

**YORKSHIRE WATER SERVICES LIMITED**

**ANNUAL REPORT AND ACCOUNTS**

For the year ended  
31 March 2002

Registered Number: 2366682



## **ANNUAL REPORT AND ACCOUNTS 2002**

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## **OPERATING REVIEW**

### **Financial and operational performance**

Yorkshire Water's turnover increased by 3.4% to £565.4m (2001: £546.7m) following the 3.4% overall increase in charges from 1 April 2001. Operating profit increased by 5.1% to £222.4m (2001: £211.6m), compared to the 5.6% increase reported at the interim stage. A continuing strong performance on cost reduction contributed to the increase in profit. The early implementation of efficiency initiatives is expected to achieve outperformance of £80m against the current determination.

Yorkshire Water maintained its position as a sector leader in operating, service and financial performance. This has come from a continued focus on cost reduction and efficiency improvement. In tandem, a determination to drive operational performance and service delivery has seen the company's environmental performance improve further with its compliance levels amongst the best in the water industry.

### **Capital investment**

Regulated capital investment for the year was £324.7m, an increase on the previous year's figure of £265.5m demonstrating the acceleration of the asset management plan (AMP) investment profile. The capital expenditure was distributed as follows: clean water programmes £145.5m, waste water £152.7m, IT £16.2m and other £10.3m.

The profile of capital expenditure in the current five year capital planning period, known as AMP3, is fundamentally different to the previous period in that there are many more capital schemes, but typically they are smaller. On the waste water side in particular, schemes involve the replacement or renovation of unsatisfactory intermittent discharges. Given the huge number of these in Yorkshire, excellent programme planning has been essential.

During 2001/02 there was an acceleration of activity and Yorkshire Water continues to be on target to deliver its capital obligations in terms of output. This is despite the significant suspension of capital schemes imposed due to restrictions during the foot and mouth disease outbreak.

### **Environmental performance**

Substantial investment by the company in AMP2 has led to significant improvement in water quality in the region. The Environment Agency ranks performance on bathing and river water quality as the best in Yorkshire since records began. The Marine Conservation Society has recently stated that the beaches in the north east (of which Yorkshire is a substantial part) rank as the most improved in the country and many are making their debut in the Good Beach Guide.

Two beaches in Yorkshire have also received Blue Flags. This has been achieved in co-operation with local authorities in the area who have themselves invested much in their tourism facilities.

As a result of considerable operational effort and proactive pollution prevention initiatives, major pollution incidents in the year have been reduced from 16 to 10. Yorkshire Water aims to improve further on this performance. Despite the success in delivering the target reduction in serious and significant pollution incidents, an increase in prosecutions did follow from an apparent change in prosecutions policy by the Environment Agency.

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)

## **Customer Service**

There are two aspects to customer service, the quantitative regulatory measures and what might be described as the service "feel", the experience which customers have when they deal with the company. A major initiative is underway within the company to improve the overall service experience – whether that service is delivered by Yorkshire Water itself or by one of its service partners.

In December 2001, Yorkshire Water was re-awarded the government sponsored Charter Mark for Excellence in Public Service.

On regulatory service measures, Yorkshire Water is now bettered by only one other company in the sector. Almost all measures show continued improvement. In particular, performance has continued to improve markedly on DG2 (inadequate pressure) and DG3 (unplanned interruptions).

Performance on DG5 (sewer flooding) has continued to improve. Recognising the importance of this issue, over the next two years, a 30% reduction in the numbers of properties flooding due to blockages, collapses and equipment failures is targeted. This will be achieved by a combination of capital improvements, service enhancements and also targeted cleaning and maintenance.

Drinking water compliance continues to improve, with overall compliance at 99.89%. Investment is continuing to achieve further improvement, with a number of major water quality schemes currently underway.

In the year, a major information technology led project – Integrated Customer and Operations Management (ICOM) has been successfully completed. In essence ICOM seeks to improve customer service and also drive efficiencies in operational management. It does this by more closely integrating front end customer handling through the contact centre with the company's field operations. The main benefits will be an increase in the numbers of calls satisfactorily concluded on contact and a decrease in the calls passed through to either contractors or our own field teams. ICOM has been a very complex project to deliver, involving the integration of three different software packages as well as fundamental changes to the business process of large parts of the company.

## **Commercial activity**

The construction and commissioning phase of the £80m public private partnership to provide waste water treatment facilities in the Aberdeen area for Scottish Water has been completed. The group has a 45% interest in the consortium with Earth Tech Engineering and Balfour Beatty which is undertaking the project. Handover of the four new plants to Yorkshire Water's dedicated operating company Grampian Wastewater Services has taken place.

Yorkshire Water is also bidding for a separate contract to provide sewage sludge disposal services for the Inverness, Perth & Dunfermline areas.

The company has reached best and final offer stage of its bid to design, build and operate a new waste water treatment works in Delft, Holland, which will serve a population equivalent of 1.7 million. A final decision is expected in late summer 2002.

Yorkshire Water, along with Brown and Root and Earth Tech Engineering, is part of a consortium which is bidding for the contract to provide water and waste water services to Ministry of Defence sites in Wales and the south west of England. The consortium has been shortlisted as one of two bidders to go forward for negotiations towards preferred bidder status.

## **Community involvement**

Yorkshire Water contributes actively to the community which it serves. This contribution is made through a range of community based initiatives including sponsorship, donations in kind and the encouragement of employee involvement as well as through direct financial support.

Yorkshire Water continues to encourage its employees involvement with Right to Read, a regional based scheme which has seen more than 100 colleagues going into schools and reading on a one-to-one basis with children struggling to reach the government's basic literacy standards.

The company's SwimCare campaign which aims to improve the swimming abilities of youngsters around the region won a gold award at the Yorkshire & Lincolnshire IPR Cream awards and the best community PR campaign. Launched in 2000, SwimCare has so far helped over 2,500 school pupils in Bradford, Hull, Leeds and Sheffield in order to help children attain the key stage 2 level. Due to the success of the campaign Yorkshire Water has now expanded the scheme to benefit children in York.

## **DIRECTORS' REPORT**

The Directors present their report for the year to 31 March 2002.

### **Financial Results for the year**

Profit on ordinary activities was £144.3m (2001 restated: £124.4m).

### **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	
Charles Firlotte	
John O'Kane	
Paul Wynn	
Graham Dixon	
Alan Harrison	

### **Non-executive Directors**

Elizabeth Kerry  
Derek Roberts

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 £98.3m comprises the following:

	<b>Regulated Activities £m</b>	<b>Non-regulated Activities £m</b>	<b>Total Dividend £m</b>
Interim Dividend	29.7	-	29.7
Proposed Final Dividend	<u>68.6</u>	<u>-</u>	<u>68.6</u>
Total Dividend for the year	<u>98.3</u>	<u>-</u>	<u>98.3</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 £46.0m has been transferred to reserves, bringing the balance held in reserve to £778.9m.

## Research & Development

The company undertakes a major programme of research in pursuit of improvements in service and operating efficiency. In 2001/02 £3.3m was committed to research and development including £2.3m 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 Notes 10-12 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 £324.7m.

## **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 42 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 33 to 56. 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 and employment policies**

The company strives to create a positive working environment for its employees. The company is committed to increasing employee involvement and places great emphasis on open two way communications. There is an extensive consultation and communication process with employees and trade unions, to keep employees informed and involved. Employees have opportunities to express their views including regular face to face sessions with the senior management team, and are kept informed via regular briefings and in-house publications.

The company's employment policies go well beyond current legal requirements. The company recognises that work/life balance is a key factor and offers a range of part time working opportunities, flexible working for some jobs, and a formal jobshare policy. Employees also have the opportunity to acquire a direct stake in the success of business through a sharesave scheme which has been operating since 1989.

The company is committed to treating job applicants and employees in the same way, regardless of their ethnic origin, gender, disability, race, colour, religion, sexual orientation or age. An active approach to keeping employees who become disabled in employment, and a commitment to equal opportunities for less able job applicants has been recognised with the 'double tick' accreditation from the UK employment service.

The company's approach to equal opportunities and diversity applies to advertisements for jobs, recruitment and selection, training, conditions of work, pay and to any other aspect of employment. The company continues to build links with ethnic minority groups and, commencing in 2002, will be taking further positive action including an awareness campaign on issues of diversity and the monitoring of the composition of the workforce to track the effectiveness of our actions in these areas.

One in five employees has volunteered to take part in a wide range of community activities. These include a Community Ambassadors scheme, a Speakers Panel, and support to local education ranging from Right to Read in junior schools through to coaching at senior schools, and mentoring university students from diverse ethnic backgrounds.

The company continues to be committed to high levels of training and employee development through a wide range of in-house and accredited programmes. Employees are encouraged to seek

out the information, development and training needed to carry out their role to its full potential and to share learning, expertise and information with colleagues. The company recognises team and individual achievements via 'Business Excellence' events and presentations.

### **Environment and community**

The environmental policy of the company recognises that a sustainable water and waste water business is dependent on environmentally sustainable operations. It is therefore committed to integrating environmental best practice and continuous improvement in environmental performance through the efficient, effective and proper conduct of its business.

Environmental performance is reported through the company's web based environment and community report which is regularly updated and independently verified. This can be viewed at [www.keldagroup.com/environment](http://www.keldagroup.com/environment)

The company contributes actively to the communities which it serves. This includes active encouragement of employee participation in community based schemes, as well as direct financial support. Further details are set out on pages 3 of the operating and financial review.

