer of the business of that company to Yorkshire Water on 1 April 2000. This treatment is a departure from Companies Act 1985 requirements and is adopted, as explained in the accounting policy note on page 14, in order to show a true and fair view of the effective cost to the Company of the net assets and goodwill.

## Notes to the Accounts

### II. TANGIBLE ASSETS

	Land and buildings £m	Infrastructure Assets £m	Plant and equipment £m	Under construction £m	Total £m
<b>Cost</b>					
At 1 April 2000	1,016.9	1,403.6	1,044.3	552.0	4,016.8
Transfer of assets from York Waterworks	4.9	11.4	15.0	-	31.3
Additions - external	12.3	22.6	25.8	204.8	265.5
Transfers on commissioning	70.0	129.1	147.1	(346.2)	-
Disposals	(2.9)	(0.3)	(12.6)	(4.0)	(19.8)
Grants and contributions	-	-	-	(46.1)	(46.1)
At 31 March 2001	1,101.2	1,566.4	1,219.6	360.5	4,247.7
<b>Depreciation</b>					
At 1 April 2000	312.6	580.0	355.4	-	1,248.0
Transfer of assets from York Waterworks	1.6	3.2	5.1	-	9.9
Disposals	(1.7)	-	(10.8)	(4.0)	(16.5)
Depreciation for the year	18.1	30.8	70.5	4.0	123.4
At 31 March 2001	330.6	614.0	420.2	0.0	1,364.8
<b>Net book amount at 31 March 2001</b>	<b>770.6</b>	<b>952.4</b>	<b>799.4</b>	<b>360.5</b>	<b>2,882.9</b>
Net book amount at 31 March 2000	704.3	823.6	688.9	552.0	2,768.8

At 31 March 2001 assets included above held under finance leases amounted to:

Cost	150.8	59.4	283.1	32.5	525.8
Depreciation	14.2	4.7	72.8	-	91.7
<b>Net book amount at 31 March 2001</b>	<b>136.6</b>	<b>54.7</b>	<b>210.3</b>	<b>32.5</b>	<b>434.1</b>
Net book amount at 31 March 2000	140.5	56.0	215.8	34.9	447.2

	Cost at 31 March 2001 £m	Depreciation at 31 March 2001 £m	Net book value at 31 March 2001 £m	Net book value at 31 March 2000 £m
<b>The net book amount of land and buildings comprised:</b>				
Freehold properties	1,099.7	330.3	769.4	703.9
Properties held on long lease	0.3	-	0.3	0.1
Properties held on short lease	1.2	0.3	0.9	0.3
	<b>1,101.2</b>	<b>330.6</b>	<b>770.6</b>	<b>704.3</b>

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 £197.8m lower than it would have been had this treatment not been adopted.

## Notes to the Accounts

### 12. INVESTMENTS

	Shares in group undertakings £m	Other unlisted investments £m	Total £m
At 1 April 2000	34.5	0.2	34.7
Disposals	-	(0.1)	(0.1)
Transfer to goodwill	(17.9)	-	(17.9)
At 31 March 2001	<u>16.6</u>	<u>0.1</u>	<u>16.7</u>

#### Shares in group undertakings

The transfer to goodwill relates to the 100% holding in The York Waterworks Ltd which has been written down to the value of the underlying net assets as described in the accounting policies on page 14 and in Note 10.

#### Other unlisted investments

The disposal relates to the holding of shares in Water Pension Fund Holdings Limited, a company which was liquidated on 27 September 2000.

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.

### 13. STOCKS

	2001 £m	2000 £m
Raw materials and consumables	0.5	0.5
Work in progress	0.1	0.2
	<u>0.6</u>	<u>0.7</u>

### 14. DEBTORS

	2001 £m	2000 £m
Trade debtors	42.1	44.0
Amounts owed by group undertakings	79.9	83.2
Amounts owed by subsidiary undertakings	-	1.6
Amounts owed by associated undertakings	0.2	0.2
Prepayments and accrued income	57.4	56.3
<b>Other debtors:</b>		
Receivable within one year	12.7	24.5
Receivable after more than one year	0.2	0.2
	<u>192.5</u>	<u>210.0</u>

## Notes to the Accounts

### 15. OTHER CREDITORS

	2001	2000
	£m	£m
<b>Amounts falling due within one year:</b>		
Trade creditors	38.9	42.4
Capital creditors	59.8	85.1
Deferred grants and contributions on depreciating fixed assets	2.9	2.9
Amounts owed to group undertakings	99.8	75.7
Amounts owed to subsidiary undertakings	17.4	2.2
Social security and payroll deductions	1.9	2.3
Taxation	8.7	1.9
Receipts in advance	31.5	29.8
Other creditors	7.4	11.1
	<u>268.3</u>	<u>253.4</u>
<b>Amounts falling due after more than one year:</b>		
Capital creditors	0.1	3.0
Amounts owed to parent company	350.0	200.0
Deferred grants and contributions on depreciating fixed assets	93.5	95.9
Other creditors	74.6	61.1
	<u>518.2</u>	<u>360.0</u>