### **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 to reappoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.



BY ORDER OF THE BOARD S D McFARLANE, COMPANY SECRETARY, 25 JUNE 2002  
REGISTERED OFFICE: Western House, Halifax Road, Bradford BD6 2SZ  
REGISTERED IN ENGLAND NO 2366682

## **STATUTORY ACCOUNTS**

## ***Profit and Loss Account***

*for the Year Ended 31 March 2002*

	<i>Notes</i>	<b>2002</b>	<b>2001</b>
		<b>£m</b>	<b><i>Restated</i></b>
			<b>£m</b>
<b>Turnover</b>		<b>565.4</b>	546.7
Operating costs	2	<b>(343.0)</b>	(335.1)
<b>Operating profit</b>		<b>222.4</b>	211.6
Profit on disposal of investment		-	0.1
Income from shares in group undertakings		-	0.1
<b>Profit on ordinary activities before interest</b>		<b>222.4</b>	211.8
Net interest payable	7	<b>(64.1)</b>	(56.9)
<b>Profit before taxation</b>		<b>158.3</b>	154.9
Taxation	8	<b>(14.0)</b>	(30.5)
<b>Profit for the year</b>		<b>144.3</b>	124.4
Dividends	9	<b>(98.3)</b>	(193.8)
<b>Retained profit/(loss) for the financial year</b>	20	<b>46.0</b>	(69.4)

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

*for the Year Ended 31 March 2002*

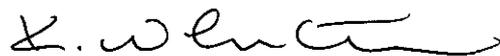
	<b>2002</b>	<b>2001</b>
	<b>£m</b>	<b><i>Restated</i></b>
		<b>£m</b>
<b>Profit for the financial year and total recognised gains and losses relating to the year</b>	<b>144.3</b>	124.4
Prior year adjustment	<b>(125.0)</b>	-
<b>Total gains and losses recognised since last annual report</b>	<b>19.3</b>	124.4

# Balance Sheet

as at 31 March 2002

	Notes	2002 £m	2001 Restated £m
<b>Fixed assets</b>			
Intangible assets	10	16.0	17.0
Tangible assets	11	3,051.6	2,882.9
Investments	12	16.7	16.7
		<u>3,084.3</u>	<u>2,916.6</u>
<b>Current assets</b>			
Stocks	13	0.5	0.6
Debtors	14	197.7	192.5
Cash and short term deposits		0.3	0.2
		<u>198.5</u>	<u>193.3</u>
<b>Creditors: amounts falling due within one year</b>			
Short term borrowings	17	(27.5)	(20.2)
Other creditors	15	(296.4)	(268.3)
		<u>(323.9)</u>	<u>(288.5)</u>
<b>Net current liabilities</b>		<u>(125.4)</u>	<u>(95.2)</u>
<b>Total assets less current liabilities</b>		<u>2,958.9</u>	<u>2,821.4</u>
<b>Creditors: amounts falling due after more than one year</b>			
Long term borrowings	16	(650.5)	(669.2)
Other creditors	15	(611.9)	(518.2)
Provisions for liabilities and charges	18	(142.6)	(126.1)
		<u>1,553.9</u>	<u>1,507.9</u>
<b>Capital and reserves</b>			
Called up equity share capital	19	775.0	775.0
Profit and loss account	20	778.9	732.9
<b>Total equity shareholder's funds</b>		<u>1,553.9</u>	<u>1,507.9</u>

Approved by the board of directors on 25 June 2002 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.

The company has adopted FRS 18 'Accounting Policies' and FRS 19 'Deferred Tax' for the first time in these accounts. FRS 18 deals with accounting policies and its adoption did not have an impact on the company's accounts. The prior year comparative figures for other creditors have been restated for certain minor accounting reclassifications.

The accounting policies have been reviewed in accordance with the requirements of FRS 18. The directors consider that the accounting policies set out below remain most appropriate to the company's circumstances, have been consistently applied and are supported by reasonable and prudent estimates and judgements.

### ***Change in accounting policy***

FRS 19 'Deferred Tax' has been adopted in the current year and resulted in a prior year adjustment as disclosed in the statement of total recognised gains and losses. The effect on the profit and loss account is to increase the taxation charge by £15.6m (2001: £11.7m). The balance sheet effect is to increase provisions by £140.6m (2001: £125.0m). The comparative amounts have been restated to comply with the new standard.

### ***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 and takes into account tax deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, subject to the following:

## *Notes to the Accounts*

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- provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is calculated at the rates at which it is estimated that tax will arise based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is discounted using the post tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates similar to those of the deferred tax assets and liabilities.

### *Investments*

Investments are stated at the lower of cost and netrealisable 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. The net book amount of £16.0m is shown under intangible assets in the balance sheet at 31 March 2002.

### *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.

#### *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.

## *Notes to the Accounts*

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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 other 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.

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*

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### *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.

### *Provisions*

Provision is made in accordance with FRS 12 for self insured claims, including an estimate for claims incurred but not reported.

### *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.

### *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 £16.0m (2001: £17.0m), net of amortisation of £1.9m (2001: £0.9m). The Group accounts are not affected by this transfer.

## Notes to the Accounts

<b>2. OPERATING COSTS</b>	<b>2002</b>	<b>2001</b>
	<b>£m</b>	<b>£m</b>
Own work capitalised	(21.4)	(20.6)
Raw materials and consumables	11.1	11.1
Other external charges	161.7	162.6
Wages and salaries	54.4	53.1
Social security costs	4.5	4.6
Other pension costs	5.3	5.2
Depreciation of fixed tangible assets:		
On owned assets		
- infrastructure	32.2	29.5
- other assets	82.4	78.3
On assets held under finance leases		
- infrastructure	1.3	1.3
- on other assets	13.6	14.3
Operating lease rentals		
- plant and equipment	1.3	1.4
- other	0.3	0.2
Amortisation of grants & contributions	(3.4)	(3.4)
Amortisation of goodwill on subsidiary undertakings	1.0	0.9
Restructuring costs	1.5	4.3
Research and development	1.0	1.0
Other operating income	(3.8)	(8.7)
	<b>343.0</b>	<b>335.1</b>
<b>Auditor's remuneration</b>		
Statutory audit fees and expenses	0.1	0.1
Non-audit work	-	-
	<b>0.1</b>	<b>0.1</b>
<b>Employees</b>		
The average number of persons employed by the company during the year was:	<b>2,103</b>	<b>2,108</b>

## Notes to the Accounts

### 3. DIRECTORS

	2002				2001		2002	2001
	Salary	Bonus payments	Benefits in kind	Total emoluments excluding pension contributions	Total emoluments excluding pension contributions	Pension contributions	Pension contributions	
<i>Remuneration of the Board</i>	£000	£000	£000	£000	£000	£000	£000	
<b>Chairman:</b>								
J. Napier	-	-	-	-	-	-	-	
<b>Directors:</b>								
R. K. Ackroyd*	98	21	11	130	110	12	10	
G. Dixon (appointed 1.4.2001)	80	17	13	110	-	10	-	
C. Firlotte	130	25	1	156	171	-	-	
A. Harrison (appointed 1.5.2001)	95	24	7	126	-	17	-	
A. P. Hinton (resigned 21.11.2000)	-	-	-	-	101	-	8	
E. A. Kerry	16	-	-	16	16	-	-	
J. R. Layfield (resigned 31.3.2000)	-	-	-	-	30	-	260	
M. K. Moir **(resigned 10.11.2000)	-	-	-	-	38	-	4	
J. P. O'Kane	-	-	-	-	61	-	4	
K. I. Whiteman	-	-	-	-	85	-	7	
P. D. Wynn	88	19	11	118	40	11	4	
	<b>507</b>	<b>106</b>	<b>43</b>	<b>656</b>	<b>652</b>	<b>50</b>	<b>297</b>	

\* Resigned 24 July 2000 and reappointed 25 September 2000

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

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 D. F. Roberts a non-executive director, and their emoluments are shown in the accounts of that company.

All the executive directors have service agreements which are terminable by the company on twelve months' notice. The prior year emoluments for J. Layfield included a termination payment of £30,000 and a further £260,100 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 2001/02 this scheme paid £350 (2001: £342) to each qualified participant and this is included in the emoluments table above.

During 2001/02, all executive directors, apart from J. Napier, the Chairman, and C. Firlotte, the highest paid director, were contributory members of the Kelda Group Pension Plan, a defined benefit scheme. £9,000 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 company's Inland Revenue approved save-as-you-earn share option scheme. The interests of directors in particular issues under the scheme are:

	<i>Balance at 1 April 2001</i>	<i>Granted during year</i>	<i>Exercised/ lapsed during year</i>	<i>Balance at 31 March 2002</i>	<i>Exercise price (pence)</i>	<i>Date options exercisable</i>	<i>Date options expire</i>
<b>R. K. Ackroyd</b>							
Sharesave	1,614	-	-	<b>1,614</b>	240.0	1.3.03	31.8.03
Sharesave	1,943	-	-	<b>1,943</b>	299.0	1.3.04	31.8.04
<b>G. Dixon</b>							
Sharesave	2,421	-	-	<b>2,421</b>	240.0	1.3.03	31.8.03
Sharesave	1,295	-	-	<b>1,295</b>	299.0	1.3.04	31.8.04
<b>A. Harrison</b>							
Sharesave	-	6,018	-	<b>6,018</b>	275.0	1.3.07	31.8.07
<b>P. Wynn</b>							
Sharesave	2,338	-	-	<b>2,338</b>	295.0	1.5.02	31.10.02
Sharesave	1,776	-	-	<b>1,776</b>	240.0	1.3.03	31.8.03
Sharesave	-	552	-	<b>552</b>	275.0	1.3.05	31.8.05

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 2002 was 389.5p (2001: 349.0p) and has ranged from 329.0p to 398.0p during the year. The aggregate gain on the exercise of share options during the year was £nil (2001: £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 2002 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 2001</i>	<i>Ordinary shares of 15 5/9p each sold in year</i>	<i>LTIPs Vested in year</i>	<i>Ordinary shares of 15 5/9p each at 31 Mar 2002</i>
R. K. Ackroyd	14,527	(10,500)	2,025	6,052
G. Dixon (appointed 1.4.2001)	1,327	-	-	1,327
P. Wynn	1,457	-	1,779	3,236

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. F. 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 overleaf. 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 24 June 2002 was 426.5p. The aggregate value of shares vested during the year was £11,795 (2001: £nil).

## Notes to the Accounts

### 6. LONG TERM INCENTIVES (continued)

	<i>At 1 April 2001</i>	<i>Granted during year</i>	<i>Vested during year</i>	<i>Lapsed during year</i>	<i>At 31 March 2002</i>	<i>Earliest vesting date</i>
R. K. Ackroyd	4,035	-	(3,376)	(659)	-	
	5,054	-	-	-	5,054	29.6.02
	6,612	-	-	-	6,612	21.9.03
	-	6,203	-	-	6,203	7.6.04
G. Dixon	-	4,913	-	-	4,913	7.6.04
C. Firlotte	7,444	-	-	-	7,444	21.9.03
	-	7,050	-	-	7,050	7.6.04
A. Harrison	-	6,062	-	-	6,062	7.6.04
P. Wynn	3,544	-	(2,965)	(579)	-	
	4,340	-	-	-	4,340	29.6.02
	5,542	-	-	-	5,542	21.9.03
	-	5,623	-	-	5,623	7.6.04

### 7. INTEREST

	<i>2002</i>	<i>2001</i>
	<i>£m</i>	<i>£m</i>
<b>Interest payable on:</b>		
Bank loans and overdrafts	17.7	15.2
Finance leases	25.0	30.6
Inter-company loans	25.9	23.3
Other loans	0.1	0.2
	<u>68.7</u>	<u>69.3</u>
<b>Interest receivable:</b>		
Inter-company loans	(4.2)	(10.8)
Other	(0.4)	(1.6)
	<u>64.1</u>	<u>56.9</u>

## Notes to the Accounts

### 8. TAXATION

	2002	2001
	£m	£m
<b>Current Tax</b>		
Corporation tax at 30% (2001: 30%)	-	5.0
Group relief payments	3.4	9.8
Adjustments in respect of prior years	(5.0)	4.0
	<hr/>	<hr/>
<b>Total current tax</b>	<b>(1.6)</b>	<b>18.8</b>
	<hr/>	<hr/>
<b>Deferred Tax</b>		
Charge for timing differences arising and reversing in the year	45.5	35.1
Adjustments in respect of prior years	(2.4)	(3.5)
	<hr/>	<hr/>
	<b>43.1</b>	<b>31.6</b>
Increase in discount	(29.1)	(22.3)
Adjustments to discount in respect of prior years	1.6	2.4
	<hr/>	<hr/>
<b>Total deferred tax (see Note 18)</b>	<b>15.6</b>	<b>11.7</b>
	<hr/>	<hr/>
<b>Total tax on profit on ordinary activities</b>	<b>14.0</b>	<b>30.5</b>

The differences between the total current tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2002	2001
	£m	£m
<b>Profit on ordinary activities before tax</b>	<b>158.3</b>	<b>154.9</b>
	<hr/>	<hr/>
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2001: 30%)	47.5	46.5
Effects of:		
Expenses not deductible for tax purposes	1.4	3.4
Capital allowances in excess of depreciation	(45.5)	(35.1)
Adjustments to tax charge in respect of previous periods	(5.0)	4.0
	<hr/>	<hr/>
<b>Current tax charge for period</b>	<b>(1.6)</b>	<b>18.8</b>

## Notes to the Accounts

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The tax charge in future periods may be affected by the following factors:

- capital investment is expected to remain at similar levels and the company expects to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.
- changes in the medium and long-term interest rates used to discount deferred tax assets and liabilities will affect the amount of deferred tax charged in the profit and loss account.

### 9. DIVIDENDS

	2002	2001
	£m	£m
Interim paid	29.7	29.2
Efficiency dividend paid	-	98.0
Final proposed	68.6	66.6
	<hr/>	<hr/>
	98.3	193.8
	<hr/>	<hr/>

### 10. INTANGIBLE ASSETS

	<i>Goodwill</i>
	£m
<b>Cost</b>	
Balance at 1 April 2001 and 31 March 2002	<hr/> 17.9
<b>Amortisation</b>	
Balance at 1 April 2001	(0.9)
Charge for the year	(1.0)
	<hr/>
Balance at 31 March 2002	(1.9)
	<hr/>
<b>Net book amount as at 31 March 2002</b>	<b>16.0</b>
	<hr/>
Net book amount as at 31 March 2001	17.0
	<hr/>

## Notes to the Accounts

### 11. TANGIBLE ASSETS

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Total £m
<b>Cost</b>					
At 1 April 2001	1,101.2	1,566.4	1,219.6	360.5	4,247.7
Additions – external	12.9	26.6	32.6	252.6	324.7
Transfers on commissioning	79.2	101.6	127.1	(307.9)	-
Disposals	-	-	(5.7)	(0.8)	(6.5)
Grants and contributions	-	-	-	(26.4)	(26.4)
<b>At 31 March 2002</b>	<b>1,193.3</b>	<b>1,694.6</b>	<b>1,373.6</b>	<b>278.0</b>	<b>4,539.5</b>
<b>Depreciation</b>					
At 1 April 2001	330.6	614.0	420.2	-	1,364.8
Disposals	-	-	(5.6)	(0.8)	(6.4)
Depreciation for the year	18.1	33.5	77.1	0.8	129.5
<b>At 31 March 2002</b>	<b>348.7</b>	<b>647.5</b>	<b>491.7</b>	<b>-</b>	<b>1,487.9</b>
<b>Net book amount at 31 March 2002</b>	<b>844.6</b>	<b>1,047.1</b>	<b>881.9</b>	<b>278.0</b>	<b>3,051.6</b>
<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>
At 31 March 2002 assets included above held under finance leases amounted to:					
Cost	150.8	59.4	283.1	32.5	525.8
Depreciation	16.8	6.0	83.8	-	106.6
<b>Net book amount at 31 March 2002</b>	<b>134.0</b>	<b>53.4</b>	<b>199.3</b>	<b>32.5</b>	<b>419.2</b>
<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>
	<b>Cost at 31 March 2002 £m</b>	<b>Depreciation at 31 March 2002 £m</b>	<b>Net book value at 31 March 2002 £m</b>	<b>Net book value at 31 March 2001 £m</b>	
<b>The net book amount of land and Buildings comprised:</b>					
Freehold properties	1,191.8	348.4	843.4	769.4	
Properties held on long lease	0.4	-	0.4	0.3	
Properties held on short lease	1.1	0.3	0.8	0.9	
	<b>1,193.3</b>	<b>348.7</b>	<b>844.6</b>	<b>770.6</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 15, 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 £224.2m 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 2001 and 31 March 2002	16.6	0.1	16.7

#### *Shares in group undertakings*

This relates to the 100% holding in The York Waterworks Ltd which was written down to the value of the underlying net assets in 2001.

#### *Other unlisted investments*

The company holds £27,119 of 8% Unsecured Loan Stock and £27,119 of 'A' ordinary shares in Water Research Centre (1989) Plc, which conducts research on behalf of the water industry.

### 13. STOCKS

	2002 £m	2001 £m
Raw materials and consumables	0.5	0.5
Work in progress	-	0.1
	<u>0.5</u>	<u>0.6</u>

### 14. DEBTORS

	2002 £m	2001 £m
Trade debtors	39.5	42.1
Amounts owed by group undertakings	75.3	79.9
Amounts owed by subsidiary undertakings	-	-
Amounts owed by associated undertakings	0.2	0.2
Prepayments and accrued income	60.6	57.4
<b>Other debtors:</b>		
Receivable within one year	21.9	12.7
Receivable after more than one year	0.2	0.2
	<u>197.7</u>	<u>192.5</u>

## Notes to the Accounts

### 15. OTHER CREDITORS

	2002	2001
	£m	<i>Restated</i> £m
<b>Amounts falling due within one year:</b>		
Trade creditors	30.5	25.1
Capital creditors	94.7	59.8
Deferred grants and contributions on depreciating fixed assets	2.9	2.9
Amounts owed to group undertakings	97.1	99.8
Amounts owed to subsidiary undertakings	17.4	17.4
Social security and payroll deductions	2.2	1.9
Taxation	0.2	8.7
Receipts in advance	31.2	31.5
Other creditors	20.2	21.2
	<u>296.4</u>	<u>268.3</u>
<b>Amounts falling due after more than one year:</b>		
Capital creditors	-	0.1
Amounts owed to parent company	440.0	350.0
Deferred grants and contributions on depreciating fixed assets	92.8	93.5
Other creditors	79.1	74.6
	<u>611.9</u>	<u>518.2</u>