### 16. LONG TERM BORROWINGS

	2001	2000
	£m	£m
<b>Maturities</b>		
<b>Repayable between two and five years:</b>		
Bank loans	26.0	22.0
Finance leases	0.5	-
<b>Repayable by instalments and maturing after five years:</b>		
Bank loans	155.0	170.7
Other loans	-	0.1
Finance leases	482.4	487.7
<b>Wholly repayable after five years:</b>		
Other loans	5.3	5.9
	<u>669.2</u>	<u>686.4</u>

## Notes to the Accounts

### 17. 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
<b>Repayments</b>				
Within one year or on demand	16.1	-	4.1	20.2
Between one and two years	12.3	-	5.9	18.2
Between two and five years	60.1	-	20.6	80.7
After five years	108.6	5.3	456.4	570.3
	<u>197.1</u>	<u>5.3</u>	<u>487.0</u>	689.4
Cash at bank				(0.2)
Amounts owed by parent company				(78.0)
Amounts owed to parent company				350.0
Net debt				<u>961.2</u>

As shown above, the net debt as at 31 March 2001 was £961.2m (2000: £831.0m).

Borrowings, any part of which is repayable after five years, have been negotiated at fixed and variable interest rates which at 31 March 2001 ranged between 5.29% and 11.5%.

### 18. PROVISION FOR LIABILITIES AND CHARGES

	£m
At 1 April 2000	1.1
Additions during the year	0.6
Utilised in year	(0.6)
At 31 March 2001	<u>1.1</u>

The provision relates to an estimate of self insured claims incurred but not reported and is made in accordance with FRS 12. The amount was previously included within creditors and comparatives have been restated.

No provision is made for deferred taxation. Deferred taxation will crystallise 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 crystallising in the future is remote. The full potential liability on timing differences, calculated using the liability method at a tax rate of 30% (2000: 30%) is:

	2001	2000
	£m	£m
<b>Accelerated capital allowances</b>		
Infrastructure assets	201.9	169.3
Other assets	236.5	228.2
Short term timing differences	(12.6)	(3.3)
At 31 March	<u>425.8</u>	<u>394.2</u>

## Notes to the Accounts

### 19. CALLED UP SHARE CAPITAL

	<i>Authorised</i>	<i>Allotted and fully paid</i>
Ordinary shares of £1 each at 31 March 2000 and 2001	<b>775,000,000</b>	<b>775,000,000</b>

### 20. 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
Profit for the year	213.3	-	213.3
Dividend	(94.3)	-	(94.3)
<b>At 31 March 2000</b>	<b>915.6</b>	<b>775.0</b>	<b>1,690.6</b>
Profit for the year	136.1	-	136.1
Dividend	(193.8)	-	(193.8)
<b>At 31 March 2001</b>	<b>857.9</b>	<b>775.0</b>	<b>1,632.9</b>

### 21. COMMITMENTS

	<i>2001</i>	<i>2000</i>
	£m	£m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	<b>389.7</b>	<b>142.0</b>

At 31 March 2001 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>2001</i>	<i>Other 2001</i>	<i>2000</i>	<i>Other 2000</i>
	£m	£m	£m	£m
<b>Leases which expire:</b>				
Within one year	-	0.4	0.1	0.6
Between one and five years	0.3	0.6	0.2	0.2
	<b>0.3</b>	<b>1.0</b>	<b>0.3</b>	<b>0.8</b>

### 22. 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 bonds at 6 7/8% due 2010 and 6.625% due 2031 issued by the parent company. The liabilities under these guarantees amounted to £200 million and £150 million respectively at 31 March 2001.

# *Notes to the Accounts*

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## **23. 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 and 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.

## **24. 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, Western House, Halifax Road, Bradford BD6 2SZ.

## **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).

## **26. 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.

## **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*

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## **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 2001 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

27 June, 2001.

# Regulatory Accounting Information 2001

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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 2001*

	2001			2000 restated		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
Turnover	543.6	3.1	546.7	624.5	2.9	627.4
Operating costs	(340.1)	(3.7)	(343.8)	(363.3)	(2.1)	(365.4)
Operating income	6.7	-	6.7	3.1	-	3.1
<b>Operating profit</b>	<b>210.2</b>	<b>(0.6)</b>	<b>209.6</b>	<b>264.3</b>	<b>0.8</b>	<b>265.1</b>
Other income	2.0	0.2	2.2	2.4	0.8	3.2
Interest payable	(56.9)	-	(56.9)	(42.5)	-	(42.5)
<b>Profit on ordinary activities before taxation</b>	<b>155.3</b>	<b>(0.4)</b>	<b>154.9</b>	<b>224.2</b>	<b>1.6</b>	<b>225.8</b>
Taxation	(18.8)	-	(18.8)	(11.2)	(0.1)	(11.3)
<b>Profit on ordinary activities after taxation</b>	<b>136.5</b>	<b>(0.4)</b>	<b>136.1</b>	<b>213.0</b>	<b>1.5</b>	<b>214.5</b>
Dividends - interim	(28.9)	(0.3)	(29.2)	(28.0)	(0.6)	(28.6)
- efficiency	(98.0)	-	(98.0)	-	-	-
- final	(66.6)	-	(66.6)	(64.8)	(0.9)	(65.7)
<b>Transfer (from)/to reserves</b>	<b>(57.0)</b>	<b>(0.7)</b>	<b>(57.7)</b>	<b>120.2</b>	<b>-</b>	<b>120.2</b>

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(explained in Note 15 on page 48) and the investment in the York York Waterworks Ltd (explained in Note 1 on page 35).