### 16. LONG TERM BORROWINGS

	2002	2001
	£m	£m
<b>Maturities</b>		
<b>Repayable between two and five years:</b>		
Bank loans	18.7	26.0
Finance leases	0.3	0.5
<b>Repayable by instalments and maturing after five years:</b>		
Bank loans	150.0	155.0
Finance leases	476.8	482.4
<b>Wholly repayable after five years:</b>		
Other loans	4.7	5.3
	<u>650.5</u>	<u>669.2</u>

## ***Profit and Loss Account***

*for the Year Ended 31 March 2002*

	<i>Notes</i>	<b>2002</b>	<b>2001</b>
		<b>£m</b>	<b><i>Restated</i></b>
			<b>£m</b>
<b>Turnover</b>		<b>565.4</b>	546.7
Operating costs	2	<b>(343.0)</b>	(335.1)
<b>Operating profit</b>		<b>222.4</b>	211.6
Profit on disposal of investment		-	0.1
Income from shares in group undertakings		-	0.1
<b>Profit on ordinary activities before interest</b>		<b>222.4</b>	211.8
Net interest payable	7	<b>(64.1)</b>	(56.9)
<b>Profit before taxation</b>		<b>158.3</b>	154.9
Taxation	8	<b>(14.0)</b>	(30.5)
<b>Profit for the year</b>		<b>144.3</b>	124.4
Dividends	9	<b>(98.3)</b>	(193.8)
<b>Retained profit/(loss) for the financial year</b>	20	<b>46.0</b>	(69.4)

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

*for the Year Ended 31 March 2002*

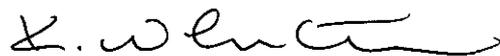
	<b>2002</b>	<b>2001</b>
	<b>£m</b>	<b><i>Restated</i></b>
		<b>£m</b>
<b>Profit for the financial year and total recognised gains and losses relating to the year</b>	<b>144.3</b>	124.4
Prior year adjustment	<b>(125.0)</b>	-
<b>Total gains and losses recognised since last annual report</b>	<b>19.3</b>	124.4

# Balance Sheet

as at 31 March 2002

	Notes	2002 £m	2001 Restated £m
<b>Fixed assets</b>			
Intangible assets	10	16.0	17.0
Tangible assets	11	3,051.6	2,882.9
Investments	12	16.7	16.7
		<u>3,084.3</u>	<u>2,916.6</u>
<b>Current assets</b>			
Stocks	13	0.5	0.6
Debtors	14	197.7	192.5
Cash and short term deposits		0.3	0.2
		<u>198.5</u>	<u>193.3</u>
<b>Creditors: amounts falling due within one year</b>			
Short term borrowings	17	(27.5)	(20.2)
Other creditors	15	(296.4)	(268.3)
		<u>(323.9)</u>	<u>(288.5)</u>
<b>Net current liabilities</b>		<u>(125.4)</u>	<u>(95.2)</u>
<b>Total assets less current liabilities</b>		<u>2,958.9</u>	<u>2,821.4</u>
<b>Creditors: amounts falling due after more than one year</b>			
Long term borrowings	16	(650.5)	(669.2)
Other creditors	15	(611.9)	(518.2)
Provisions for liabilities and charges	18	(142.6)	(126.1)
		<u>1,553.9</u>	<u>1,507.9</u>
<b>Capital and reserves</b>			
Called up equity share capital	19	775.0	775.0
Profit and loss account	20	778.9	732.9
<b>Total equity shareholder's funds</b>		<u>1,553.9</u>	<u>1,507.9</u>

Approved by the board of directors on 25 June 2002 and signed on their behalf by:



Kevin Whiteman  
Managing Director

## Notes to the Accounts

### 11. TANGIBLE ASSETS

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Total £m
<b>Cost</b>					
At 1 April 2001	1,101.2	1,566.4	1,219.6	360.5	4,247.7
Additions – external	12.9	26.6	32.6	252.6	324.7
Transfers on commissioning	79.2	101.6	127.1	(307.9)	-
Disposals	-	-	(5.7)	(0.8)	(6.5)
Grants and contributions	-	-	-	(26.4)	(26.4)
<b>At 31 March 2002</b>	<b>1,193.3</b>	<b>1,694.6</b>	<b>1,373.6</b>	<b>278.0</b>	<b>4,539.5</b>
<b>Depreciation</b>					
At 1 April 2001	330.6	614.0	420.2	-	1,364.8
Disposals	-	-	(5.6)	(0.8)	(6.4)
Depreciation for the year	18.1	33.5	77.1	0.8	129.5
<b>At 31 March 2002</b>	<b>348.7</b>	<b>647.5</b>	<b>491.7</b>	<b>-</b>	<b>1,487.9</b>
<b>Net book amount at 31 March 2002</b>	<b>844.6</b>	<b>1,047.1</b>	<b>881.9</b>	<b>278.0</b>	<b>3,051.6</b>
Net book amount at 31 March 2001	770.6	952.4	799.4	360.5	2,882.9
At 31 March 2002 assets included above held under finance leases amounted to:					
Cost	150.8	59.4	283.1	32.5	525.8
Depreciation	16.8	6.0	83.8	-	106.6
<b>Net book amount at 31 March 2002</b>	<b>134.0</b>	<b>53.4</b>	<b>199.3</b>	<b>32.5</b>	<b>419.2</b>
Net book amount at 31 March 2001	136.6	54.7	210.3	32.5	434.1
	<b>Cost at 31 March 2002 £m</b>	<b>Depreciation at 31 March 2002 £m</b>	<b>Net book value at 31 March 2002 £m</b>	<b>Net book value at 31 March 2001 £m</b>	
<b>The net book amount of land and Buildings comprised:</b>					
Freehold properties	1,191.8	348.4	843.4	769.4	
Properties held on long lease	0.4	-	0.4	0.3	
Properties held on short lease	1.1	0.3	0.8	0.9	
	<b>1,193.3</b>	<b>348.7</b>	<b>844.6</b>	<b>770.6</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 15, 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 £224.2m lower than it would have been had this treatment not been adopted.

## Notes to the Accounts

### 15. OTHER CREDITORS

	2002	2001
	£m	<i>Restated</i> £m
<b>Amounts falling due within one year:</b>		
Trade creditors	30.5	25.1
Capital creditors	94.7	59.8
Deferred grants and contributions on depreciating fixed assets	2.9	2.9
Amounts owed to group undertakings	97.1	99.8
Amounts owed to subsidiary undertakings	17.4	17.4
Social security and payroll deductions	2.2	1.9
Taxation	0.2	8.7
Receipts in advance	31.2	31.5
Other creditors	20.2	21.2
	<u>296.4</u>	<u>268.3</u>
<b>Amounts falling due after more than one year:</b>		
Capital creditors	-	0.1
Amounts owed to parent company	440.0	350.0
Deferred grants and contributions on depreciating fixed assets	92.8	93.5
Other creditors	79.1	74.6
	<u>611.9</u>	<u>518.2</u>

### 16. LONG TERM BORROWINGS

	2002	2001
	£m	£m
<b>Maturities</b>		
<b>Repayable between two and five years:</b>		
Bank loans	18.7	26.0
Finance leases	0.3	0.5
<b>Repayable by instalments and maturing after five years:</b>		
Bank loans	150.0	155.0
Finance leases	476.8	482.4
<b>Wholly repayable after five years:</b>		
Other loans	4.7	5.3
	<u>650.5</u>	<u>669.2</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	23.3	-	4.2	27.5
Between one and two years	21.6	-	6.5	28.1
Between two and five years	53.0	-	21.9	74.9
After five years	94.1	4.7	448.7	547.5
	<b>192.0</b>	<b>4.7</b>	<b>481.3</b>	<b>678.0</b>
Cash at bank				(0.3)
Amounts owed by parent company				(74.0)
Amounts owed to parent company				440.0
Net debt				<b>1,043.7</b>

As shown above, the net debt as at 31 March 2002 was £1,043.7m (2001: £961.2m).

Borrowings repayable instalments after more than five years include £448.7m (2001: £456.4m) in respect of finance leases which have expiry dates ranging from 2018 to 2033 and carry interest rates based on 12 month LIBOR (London Inter-Bank Offered Rate).

### 18. PROVISION FOR LIABILITIES AND CHARGES

	<i>Deferred tax</i>	<i>Self Insurance</i>	<i>Total</i>
	£m	£m	£m
At 1 April 2001 (Restated)	125.0	1.1	126.1
Additions during the year	15.6	1.1	16.7
Utilised in year	-	(0.2)	(0.2)
At 31 March 2002	<b>140.6</b>	<b>2.0</b>	<b>142.6</b>

#### *Deferred tax*

	<b>2002</b>
	<b>£m</b>
At 1 April (Restated)	125.0
Deferred tax charged to the profit and loss account	15.6
At 31 March 2002	<b>140.6</b>

## 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	23.3	-	4.2	27.5
Between one and two years	21.6	-	6.5	28.1
Between two and five years	53.0	-	21.9	74.9
After five years	94.1	4.7	448.7	547.5
	<u>192.0</u>	<u>4.7</u>	<u>481.3</u>	<u>678.0</u>
Cash at bank				(0.3)
Amounts owed by parent company				(74.0)
Amounts owed to parent company				440.0
Net debt				<u>1,043.7</u>

As shown above, the net debt as at 31 March 2002 was £1,043.7m (2001: £961.2m).

Borrowings repayable instalments after more than five years include £448.7m (2001: £456.4m) in respect of finance leases which have expiry dates ranging from 2018 to 2033 and carry interest rates based on 12 month LIBOR (London Inter-Bank Offered Rate).

### 18. PROVISION FOR LIABILITIES AND CHARGES

	<i>Deferred tax</i>	<i>Self Insurance</i>	<i>Total</i>
	£m	£m	£m
At 1 April 2001 (Restated)	125.0	1.1	126.1
Additions during the year	15.6	1.1	16.7
Utilised in year	-	(0.2)	(0.2)
At 31 March 2002	<u>140.6</u>	<u>2.0</u>	<u>142.6</u>

#### *Deferred tax*

	<b>2002</b>
	<b>£m</b>
At 1 April (Restated)	125.0
Deferred tax charged to the profit and loss account	15.6
At 31 March 2002	<u>140.6</u>

## Notes to the Accounts

### 18. PROVISION FOR LIABILITIES AND CHARGES (continued)

Deferred tax is provided as follows:

	At 31 March 2002	At 31 March 2001 Restated
	£m	£m
Accelerated capital allowances	466.7	432.8
Short term timing differences	(3.4)	(12.6)
Undiscounted provision for deferred tax	<u>463.3</u>	<u>420.2</u>
Discount	(322.7)	(295.2)
Discounted provision for deferred tax	<u>140.6</u>	<u>125.0</u>

The current rate of corporation tax of 30% (2001: 30%) has been used to calculate the amount of deferred tax. Provision has been made for all deferred tax assets and liabilities in respect of accelerated capital allowances and other material timing differences. These deferred tax assets and liabilities have been discounted to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse.

### 19. CALLED UP SHARE CAPITAL

	<i>Authorised</i>	<i>Allotted and fully paid</i>
Ordinary shares of £1 each at 31 March 2001 and 2002	<u>775,000,000</u>	<u>775,000,000</u>

### 20. MOVEMENT IN SHAREHOLDER'S FUNDS

	<i>Reserves</i>	<i>Share capital</i>	<i>Total funds</i>
	£m	£m	£m
At 1 April 2000	915.6	775.0	1,690.6
Prior year adjustment	(113.3)	-	(113.3)
Profit for the year	124.4	-	124.4
Dividends	(193.8)	-	(193.8)
At 31 March 2001	<u>732.9</u>	<u>775.0</u>	<u>1,507.9</u>
Profit for the year	144.3	-	144.3
Dividends	(98.3)	-	(98.3)
At 31 March 2002	<u>778.9</u>	<u>775.0</u>	<u>1,553.9</u>

## Notes to the Accounts

### 21. COMMITMENTS

	2002	2001
	£m	£m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	<u>239.1</u>	<u>389.7</u>

In addition, the company has a long term investment programme which identifies substantial future expenditure commitments in the period to 31 March 2005.

At 31 March 2002 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>	
	2002	Other 2002	2001	Other 2001
	£m	£m	£m	£m
<b>Leases which expire:</b>				
Within one year	-	0.5	-	0.4
Between one and five years	0.3	0.8	0.3	0.6
	<u>0.3</u>	<u>1.3</u>	<u>0.3</u>	<u>1.0</u>

### 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 £240 million respectively at 31 March 2002.

### 23. PENSIONS

The group sponsors a UK pension scheme called the Kelda Group Pension Plan (KGPP). The KGPP has a number of benefit categories providing benefits on a defined benefit basis and one category providing benefits on a defined contribution basis.

The last formal valuation of the KGPP was carried out at 31 March 2001 when the market valuation of assets was £559.9m and the scheme surplus was £22.2m.

The pension cost under SSAP 24 'Accounting for Pension Costs' for KGPP has been assessed in accordance with the advice of Mercer Human Resource Consulting Limited, using the projected unit method. For this purpose, the actuarial assumptions adopted are based upon investment growth of 5.4% per annum, pay growth of 4% per annum and increases to pensions in payment and deferred pensions of 2.5% per annum. The market value of the assets represented 107.5% of the value of the accrued benefits after allowing for expected future earnings increases.

## *Notes to the Accounts*

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### **23. PENSIONS (continued)**

Yorkshire Water Services is unable to identify its share of the underlying assets and liabilities of the KGPP.

Contributions over the year ended 31 March 2002 were paid by members at 3%, 4%, 4.5%, 5% or 6% of pensionable pay (depending on benefit category). The company contributed at 200% of members contributions during the accounting year in respect of the majority of members. The contribution rates for the 2002/03 financial year will be unchanged.

An accrual for unfunded benefits of £0.2m (2001: £nil) has been included in the company's accounts.

The company's total pension charge for the year was £5.3m (2001: £5.2m).

Additional disclosures required by FRS 17 in respect of the group scheme, including the major assumptions, are set out in the accounts of the parent company, together with disclosures of the market values of the assets and the FRS 17 value of liabilities of the KGPP at 31 March 2002.

### **24. ULTIMATE PARENT 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 33 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*

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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 11 to 30, 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***

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## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF YORKSHIRE WATER SERVICES LIMITED**

We have audited the company's financial statements for the year ended 31 March 2002 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, and the related notes 1 to 27. These financial statements have been prepared on the basis of the accounting policies set out therein.

### **Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

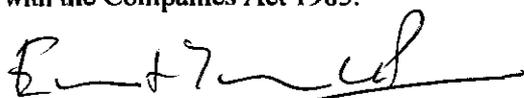
### **Basis of audit opinion**

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

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

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 March 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Ernst & Young LLP**

Registered Auditor, Leeds

8 July 2002.

# Regulatory Accounting Information 2002

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### *Explanatory note*

Pages 34 to 56 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 2002*

	2002			2001 restated		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- Appointed £m	Total £m
<b>Turnover</b>	560.4	4.2	564.6	542.6	3.1	545.7
Operating costs	(340.6)	(5.4)	(346.0)	(339.1)	(3.7)	(342.8)
Operating income	2.3	-	2.3	6.7	-	6.7
<b>Operating profit/(loss)</b>	<b>222.1</b>	<b>(1.2)</b>	<b>220.9</b>	<b>210.2</b>	<b>(0.6)</b>	<b>209.6</b>
Other income	1.5	-	1.5	2.0	0.2	2.2
Interest receivable	4.6	-	4.6	12.4	-	12.4
Interest payable	(68.7)	-	(68.7)	(69.3)	-	(69.3)
<b>Profit/(loss) on ordinary activities before taxation</b>	<b>159.5</b>	<b>(1.2)</b>	<b>158.3</b>	<b>155.3</b>	<b>(0.4)</b>	<b>154.9</b>
Taxation - current tax	1.6	-	1.6	(18.8)	-	(18.8)
- deferred tax	(15.6)	-	(15.6)	(11.7)	-	(11.7)
<b>Profit/(loss) on ordinary activities after taxation</b>	<b>145.5</b>	<b>(1.2)</b>	<b>144.3</b>	<b>124.8</b>	<b>(0.4)</b>	<b>124.4</b>
Dividends - interim	(29.7)	-	(29.7)	(28.9)	(0.3)	(29.2)
- efficiency	-	-	-	(98.0)	-	(98.0)
- final	(68.6)	-	(68.6)	(66.6)	-	(66.6)
<b>Retained profit/(loss) for the year</b>	<b>47.2</b>	<b>(1.2)</b>	<b>46.0</b>	<b>(68.7)</b>	<b>(0.7)</b>	<b>(69.4)</b>

Comparative turnover and operating cost figures data for 2001 have been restated to eliminate double-counted costs of £1.0m from both turnover and operating costs. These common services costs were recharged to an associate company as turnover then subsequently charged back as part of a contract. This is not consistent with the statutory accounts presentation. Similarly, figures for 2002 have been adjusted by £0.8m from the statutory accounts figures.

The accounting policies set out on pages 13 to 16 apply to the historical cost regulatory accounting information, with the exception of the accounting for infrastructure assets (explained in Note 15 on page 54) and the investment in the York Waterworks Ltd (explained in Note 1 on page 40).