# Historical Cost Balance Sheet

as at 31 March 2001

	2001			2000 restated		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
<b>Fixed assets</b>						
Tangible assets	2,910.8	6.1	2,916.9	2,822.6	6.3	2,828.9
Investments	17.1	-	17.1	18.0	0.1	18.1
	<u>2,927.9</u>	<u>6.1</u>	<u>2,934.0</u>	<u>2,840.6</u>	<u>6.4</u>	<u>2,847.0</u>
<b>Current assets</b>						
Stocks	0.6	-	0.6	0.8	-	0.8
Debtors	114.2	0.3	114.5	131.0	1.1	132.1
Cash at bank and in hand	0.2	-	0.2	-	-	-
Short term investments	78.0	-	78.0	78.0	0.1	78.1
	<u>193.0</u>	<u>0.3</u>	<u>193.3</u>	<u>209.8</u>	<u>1.2</u>	<u>211.0</u>
<b>Creditors: amounts falling due within one year</b>						
Borrowings	(19.7)	(0.5)	(20.2)	(24.7)	-	(24.7)
Dividends payable	(66.6)	-	(66.6)	(64.8)	(0.9)	(65.7)
Other creditors	(181.8)	(0.4)	(182.2)	(188.0)	(0.3)	(188.3)
	<u>(268.1)</u>	<u>(0.9)</u>	<u>(269.0)</u>	<u>(277.5)</u>	<u>(1.2)</u>	<u>(278.7)</u>
<b>Net current assets</b>	<u>(75.1)</u>	<u>(0.6)</u>	<u>(75.7)</u>	<u>(67.7)</u>	<u>0.0</u>	<u>(67.7)</u>
<b>Total assets less current liabilities</b>	<b>2,852.8</b>	<b>5.5</b>	<b>2,858.3</b>	<b>2,772.9</b>	<b>6.4</b>	<b>2,779.3</b>
<b>Creditors: amounts falling due after more than 1 year</b>						
Borrowings	(1,019.2)	-	(1,019.2)	(887.1)	-	(887.1)
Other creditors	(74.7)	-	(74.7)	(64.1)	-	(64.1)
	<u>(1,093.9)</u>	<u>-</u>	<u>(1,093.9)</u>	<u>(951.2)</u>	<u>-</u>	<u>(951.2)</u>
<b>Provisions for liabilities and charges</b>	<b>(35.1)</b>	<b>-</b>	<b>(35.1)</b>	<b>(38.7)</b>	<b>-</b>	<b>(38.7)</b>
<b>Deferred income</b>	<b>(90.2)</b>	<b>(6.2)</b>	<b>(96.4)</b>	<b>(92.4)</b>	<b>(6.4)</b>	<b>(98.8)</b>
	<u>1,633.6</u>	<u>(0.7)</u>	<u>1,632.9</u>	<u>1,690.6</u>	<u>-</u>	<u>1,690.6</u>
<b>Capital and reserves</b>						
Called up share capital	775.0	-	775.0	775.0	-	775.0
Profit and loss account	858.6	(0.7)	857.9	915.6	-	915.6
	<u>1,633.6</u>	<u>(0.7)</u>	<u>1,632.9</u>	<u>1,690.6</u>	<u>-</u>	<u>1,690.6</u>

***Current Cost Profit and Loss Account***  
***for the Appointed Business***  
*for the year ended 31 March 2001*

	<i>Notes</i>	<b>2001</b> £m	2000 restated £m
Turnover	6	543.6	624.5
Current cost operating costs	7	(390.4)	(385.9)
Operating income	6	<u>9.4</u>	<u>5.2</u>
		162.6	243.8
Working capital adjustment	6	<u>0.5</u>	<u>(0.1)</u>
<b>Current cost operating profit</b>		<b>163.1</b>	<b>243.7</b>
Other income		2.0	2.4
Interest payable		(56.9)	(42.5)
Financing adjustment		<u>23.0</u>	<u>23.0</u>
<b>Current cost profit on ordinary activities before taxation</b>		<b>131.2</b>	<b>226.6</b>
Taxation		<u>(18.8)</u>	<u>(11.2)</u>
<b>Current cost profit on ordinary activities after taxation</b>		<b>112.4</b>	<b>215.4</b>
Dividends		<u>(193.5)</u>	<u>(92.8)</u>
<b>Current cost transfer (from)/to reserves</b>		<b><u>(81.1)</u></b>	<b><u>122.6</u></b>