# Historical Cost Balance Sheet

as at 31 March 2002

	2002			2001 restated		
	Appointed £m	Non- Appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
<b>Fixed assets</b>						
Tangible assets	3,066.1	5.9	3,072.0	2,910.8	6.1	2,916.9
Investments	16.1	-	16.1	17.1	-	17.1
	<u>3,082.2</u>	<u>5.9</u>	<u>3,088.1</u>	<u>2,927.9</u>	<u>6.1</u>	<u>2,934.0</u>
<b>Current assets</b>						
Stocks	0.5	-	0.5	0.6	-	0.6
Debtors	123.5	0.2	123.7	114.2	0.3	114.5
Cash at bank and in hand	0.3	-	0.3	0.2	-	0.2
Short term investments	74.0	-	74.0	78.0	-	78.0
	<u>198.3</u>	<u>0.2</u>	<u>198.5</u>	<u>193.0</u>	<u>0.3</u>	<u>193.3</u>
<b>Creditors: amounts falling due within one year</b>						
Borrowings	(25.8)	(1.7)	(27.5)	(19.7)	(0.5)	(20.2)
Dividends payable	(68.6)	-	(68.6)	(66.6)	-	(66.6)
Other creditors	(207.9)	(0.4)	(208.3)	(181.8)	(0.4)	(182.2)
	<u>(302.3)</u>	<u>(2.1)</u>	<u>(304.4)</u>	<u>(268.1)</u>	<u>(0.9)</u>	<u>(269.0)</u>
<b>Net current liabilities</b>	<u>(104.0)</u>	<u>(1.9)</u>	<u>(105.9)</u>	<u>(75.1)</u>	<u>(0.6)</u>	<u>(75.7)</u>
<b>Total assets less current liabilities</b>	<b>2,978.2</b>	<b>4.0</b>	<b>2,982.2</b>	<b>2,852.8</b>	<b>5.5</b>	<b>2,858.3</b>
<b>Creditors: amounts falling due after more than 1 year</b>						
Borrowings	(1,090.5)	-	(1,090.5)	(1,019.2)	-	(1,019.2)
Other creditors	(79.1)	-	(79.1)	(74.7)	-	(74.7)
	<u>(1,169.6)</u>	<u>-</u>	<u>(1,169.6)</u>	<u>(1,093.9)</u>	<u>-</u>	<u>(1,093.9)</u>
<b>Provisions for liabilities and charges</b>						
Deferred tax	(140.6)	-	(140.6)	(125.0)	-	(125.0)
Other	(22.4)	-	(22.4)	(35.1)	-	(35.1)
Deferred income	(89.8)	(5.9)	(95.7)	(90.2)	(6.2)	(96.4)
	<u>1,555.8</u>	<u>(1.9)</u>	<u>1,553.9</u>	<u>1,508.6</u>	<u>(0.7)</u>	<u>1,507.9</u>
<b>Capital and reserves</b>						
Called up share capital	775.0	-	775.0	775.0	-	775.0
Profit and loss account	780.8	(1.9)	778.9	733.6	(0.7)	732.9
	<u>1,555.8</u>	<u>(1.9)</u>	<u>1,553.9</u>	<u>1,508.6</u>	<u>(0.7)</u>	<u>1,507.9</u>

***Current Cost Profit and Loss Account***  
***for the Appointed Business***  
*for the year ended 31 March 2002*

	<i>Notes</i>	<b>2002</b> £m	2001 restated £m
Turnover	6	560.4	542.6
Current cost operating costs	7	(393.9)	(389.4)
Operating income	6	1.7	9.4
		<hr/>	<hr/>
Working capital adjustment	6	168.2 (0.1)	162.6 0.5
		<hr/>	<hr/>
<b>Current cost operating profit</b>		<b>168.1</b>	<b>163.1</b>
Other income		1.5	2.0
Interest receivable		4.6	12.4
Interest payable		(68.7)	(69.3)
Financing adjustment		15.6	23.0
		<hr/>	<hr/>
<b>Current cost profit on ordinary activities before taxation</b>		<b>121.1</b>	<b>131.2</b>
Taxation - current tax		1.6	(18.8)
- deferred tax		(15.6)	(11.7)
		<hr/>	<hr/>
<b>Current cost profit on ordinary activities after taxation</b>		<b>107.1</b>	<b>100.7</b>
Dividends		(98.3)	(193.5)
		<hr/>	<hr/>
<b>Current cost profit retained</b>		<b>8.8</b>	<b>(92.8)</b>
		<hr/>	<hr/>

***Current Cost Balance Sheet***  
***For the Appointed Business***  
*for the year ended 31 March 2002*

	<i>Notes</i>	<b>2002</b> £m	2001 restated £m
<b>Fixed assets</b>			
Tangible assets	8	18,648.4	18,290.2
Third party contributions since 1989/90		(265.6)	(243.8)
<b>Working capital</b>	9	<b>(9.9)</b>	10.2
<b>Net operating assets</b>		<b>18,372.9</b>	18,056.6
Cash and investments		16.4	17.3
Non-trade debtors		24.6	14.8
Non-trade creditors due within one year		(69.8)	(66.7)
Creditors due after one year		(1,169.6)	(1,094.0)
Provisions for liabilities and charges:			
- deferred tax		(140.6)	(125.0)
- other		(2.0)	(1.1)
Dividends payable		(68.6)	(66.6)
<b>Net assets employed</b>		<b>16,963.3</b>	16,735.3
<b>Capital and reserves</b>			
Called up share capital		775.0	775.0
Profit and loss account		265.7	256.9
Current cost reserve	10	15,922.6	15,703.4
		<b>16,963.3</b>	16,735.3

# Current Cost Cash Flow Statement

for the year ended 31 March 2002

	Notes	2002			2001		
		Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
<b>Net cash flow from operating activities</b>	11	348.0	(1.2)	346.8	337.1	0.5	337.6
<b>Returns on investments and servicing of finance</b>							
Interest received		4.8	-	4.8	11.9	-	11.9
Interest paid		(39.0)	-	(39.0)	(20.3)	-	(20.3)
Interest in finance lease rentals		(19.8)	-	(19.8)	(23.1)	-	(23.1)
<b>Net cash flow from returns on Investments and servicing of finance</b>		<b>(54.0)</b>	<b>-</b>	<b>(54.0)</b>	<b>(31.5)</b>	<b>-</b>	<b>(31.5)</b>
<b>Taxation</b>							
Tax paid		(18.2)	-	(18.2)	(12.1)	(0.1)	(12.2)
<b>Capital expenditure and financing of investment</b>							
Gross cost of purchase of fixed assets		(235.4)	(0.1)	(235.5)	(255.3)	-	(255.3)
Receipt of grants and contributions		18.1	0.1	18.2	47.5	-	47.5
Infrastructure renewals expenditure		(47.1)	-	(47.1)	(35.4)	-	(35.4)
Disposal of fixed assets		2.3	-	2.3	14.4	-	14.4
<b>Net cash outflow from investing activities</b>		<b>(262.1)</b>	<b>-</b>	<b>(262.1)</b>	<b>(228.8)</b>	<b>-</b>	<b>(228.8)</b>
<b>Acquisitions and disposals</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.2</b>	<b>0.2</b>
Equity dividends paid		(95.0)	-	(95.0)	(191.7)	(1.2)	(192.9)
<b>Net cash outflow before financing</b>		<b>(81.3)</b>	<b>(1.2)</b>	<b>(82.5)</b>	<b>(127.0)</b>	<b>(0.6)</b>	<b>(127.6)</b>
<b>Financing</b>							
Capital element in finance lease rentals		(5.7)	-	(5.7)	(7.1)	-	(7.1)
Movement in inter-company loans		94.0	-	94.0	150.1	-	150.1
Repayment of bank loans		(12.4)	-	(12.4)	(12.0)	-	(12.0)
<b>Net cash inflow from financing</b>		<b>75.9</b>	<b>-</b>	<b>75.9</b>	<b>131.0</b>	<b>-</b>	<b>131.0</b>
<b>(Decrease)/increase in cash</b>		<b>(5.4)</b>	<b>(1.2)</b>	<b>(6.6)</b>	<b>4.0</b>	<b>(0.6)</b>	<b>3.4</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.

The prior year comparative figures for Notes 6 and 7 have been restated for certain minor accounting reclassifications.

### **Infrastructure assets**

As noted on page 34, 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 2001/02 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

## *Notes to the Regulatory Accounting Information*

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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.

- **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 accounting policy on page 14 of the accounts outlines the 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.

# *Notes to the Regulatory Accounting Information*

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### **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.

### **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 2002, the sum invested was £74m. On 31 March 2000, £200m was lent by the parent company, at a fixed rate of 6.875%, repayable in 2010, on 17 April 2000 £150m was lent at a fixed rate of 6.625% repayable in 2031, and on November 2001 a further £90m 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.

## Notes to the Regulatory Accounting Information

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### 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 £2.1m (2001 - £8.0m).

### 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 5.03 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	5.1	Cost allocation	3.0
Customer Services	Loop Customer Management	16.0	Cost allocation	15.0

## Notes to the Regulatory Accounting Information

### 6. ANALYSIS OF TURNOVER & OPERATING INCOME FOR THE APPOINTED BUSINESS

for the year ended 31 March 2002

	2002			2001 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	94.4	78.9	173.3	88.4	74.1	162.5
Unmeasured	157.4	174.8	332.2	155.6	174.2	329.8
Trade effluent	-	12.3	12.3	-	22.8	22.8
Large user revenues	17.9	15.7	33.6	17.1	-	17.1
Other sources	1.0	3.0	4.0	0.7	3.4	4.1
Third party services	4.9	0.1	5.0	6.1	0.2	6.3
<b>Total turnover</b>	<b>275.6</b>	<b>284.8</b>	<b>560.4</b>	<b>267.9</b>	<b>274.7</b>	<b>542.6</b>
<b>Operating income</b>						
Current cost profit on fixed assets	1.4	0.3	1.7	6.1	3.3	9.4
Net of expenses						
<b>Total operating income</b>	<b>1.4</b>	<b>0.3</b>	<b>1.7</b>	<b>6.1</b>	<b>3.3</b>	<b>9.4</b>
<b>Working capital adjustment</b>	<b>(0.1)</b>	<b>-</b>	<b>(0.1)</b>	<b>0.3</b>	<b>0.2</b>	<b>0.5</b>

### 7. ANALYSIS OF OPERATING COSTS AND ASSETS

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.

No amounts were paid by the appointed business to charitable funds assisting customers as these are dealt with in the accounts of the parent company.

## Notes to the Regulatory Accounting Information

### 7. ANALYSIS OF OPERATING COSTS AND ASSETS

for the year ended 31 March 2002

	Resources and treatment	Distribution	Water Supply sub total
	£m	£m	£m
<b>Direct costs</b>			
Employment costs	4.4	4.2	8.6
Power	6.3	4.3	10.6
Agencies	-	-	-
Hired and contracted services	5.2	10.5	15.7
Associated companies	-	-	-
Materials and consumables	4.5	0.1	4.6
Service charges EA	5.0	-	5.0
Bulk supply imports	2.3	-	2.3
Other direct costs	0.8	3.2	4.0
<b>Total direct costs</b>	<b>28.4</b>	<b>22.3</b>	<b>50.8</b>
General and support expenditure	10.3	12.8	23.1
<b>Functional expenditure</b>	<b>38.7</b>	<b>35.1</b>	<b>73.9</b>
Total business activities			15.1
Local authority rates			18.7
Doubtful debts			4.3
Exceptional items			-
<b>Total opex less third party services</b>			<b>112.0</b>
Third party services - opex			4.8
<b>Total operating expenditure</b>			<b>116.8</b>
<b>Capital costs</b>			
Infrastructure renewals expenditure	10.4	22.0	32.4
Movement in infrastructure renewals accrual/prepayment	(1.6)	(6.3)	(7.9)
Current cost depreciation (allocated)	40.1	20.1	60.2
Amortisation of deferred credits			(1.7)
Amortisation of intangible assets			1.0
Business activities current cost depreciation (non-allocated)			2.7
<b>Total capital maintenance</b>			<b>86.7</b>
<b>TOTAL OPERATING COSTS</b>			<b>203.5</b>
<b>CCA GROSS MEA VALUES</b>			
Service activities	3,901.0	4,720.4	8,621.4
Business activities			8.3
<b>Service totals</b>			<b>8,629.7</b>
Services for third parties			-
<b>TOTAL</b>			<b>8,629.7</b>

## Notes to the Regulatory Accounting Information

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
1.7	5.5	3.3	8.8	10.5			
1.5	7.3	2.4	9.7	11.2			
-	-	-	-	-			
6.5	6.9	5.2	12.1	18.6			
-	-	-	-	-			
0.2	1.2	2.2	3.4	3.6			
1.0	3.1	0.1	3.2	4.2			
-	-	-	-	-			
0.5	0.6	0.4	1.0	1.5			
11.4	24.6	13.6	38.2	49.6	15.3	6.2	2.6
6.1	10.0	4.9	14.9	21.0	0.9	1.7	0.5
17.5	34.6	18.5	53.1	70.6	16.2	7.9	3.1
				12.1			
				8.6			
				5.3			
				-			
				96.6			
				0.1			
				96.7			
14.7	-	-	-	14.7			
(5.7)	-	-	-	(5.7)			
8.1	63.2	12.3	75.5	83.6			
				(1.5)			
				-			
				2.6			
				93.7			
				190.4			
9,277.1	2,686.1	258.9	2,945.0	12,222.1			
				5.6			
				12,227.7			
				-			
				12,227.7			

## Notes to the Regulatory Accounting Information

### 7. ANALYSIS OF OPERATING COSTS AND ASSETS

for the year ended 31 March 2001 (restated)

	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 EA	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>	<b>28.2</b>	<b>22.2</b>	<b>50.4</b>
General and support expenditure	12.3	14.8	27.1
<b>Functional expenditure</b>	<b>40.5</b>	<b>37.0</b>	<b>77.5</b>
Total business activities			14.4
Local authority rates			18.6
Doubtful debts			4.5
Exceptional items			-
<b>Total opex less third party services</b>			<b>115.0</b>
Third party services - opex			6.1
<b>Total operating expenditure</b>			<b>121.1</b>
<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>			<b>82.5</b>
<b>TOTAL OPERATING COSTS</b>			<b>203.6</b>
<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>			<b>8,414.0</b>
Services for third parties			-
<b>TOTAL</b>			<b>8,414.0</b>

## Notes to the Regulatory Accounting Information

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
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	0.7	2.7	0.9
20.0	32.6	15.8	48.4	68.4	15.4	9.1	3.0
				13.1			
				11.1			
				4.4			
				-			
				97.0			
				0.1			
				97.1			
12.4	-	-	-	12.4			
(5.2)	-	-	-	(5.2)			
7.8	62.5	11.7	74.2	82.0			
				(1.4)			
				-			
				0.9			
				88.7			
				-			
				185.8			
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

## 8. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE as at 31 March 2002

	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 2001	1,673.3	95.0	6,502.5	143.2	8,414.0
RPI adjustment	21.8	1.2	84.5	1.9	109.4
Disposals	(5.4)	(1.1)	-	(8.1)	(14.6)
Additions	54.6	3.1	50.0	13.2	120.9
<b>At 31 March 2002</b>	<b>1,744.3</b>	<b>98.2</b>	<b>6,637.0</b>	<b>150.2</b>	<b>8,629.7</b>
<b>Depreciation</b>					
At 1 April 2001	689.6	3.4	-	78.8	771.8
RPI adjustment	9.0	0.0	-	1.0	10.0
Disposals	(5.4)	(0.5)	-	(8.0)	(13.9)
Charge for year	41.6	0.3	-	21.0	62.9
<b>At 31 March 2002</b>	<b>734.8</b>	<b>3.2</b>	<b>-</b>	<b>92.8</b>	<b>830.8</b>
<b>Net book amount at 31 March 2002</b>	<b>1,009.5</b>	<b>95.0</b>	<b>6,637.0</b>	<b>57.4</b>	<b>7,798.9</b>
Net book amount at 1 April 2001	983.7	91.6	6,502.5	64.4	7,642.2
<b>SEWERAGE SERVICES</b>					
<b>Gross replacement cost</b>					
At 1 April 2001	2,751.8	127.2	8,936.1	116.6	11,931.7
RPI adjustment	35.8	1.6	116.2	1.5	155.1
Disposals	(0.2)	0.0	0.0	(8.2)	(8.4)
Additions	105.9	4.9	25.4	13.1	149.3
<b>At 31 March 2002</b>	<b>2,893.3</b>	<b>133.7</b>	<b>9,077.7</b>	<b>123.0</b>	<b>12,227.7</b>
<b>Depreciation</b>					
At 1 April 2001	1,207.0	19.1	-	57.6	1,283.7
RPI adjustment	15.7	0.3	-	0.7	16.7
Disposals	(0.2)	0.0	-	(8.2)	(8.4)
Charge for year	67.8	0.8	-	17.6	86.2
<b>At 31 March 2002</b>	<b>1,290.3</b>	<b>20.2</b>	<b>-</b>	<b>67.7</b>	<b>1,378.2</b>
<b>Net book amount at 31 March 2002</b>	<b>1,603.0</b>	<b>113.5</b>	<b>9,077.7</b>	<b>55.3</b>	<b>10,849.5</b>
Net book amount at 1 April 2001	1,544.8	108.1	8,936.1	59.0	10,648.0

## Notes to the Regulatory Accounting Information

### 8. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE (continued) as at 31 March 2002

	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 2001	4,425.1	222.2	15,438.6	259.8	20,345.7
RPI adjustment	57.6	2.8	200.7	3.4	264.5
Disposals	(5.6)	(1.1)	-	(16.3)	(23.0)
Additions	160.5	8.0	75.4	26.3	270.2
<b>At 31 March 2002</b>	<b>4,637.6</b>	<b>231.9</b>	<b>15,714.7</b>	<b>273.2</b>	<b>20,857.4</b>
<b>Depreciation</b>					
At 1 April 2001	1,896.6	22.5	-	136.4	2,055.5
RPI adjustment	24.7	0.3	-	1.7	26.7
Disposals	(5.6)	(0.5)	-	(16.2)	(22.3)
Charge for year	109.4	1.1	-	38.6	149.1
<b>At 31 March 2002</b>	<b>2,025.1</b>	<b>23.4</b>	<b>-</b>	<b>160.5</b>	<b>2,209.0</b>
<b>Net book amount at 31 March 2002</b>	<b>2,612.5</b>	<b>208.5</b>	<b>15,714.7</b>	<b>112.7</b>	<b>18,648.4</b>
<b>Net book amount at 1 April 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>

## *Notes to the Regulatory Accounting Information*

### **9. WORKING CAPITAL**

	2002	2001
	£m	£m
Stocks	0.5	0.6
Trade debtors	39.3	41.7
Trade creditors	(33.6)	(38.5)
Short term capital creditors	(94.7)	(59.8)
Infrastructure renewals (accrual)/prepayment	(20.4)	(34.0)
Trade payments in advance	(31.2)	(31.5)
Payroll related taxes & social security contributions	(2.2)	(1.9)
Group trade debtors/(creditors)	74.3	78.0
Prepayments	58.1	55.6
	<hr/>	<hr/>
	(9.9)	10.2
	<hr/>	<hr/>

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

	2002	2001
	£m	£m
<b>Balance at 1 April 2001</b>	<b>15,703.4</b>	<b>15,322.0</b>
RPI adjustments		
Fixed assets	237.8	409.4
Working capital	0.1	(0.5)
Financing	(15.6)	(23.0)
Grants & third party contributions	(3.1)	(4.5)
	<hr/>	<hr/>
<b>Balance at 31 March 2002</b>	<b>15,922.6</b>	<b>15,703.4</b>
	<hr/>	<hr/>