***Current Cost Balance Sheet***  
***for the Appointed Business***  
*as at 31 March 2001*

	<i>Notes</i>	2001 £m	2000 restated £m
<b>Fixed assets</b>			
Tangible assets	8	18,290.2	17,798.4
Third party contributions since 1989/90		(243.8)	(203.5)
<b>Working capital</b>	9	<u>10.2</u>	<u>(22.2)</u>
<b>Net operating assets</b>		18,056.6	17,572.7
Cash and investments		17.3	18.0
Non-trade debtors		14.8	27.0
Non-trade creditors due within one year		(66.7)	(46.6)
Creditors due after one year		(1,094.0)	(951.2)
Provisions for liabilities and charges		(1.1)	-
Dividends payable		<u>(66.6)</u>	<u>(64.8)</u>
<b>Net assets employed</b>		<u>16,860.3</u>	<u>16,555.1</u>
<b>Capital and reserves</b>			
Called up share capital		775.0	775.0
Profit and loss account		381.9	463.0
Current cost reserve	10	15,703.4	15,322.0
Other reserves		<u>0.0</u>	<u>(4.9)</u>
		<u>16,860.3</u>	<u>16,555.1</u>

# Current Cost Cash Flow Statement

for the year ended 31 March 2001

	2001			2000 restated			
	Notes	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
Net cash flow from operating activities 11		337.1	0.5	337.6	384.8	0.9	385.7
<b>Returns on investments and servicing of finance</b>							
Interest received		11.9	-	11.9	6.8	-	6.8
Interest paid		(20.3)	-	(20.3)	(17.3)	-	(17.3)
Interest in finance lease rentals		(23.1)	-	(23.1)	(29.2)	-	(29.2)
<b>Net cash flow from returns on investments and servicing of finance</b>		<b>(31.5)</b>	<b>-</b>	<b>(31.5)</b>	<b>(39.7)</b>	<b>-</b>	<b>(39.7)</b>
<b>Taxation</b>							
UK corporation tax paid		(12.1)	(0.1)	(12.2)	(18.1)	(0.1)	(18.2)
<b>Capital expenditure and financing of investment</b>							
Gross cost of purchase of fixed assets		(255.3)	-	(255.3)	(368.2)	0.1	(368.1)
Receipt of grants and contributions		47.5	-	47.5	19.5	-	19.5
Infrastructure renewals expenditure		(35.4)	-	(35.4)	(64.3)	-	(64.3)
Disposal of fixed assets		14.4	-	14.4	2.2	-	2.2
<b>Net cash outflow from investing activities</b>		<b>(228.8)</b>	<b>0.0</b>	<b>(228.8)</b>	<b>(410.8)</b>	<b>0.1</b>	<b>(410.7)</b>
<b>Acquisitions and disposals</b>		<b>0.0</b>	<b>0.2</b>	<b>0.2</b>	<b>(34.5)</b>	<b>-</b>	<b>(34.5)</b>
<b>Equity dividends paid</b>		<b>(191.7)</b>	<b>(1.2)</b>	<b>(192.9)</b>	<b>(88.5)</b>	<b>(0.8)</b>	<b>(89.3)</b>
<b>Net cash (outflow)/ inflow before financing</b>		<b>(127.0)</b>	<b>(0.6)</b>	<b>(127.6)</b>	<b>(206.8)</b>	<b>0.1</b>	<b>(206.7)</b>
<b>Financing</b>							
New leasing finance		-	-	-	-	-	-
Capital element in finance lease rentals		(7.1)	-	(7.1)	(9.9)	-	(9.9)
New bank loans		-	-	-	6.7	-	6.7
Movement in inter-company loans		150.1	-	150.1	244.9	-	244.9
Repayment of bank loans		(12.0)	-	(12.0)	(31.7)	-	(31.7)
<b>Net cash inflow from financing</b>		<b>131.0</b>	<b>-</b>	<b>131.0</b>	<b>210.0</b>	<b>-</b>	<b>210.0</b>
<b>Increase/(decrease) in cash</b>		<b>4.0</b>	<b>(0.6)</b>	<b>3.4</b>	<b>3.2</b>	<b>0.1</b>	<b>3.3</b>

# *Notes to the Regulatory Accounting Information*

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## **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 2000/01 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.

#### **- 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.

# *Notes to the Regulatory Accounting Information*

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## **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.

## *Investment in York Waterworks*

The intangible assets and investments note on page 12 of the accounts outlines the statutory accounting treatment of the transfer of the trade and net assets of the York Waterworks Ltd to Yorkshire Water. In the regulatory accounts, the investment figure and compensation inter-company creditor of £16.6m have been netted to provide suitable comparisons with the previous year and consistency with the approach agreed with OFWAT. All comparative numbers in the Regulatory Accounts have been restated to include the results of York Waterworks for 1999/2000 and previous years.

## **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*

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## **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, and any arrangements made with any relevant authority for the discharge of any of the Appointee's sewerage functions, 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) 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 2001, 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 and on 17 April 2000, a further £150m was lent at a fixed rate of 6.625% repayable in 2031. 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 £8.0m (2000 - £4.2m).

## 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	7.6	Cost allocation	5.4
Customer Services	Loop Customer Management	14.8	Cost allocation	14.6
Laboratory services	Alcontrol Ltd	3.8	Cost plus rate of return	2.5

### 6. ANALYSIS OF TURNOVER & OPERATING INCOME FOR THE APPOINTED BUSINESS for the year ended 31 March 2001

	2001			2000 restated		
	Water services £m	Sewerage services £m	Total Appointed Business £m	Water services £m	Sewerage services £m	Total Appointed Business £m
<b>Turnover</b>						
Measured	105.5	74.1	179.6	121.0	80.2	201.2
Unmeasured	155.6	174.2	329.8	181.7	204.3	386.0
Trade effluent	-	22.8	22.8	-	26.5	26.5
Revenue grants	-	-	-	0.1	-	0.1
Other sources	1.2	3.9	5.1	0.9	3.5	4.4
Third party services	6.1	0.2	6.3	6.0	0.3	6.3
<b>Total turnover</b>	<b>268.4</b>	<b>275.2</b>	<b>543.6</b>	<b>309.7</b>	<b>314.8</b>	<b>624.5</b>
<b>Operating income</b>						
Current cost profit on fixed assets net of expenses	6.1	3.3	9.4	4.3	0.9	5.2
<b>Total operating income</b>	<b>6.1</b>	<b>3.3</b>	<b>9.4</b>	<b>4.3</b>	<b>0.9</b>	<b>5.2</b>
<b>Working capital adjustment</b>	<b>0.3</b>	<b>0.2</b>	<b>0.5</b>	<b>(0.1)</b>	<b>-</b>	<b>(0.1)</b>

# Notes to the Regulatory Accounting Information

## 7. ANALYSIS OF OPERATING COSTS AND ASSETS

for the year ended 31 March 2001

	Resources and treatment	Distribution	Water supply sub total
	£m	£m	£m
<b>Direct costs</b>			
Employment costs	5.1	4.3	9.4
Power	5.7	3.6	9.3
Agencies	-	-	-
Hired and contracted services	4.8	12.3	17.1
Associated companies	-	-	-
Materials and consumables	4.7	0.5	5.2
Service charges	4.9	-	4.9
Bulk supply imports	2.2	-	2.2
Other direct costs	0.8	1.5	2.3
<b>Total direct costs</b>	28.2	22.2	50.4
General and support expenditure	12.3	14.8	27.1
<b>Functional expenditure</b>	40.5	37.0	77.5
Total business activities			14.9
Rates			18.6
Doubtful debts			4.5
Exceptional items			-
<b>Total Opex less third party services</b>			115.5
Third party services - opex			6.1
<b>Total operating expenditure</b>			121.6
<b>Capital costs</b>			
Infrastructure renewals expenditure	4.0	19.1	23.1
Movement in infrastructure renewals accrual/prepayment	0.1	0.4	0.5
Current cost depreciation (allocated)	40.4	18.3	58.7
Amortisation of deferred credits			(1.7)
Amortisation of intangible assets			0.9
Business activities current cost depreciation (non-allocated)			1.0
<b>Total Capital Maintenance</b>			82.5
<b>TOTAL OPERATING COSTS</b>			204.1
<b>CCA GROSS MEA VALUES</b>			
Service activities	3,807.1	4,596.0	8,403.1
Business activities			10.9
<b>Service totals</b>			8,414.0
Services for third parties			-
<b>TOTAL</b>			8,414.0

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
1.9	4.5	2.7	7.2	9.1			
1.6	6.9	2.1	9.0	10.6			
-	-	-	-	-			
6.8	6.7	4.9	11.6	18.4			
-	-	-	-	-			
0.1	1.3	1.2	2.5	2.6			
1.1	3.0	0.1	3.1	4.2			
-	-	-	-	-			
0.8	0.6	0.4	1.0	1.8			
12.3	23.0	11.4	34.4	46.7	14.7	6.4	2.1
7.7	9.6	4.4	14.0	21.7	1.7	2.7	0.9
20.0	32.6	15.8	48.4	68.4	16.4	9.1	3.0
				13.6			
				11.1			
				4.4			
				-			
				97.5			
				0.1			
				97.6			
12.4	-	-	-	12.4			
(5.2)	-	-	-	(5.2)			
7.8	62.5	11.7	74.2	82.0			
				(1.4)			
				-			
				0.9			
				88.7			
				-			
				186.3			
9,128.6	2,551.2	243.6	2,794.8	11,923.4			
				8.3			
				11,931.7			
				-			
				11,931.7			