## *Notes to the Regulatory Accounting Information*

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

	2002 £m	2001 £m
<b>Current cost operating profit</b>	<b>168.1</b>	<b>163.1</b>
Working capital adjustment	0.1	(0.5)
Change in stocks	0.1	0.2
Receipts from other income	1.5	2.0
Current cost depreciation	146.9	140.4
Current cost profit on sale of assets	(1.7)	(9.4)
(Increase)/decrease in debtors and prepaid expenses	(2.6)	13.4
Increase/(decrease) in creditors and accrued expenses	1.2	(3.9)
Infrastructure renewals expenditure	47.1	35.4
Decrease in provisions	(12.7)	(3.6)
<b>Net cash flow from operating activities</b>	<b>348.0</b>	<b>337.1</b>

### **12. ANALYSIS OF NET DEBT**

	At 31 Mar 2001 £m	Cash flow £m	At 31 Mar 2002 £m
Cash in hand and bank	(0.2)	(0.1)	(0.3)
Overdrafts	4.3	6.7	11.0
Loans due within one year	11.7	0.6	12.3
Loans due after one year	186.4	(13.0)	173.4
Finance leases	487.0	(5.7)	481.3
Inter-company loan	272.0	94.0	366.0
<b>Total net debt</b>	<b>961.2</b>	<b>82.5</b>	<b>1,043.7</b>
Appointed Business	960.7	81.3	1,042.0
Non – Appointed Business	0.5	1.2	1.7
<b>Total net debt</b>	<b>961.2</b>	<b>82.5</b>	<b>1,043.7</b>

## Notes to the Regulatory Accounting Information

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

	2002	*2001	*2000	*1999	*1998
	£m	£m	£m	£m	£m
<b>Turnover</b>	<b>560.4</b>	550.7	652.6	626.8	608.9
Current cost operating costs	(393.9)	(395.2)	(403.3)	(408.8)	(406.0)
Operating income	1.7	9.5	5.4	1.9	2.4
Working capital adjustment	168.2 (0.1)	165.0 0.5	254.7 (0.1)	219.9 (1.6)	205.3 0.3
<b>Current cost operating profit</b>	<b>168.1</b>	165.5	254.6	218.3	205.6
Other income	1.5	2.0	2.5	1.6	1.5
Net interest	(64.1)	(57.8)	(44.4)	(38.2)	(30.4)
Financing adjustment	15.6	23.3	24.0	18.6	25.1
<b>Current cost profit before taxation</b>	<b>121.1</b>	133.0	236.7	200.3	201.8
Taxation – current tax	1.6	(19.1)	(11.7)	(19.5)	(12.4)
- deferred tax	(15.6)	(11.9)	-	-	-
<b>Current cost profit on ordinary activities</b>	<b>107.1</b>	102.0	236.7	200.3	201.8
Dividends	(98.3)	(196.4)	(97.0)	(92.0)	(652.7)
<b>Current cost profit retained</b>	<b>8.8</b>	(94.4)	139.7	108.3	(450.9)

\* Figures for prior years shown in the table have been restated to 2001/02 prices using RPI indexation.

Total turnover for the year increased by 3.3% to £560.4m in 2001/02 (2001: £542.6m) compared with the 3.4% overall increase in charges from 1 April 2001 and additional income generated from new domestic and commercial customers. These have been offset by the loss of income from the continuing impact of customers switching to domestic meter options and the decline in measured and trade effluent consumption, a trend which has affected income over the full five year period. The impact of the tariff reduction of 13.1% in 2001 can be seen in the 2001 turnover numbers.

Operating costs adjusted for inflation have decreased steadily over the five year period due to continuing cost reductions and efficiency improvement despite increasing depreciation figures and operating costs arising from the large capital programme.

Net interest payable has increased each year reflecting the company's increasing net debt level.

## Notes to the Regulatory Accounting Information

There has been a significant reduction in the tax charge for 2002 due to an increase in capital expenditure eligible for 100% tax allowances and a tax credit of £5m in respect of previous years. The increase in tax allowances is not fully offset by deferred tax because of the adoption of discounting as permitted by FRS 19. A deferred tax charge has been included in the accounts to comply with FRS 19 and its calculation is described in Note 8 of the statutory accounts on page 22. A comparative figure has been calculated for 2001 but not for prior years as this is not a requirement for statutory accounts.

Details of the dividend paid in the year and the underlying dividend policy are disclosed in the Directors' Report on page 6 of the statutory accounts. 2001 and 1998 figures included an efficiency dividend of £98m and a restructuring dividend of £500m respectively. Figures for years prior to 2001/02 have been restated into pounds of the latest year using RPI indexation.

Deferred tax charges have been included for the current and previous years to comply with FRS 19. Prior years' figures have not been calculated, as this is not a requirement for statutory accounts.

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

	2002	*2001	*2000	*1999	*1998
	£m	£m	£m	£m	£m
<b>Fixed assets</b>					
Tangible assets	18,648.4	18,528.0	18,439.1	17,590.6	17,359.8
Third party contributions since 1989/90	(265.6)	(247.0)	(210.8)	(192.9)	(177.9)
<b>Working capital</b>	<b>(9.9)</b>	<b>10.3</b>	<b>(23.0)</b>	<b>3.6</b>	<b>75.0</b>
<b>Net operating assets</b>	<b>18,372.9</b>	<b>18,291.3</b>	<b>18,205.3</b>	<b>17,401.3</b>	<b>17,256.9</b>
Cash and investments	16.4	17.5	18.6	0.1	0.1
Non-trade debtors	24.6	15.0	28.0	21.9	19.8
Non-trade creditors due within one year	(69.8)	(67.6)	(48.3)	(88.6)	(61.7)
Creditors due after one year	(1,169.6)	(1,108.2)	(985.4)	(809.7)	(784.7)
Provisions for liabilities and charges:					
- deferred tax	(140.6)	(126.6)	-	-	-
- other	(2.0)	(1.1)	-	-	-
Dividends payable	(68.6)	(67.5)	(67.1)	(64.4)	(79.2)
<b>Net assets employed</b>	<b>16,963.3</b>	<b>16,952.8</b>	<b>17,151.1</b>	<b>16,460.6</b>	<b>16,351.2</b>
<b>Capital and reserves</b>					
Called up share capital	775.0	785.1	802.9	824.6	840.9
Profit and loss account	265.7	260.2	479.7	363.0	280.8
Current cost reserve	15,922.6	15,907.5	15,873.6	15,261.5	15,219.3
Other reserves	-	-	(5.1)	11.5	10.2
	<b>16,963.3</b>	<b>16,952.8</b>	<b>17,151.1</b>	<b>16,460.6</b>	<b>16,351.2</b>

## Notes to the Regulatory Accounting Information

\* Figures for prior years shown in the table have been restated to 2001/02 prices using RPI indexation.

The value of tangible fixed assets and related third party contributions have increased significantly over the five year period reflecting the massive capital investment programme. The operating review on page 1 of the statutory accounts describes the 2001/02 programme in detail.

The increase in cash and investments occurring in 2000 reflects the purchase of the York Waterworks Ltd which took place on 1 April 2000.

Working capital figures reduced significantly between 1998 and 1999 due to a reduction of £91.8m in loans to the parent company, which have continued to reduce further since that time. Fluctuations in the level of capital creditors have also affected working capital, particularly in 2000 and 2002, when figures were high. The level of the infrastructure renewals provision has also decreased from £86.1m in 1998 to £20.4m in 2002.

The increase in creditors due over one year reflects the increase in net debt over the five year period. Fluctuations in non-trade creditors due within one year are also mainly attributable to short term borrowings.

A deferred tax provision has been included in the accounts to comply with FRS 19 and its calculation is described in Note 18 of the statutory accounts on pages 27 and 28. A comparative figure has been calculated for 2001 but not for prior years as this is not a requirement for statutory accounts. Figures for years prior to 2001/02 have been restated into pounds of the latest year using RPI indexation.

Deferred tax charges have been included for the current and previous years to comply with FRS 19. Prior years' figures have not been calculated, as this is not a requirement for statutory accounts.

### 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 2002 per Regulatory Accounts	1,068.0
Adjustment to opening balance	579.5
Infrastructure renewals capitalised in the year	47.1
	<hr/>
<b>At 31 March 2002 per Statutory Accounts</b>	<b>1,694.6</b>

## *Notes to the Regulatory Accounting Information*

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### **15. RECONCILIATION OF BALANCE SHEETS IN STATUTORY AND REGULATORY ACCOUNTS (continued)**

#### **Depreciation**

At 31 March 2002 per Regulatory Accounts	(0.5)
Adjustment to opening balance	(613.5)
Depreciation charge for infrastructure renewals expenditure	(33.5)

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**At 31 March 2002 per Statutory Accounts** **(647.5)**

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#### **Net Book Value**

At 31 March 2002 per Regulatory Accounts	1,067.5
Adjustment for infrastructure renewals accounting	(20.4)

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**At 31 March 2002 per Statutory Accounts** **1,047.1**

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#### **Provisions and Liabilities**

At 31 March 2002 per Regulatory Accounts	(20.4)
Less infrastructure renewals accrual	20.4

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**At 31 March 2002 per Statutory Accounts** **-**

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# *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 33 to 55.

### **Respective Responsibilities of directors and auditors**

As described on page 31, 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.

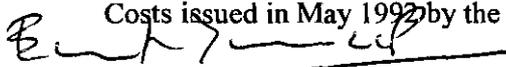
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the regulatory accounts are free from material misstatement, whether caused by fraud or other irregularity 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 2002 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 34 to 35, which have been prepared from the accounts set out on pages 11 to 30, 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 36 to 38 and 43 to 55 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 LLP**  
Registered Auditor, Leeds

8 July, 2002