# Notes to the Regulatory Accounting Information

## 7. ANALYSIS OF OPERATING COSTS AND ASSETS for the year ended 31 March 2000 (restated)

	Resources and treatment	Distribution	Water supply sub total
	£m	£m	£m
<b>Direct costs</b>			
Employment costs	5.7	5.0	10.7
Power	4.6	4.8	9.4
Agencies	-	-	-
Hired and contracted services	4.0	11.3	15.3
Associated companies	-	-	-
Materials and consumables	4.7	0.7	5.4
Service charges	4.5	-	4.5
Bulk supply imports	2.5	-	2.5
Other direct costs	2.6	1.6	4.2
<b>Total direct costs</b>	<b>28.6</b>	<b>23.4</b>	<b>52.0</b>
General and support expenditure	12.8	15.0	27.8
<b>Functional expenditure</b>	<b>41.4</b>	<b>38.4</b>	<b>79.8</b>
Total business activities			14.6
Rates			18.7
Doubtful debts			3.1
Exceptional items			10.1
<b>Total Opex less third party services</b>			<b>126.3</b>
Third party services - opex			5.7
<b>Total operating expenditure</b>			<b>132.0</b>
<b>Capital costs</b>			
Infrastructure renewals expenditure	13.9	35.2	49.1
Movement in infrastructure renewals accrual/prepayment	(6.2)	(12.1)	(18.3)
Current cost depreciation (allocated)	33.8	15.7	49.5
Amortisation of deferred credits			(1.6)
Business activities current cost depreciation (non-allocated)			0.8
<b>Total Capital Maintenance</b>			<b>79.5</b>
<b>TOTAL OPERATING COSTS</b>			<b>211.5</b>
<b>CCA GROSS MEA VALUES</b>			
Service activities	3,680.3	4,436.9	8,117.2
Business activities			8.1
<b>Service totals</b>			<b>8,125.3</b>
Services for third parties			-
<b>TOTAL</b>			<b>8,125.3</b>

Sewerage £m	Sewage treatment £m	Sludge treatment and disposal £m	Sewage treatment and disposal £m	Sewerage services sub total £m	Customer services £m	Scientific services £m	Cost of regulation £m
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	13.4	6.6	2.3
7.7	9.0	4.5	13.5	21.2	3.4	1.7	0.5
19.1	30.5	14.8	45.3	64.4	16.8	8.3	2.8
				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

### 8. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE as at 31 March 2001

	Specialised operational assets £m	Non- specialised operational properties £m	Infrastructure assets £m	Other tangible assets £m	Total £m
<b>WATER SERVICES</b>					
<b>Gross replacement cost</b>					
At 1 April 2000	1,553.1	90.1	6,192.1	128.0	7,963.3
Transfer of YWW assets	63.1	1.9	128.3	1.9	195.2
RPI adjustment	37.2	2.1	145.4	3.0	187.7
Disposals	(20.1)	(1.4)	-	(2.6)	(24.1)
Additions	40.0	2.3	36.7	12.9	91.9
<b>At 31 March 2001</b>	<b>1,673.3</b>	<b>95.0</b>	<b>6,502.5</b>	<b>143.2</b>	<b>8,414.0</b>
<b>Depreciation</b>					
At 1 April 2000	618.6	2.6	-	64.6	685.8
Transfer of YWW assets	31.6	0.9	-	0.6	33.1
RPI adjustment	14.9	0.1	-	1.5	16.5
Disposals	(20.5)	(0.4)	-	(2.4)	(23.3)
Charge for year	45.0	0.2	-	14.5	59.7
<b>At 31 March 2001</b>	<b>689.6</b>	<b>3.4</b>	<b>-</b>	<b>78.8</b>	<b>771.8</b>
<b>Net book amount at 31 March 2001</b>	<b>983.7</b>	<b>91.6</b>	<b>6,502.5</b>	<b>64.4</b>	<b>7,642.2</b>
<b>Net book amount at 1 April 2000</b>	<b>934.5</b>	<b>87.5</b>	<b>6,192.1</b>	<b>63.4</b>	<b>7,277.5</b>
<b>SEWERAGE SERVICES</b>					
<b>Gross replacement cost</b>					
At 1 April 2000	2,639.5	122.2	8,685.7	104.7	11,552.1
RPI adjustment	60.7	2.8	199.8	2.4	265.7
Disposals	(16.7)	(0.9)	-	(3.4)	(21.0)
Additions	68.3	3.1	50.6	12.9	134.9
<b>At 31 March 2001</b>	<b>2,751.8</b>	<b>127.2</b>	<b>8,936.1</b>	<b>116.6</b>	<b>11,931.7</b>
<b>Depreciation</b>					
At 1 April 2000	1,128.5	18.3	-	46.5	1,193.3
RPI adjustment	26.0	0.4	-	1.1	27.5
Disposals	(16.2)	(0.5)	-	(3.3)	(20.0)
Charge for year	68.7	0.9	-	13.3	82.9
<b>At 31 March 2001</b>	<b>1,207.0</b>	<b>19.1</b>	<b>-</b>	<b>57.6</b>	<b>1,283.7</b>
<b>Net book amount at 31 March 2001</b>	<b>1,544.8</b>	<b>108.1</b>	<b>8,936.1</b>	<b>59.0</b>	<b>10,648.0</b>
<b>Net book amount at 1 April 2000</b>	<b>1,511.0</b>	<b>103.9</b>	<b>8,685.7</b>	<b>58.2</b>	<b>10,358.8</b>

## Notes to the Regulatory Accounting Information

### 8. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE (continued) as at 31 March 2001

	Specialised operational assets £m	Non- specialised operational properties £m	Infrastructure assets £m	Other tangible assets £m	Total £m
<b>TOTAL</b>					
<b>Gross replacement cost</b>					
At 1 April 2000	4,192.6	212.3	14,877.8	232.7	19,515.4
Transfer of YWW assets	63.1	1.9	128.3	1.9	195.2
RPI adjustment	97.9	4.9	345.2	5.4	453.4
Disposals	(36.8)	(2.3)	-	(6.0)	(45.1)
Additions	108.3	5.4	87.3	25.8	226.8
<b>At 31 March 2001</b>	<b>4,425.1</b>	<b>222.2</b>	<b>15,438.6</b>	<b>259.8</b>	<b>20,345.7</b>
<b>Depreciation</b>					
At 1 April 2000	1,747.1	20.9	-	111.1	1,879.1
Transfer of YWW assets	31.6	0.9	-	0.6	33.1
RPI adjustment	40.9	0.5	-	2.6	44.0
Disposals	(36.7)	(0.9)	-	(5.7)	(43.3)
Charge for year	113.7	1.1	-	27.8	142.6
<b>At 31 March 2001</b>	<b>1,896.6</b>	<b>22.5</b>	<b>-</b>	<b>136.4</b>	<b>2,055.5</b>
<b>Net book amount at 31 March 2001</b>	<b>2,528.5</b>	<b>199.7</b>	<b>15,438.6</b>	<b>123.4</b>	<b>18,290.2</b>
<b>Net book amount at 1 April 2000</b>	<b>2,445.5</b>	<b>191.4</b>	<b>14,877.8</b>	<b>121.6</b>	<b>17,636.3</b>

## *Notes to the Regulatory Accounting Information*

### **9. WORKING CAPITAL**

	2001 £m	2000 restated £m
Stocks	0.6	0.8
Trade debtors	41.7	44.4
Trade creditors	(38.5)	(43.3)
Short term capital creditors	(59.8)	(85.1)
Infrastructure renewals (accrual)/prepayment	(34.0)	(38.7)
Accruals	0.0	(0.9)
Trade payments in advance	(31.5)	(29.8)
Payroll related taxes & DSS contributions	(1.9)	(2.3)
Group trade debtors/(creditors)	78.0	79.0
Prepayments	55.6	53.7
	<hr/>	<hr/>
	10.2	(22.2)
	<hr/>	<hr/>

### **10. MOVEMENT ON CURRENT COST RESERVE**

	2001 £m	2000 restated £m
Balance at 1 April 2000	15,322.0	14,343.5
AMP adjustment	0.0	561.7
RPI adjustments		
Fixed assets	409.4	444.4
Working capital	(0.5)	0.1
Financing	(23.0)	(23.0)
Grants & third party contributions	(4.5)	(4.7)
	<hr/>	<hr/>
Balance at 31 March 2001	15,703.4	15,322.0
	<hr/>	<hr/>

## Notes to the Regulatory Accounting Information

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

	2001 £m	2000 restated £m
<b>Current cost operating profit</b>	<b>163.1</b>	<b>243.7</b>
Working capital adjustment	(0.5)	0.1
Change in stocks	0.2	(0.1)
Receipts from other income	2.0	1.6
Current cost depreciation	140.4	120.0
Current cost profit on sale of assets	(9.4)	(5.2)
Decrease/(increase) in debtors and prepaid expenses	13.4	(16.4)
(Decrease)/increase in creditors and accrued expenses	(3.9)	5.2
Infrastructure renewals expenditure	35.4	64.3
Decrease in provisions	(3.6)	(28.4)
<b>Net cash flow from operating activities</b>	<b>337.1</b>	<b>384.8</b>

### 12. ANALYSIS OF NET DEBT

	At 31 Mar 2000 £m	Transfer of YWW balances 1 Apr 2000 £m	Cash flow £m	At 31 Mar 2001 £m
Cash in hand and bank	-	-	(0.2)	(0.2)
Overdrafts	7.4	0.1	(3.2)	4.3
Loans due within one year	11.3	-	0.4	11.7
Loans due after one year	198.8	-	(12.4)	186.4
Finance leases	491.6	2.5	(7.1)	487.0
Inter-company loan	121.9	-	150.1	272.0
	-	-	-	-
<b>Total net debt</b>	<b>831.0</b>	<b>2.6</b>	<b>127.6</b>	<b>961.2</b>
Appointed Business	830.2	2.6	127.0	959.8
Non - Appointed Business	0.8	-	0.6	1.4
<b>Total net debt</b>	<b>831.0</b>	<b>2.6</b>	<b>127.6</b>	<b>961.2</b>

## Notes to the Regulatory Accounting Information

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

	2001	*2000	*1999	*1998	*1997
	£m	restated £m	restated £m	restated £m	restated £m
<b>Turnover</b>	<b>543.6</b>	643.2	617.3	600.0	616.1
Current cost operating costs	(390.4)	(397.5)	(402.6)	(400.1)	(403.4)
Operating income	<u>9.4</u>	<u>5.4</u>	<u>1.9</u>	<u>2.4</u>	<u>0.4</u>
	<b>162.6</b>	251.1	216.6	202.3	213.1
Working capital adjustment	<u>0.5</u>	<u>(0.1)</u>	<u>(1.6)</u>	<u>0.3</u>	<u>3.1</u>
<b>Current cost operating profit</b>	<b>163.1</b>	251.0	215.0	202.6	216.2
Other income	2.0	2.5	1.6	1.5	1.3
Net interest	(56.9)	(43.8)	(37.7)	(30.0)	(26.3)
Financing adjustment	<u>23.0</u>	<u>23.7</u>	<u>18.3</u>	<u>24.7</u>	<u>13.4</u>
<b>Current cost profit before taxation</b>	<b>131.2</b>	233.4	197.2	198.8	204.6
Taxation	<u>(18.8)</u>	<u>(11.5)</u>	<u>(19.2)</u>	<u>(12.2)</u>	<u>(12.7)</u>
<b>Current cost profit on ordinary activities</b>	<b>112.4</b>	221.9	178.0	186.6	191.9
Dividends	<u>(193.5)</u>	<u>(95.6)</u>	<u>(90.6)</u>	<u>(643.2)</u>	<u>(73.1)</u>
<b>Current cost transfer (from)/to reserves</b>	<b><u>(81.1)</u></b>	<b><u>126.3</u></b>	<b><u>87.4</u></b>	<b><u>(456.6)</u></b>	<b><u>118.8</u></b>

\* Figures for years prior to 2000/01 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

	2001	*2000	*1999	*1998	*1997
	£m	restated £m	restated £m	restated £m	restated £m
<b>Fixed assets</b>					
Tangible assets	18,290.2	18,207.8	17,342.6	17,135.8	16,987.2
Third party contributions since 1989/90	(243.8)	(208.2)	(190.2)	(175.7)	(165.3)
<b>Working capital</b>	<u>10.2</u>	<u>(22.7)</u>	<u>3.6</u>	<u>74.0</u>	<u>(10.6)</u>
<b>Net operating assets</b>	<b>18,056.6</b>	<b>17,976.9</b>	<b>17,156.0</b>	<b>17,034.1</b>	<b>16,811.3</b>
Cash and investments	17.3	18.4	0.1	0.1	0.1
Non-trade debtors	14.8	27.6	21.6	19.6	7.5
Non-trade creditors due within one year	(66.7)	(47.7)	(87.4)	(60.9)	(66.8)
Creditors due after one year	(1,094.0)	(973.1)	(798.3)	(774.5)	(617.5)
Provisions for liabilities and charges	(1.1)	-	-	-	-
Dividends payable	<u>(66.6)</u>	<u>(66.3)</u>	<u>(63.5)</u>	<u>(78.2)</u>	<u>(48.3)</u>
<b>Net assets employed</b>	<b><u>16,860.3</u></b>	<b><u>16,935.8</u></b>	<b><u>16,228.5</u></b>	<b><u>16,140.2</u></b>	<b><u>16,086.3</u></b>
<b>Capital and reserves</b>					
Called up share capital	775.0	792.8	813.0	830.0	304.7
Profit and loss account	381.9	473.6	357.9	277.2	757.3
Current cost reserve	15,703.4	15,674.4	15,046.3	15,022.9	15,012.5
Other reserves	<u>0.0</u>	<u>(5.0)</u>	<u>11.3</u>	<u>10.1</u>	<u>11.8</u>
	<b><u>16,860.3</u></b>	<b><u>16,935.8</u></b>	<b><u>16,228.5</u></b>	<b><u>16,140.2</u></b>	<b><u>16,086.3</u></b>

\* Figures for years prior to 2000/01 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:-

	<b>Infrastructure Assets £m</b>
<b>Cost</b>	
At 31 March 2001 per Regulatory Accounts	986.9
Adjustment to opening balance	542.0
Transfer of YWW assets	2.1
Infrastructure renewals capitalised in the year	<u>35.4</u>
<b>At 31 March 2001 per Statutory Accounts</b>	<b><u>1,566.4</u></b>
<b>Depreciation</b>	
At 31 March 2001 per Regulatory Accounts	(0.5)
Adjustment to opening balance	(580.0)
Transfer of YWW assets	(2.7)
Depreciation charge for infrastructure renewals expenditure	<u>(30.8)</u>
<b>At 31 March 2001 per Statutory Accounts</b>	<b><u>(614.0)</u></b>
<b>Net Book Value</b>	
At 31 March 2001 per Regulatory Accounts	986.4
Adjustment for infrastructure renewals accounting	<u>(34.0)</u>
<b>At 31 March 2001 per Statutory Accounts</b>	<b><u>952.4</u></b>
<b>Provisions and Liabilities</b>	
At 31 March 2001 per Regulatory Accounts	(34.0)
Less infrastructure renewals accrual	<u>34.0</u>
<b>At 31 March 2001 per Statutory Accounts</b>	<b><u>-</u></b>

# ***Auditor's Report on the Regulatory Accounting Information***

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*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.

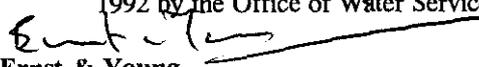
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the regulatory accounts are free from material misstatement, whether caused by fraud or other irregularity 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 2001 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 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

27 June 2001