YORKSHIRE WATER SERVICES LIMITED

ANNUAL REPORT AND ACCOUNTS

For the year ended
31 March 2003

Registered Number: 2366682

ANNUAL REPORT AND ACCOUNTS 2003

Contents

OPERATING REVIEW

Financial performance

Following an increase in charges in line with inflation of 1.2% on 1 April 2002, turnover increased by 1.4% to £573.4m (2002: £565.4m), just ahead of the 1.1% increase reported at the interim stage in the group accounts. Revenue growth from new customers largely offset the effect of domestic metering in the full year.

The continuing emphasis throughout the business on operating efficiency was demonstrated by the 3.9% increase in operating profit to £231.0m (2002: £222.4m), of which 49% (2002: 47%) accrued in the second half year. Operating cost savings are now expected to secure outperformance of £100m in the current price determination period.

Yorkshire Water was awarded an interim price determination during 2002. As a consequence, customer prices will rise by 3.4% and 3.5% (previously 1%) above inflation in 2003/04 and 2004/05 respectively. The interim determination allows Yorkshire Water to fund additional investment of around £53m and to recover the additional cost of bad debts arising as a consequence of the loss of the ability to disconnect customers. The additional investment will be used principally to reduce the number of incidences of sewer flooding and upgrade our sludge incinerators to meet the requirements of the Waste Incineration Directive.

Operational performance

Yorkshire Water is now ranked second in Ofwat's Overall Performance Assessment which compares the levels of service provided by the UK's ten major water and sewerage companies. This is a significant improvement from the company's ranking of tenth in 1996/97.

Ofwat's report was published in August 2002. The highlights included:

- Further reductions in the number of properties experiencing inadequate water pressure, which has been reduced to 189. This is ahead of the commitment to reduce this to 400 properties by 2005.
- Significant reductions in the number of properties affected by unplanned interruptions to supplies caused by, for example, bursts and leaks. This was as a result of better incident handling by field teams and contractors.
- Drinking water quality in Yorkshire was the best it had ever been, largely as a result of an ongoing mains improvement programme.
- Security of water supplies was reported as the best ever, with leakage from the company's and customers' pipes continuing to fall. The extension of the Grid Zone into rural North Yorkshire allows more flexibility and increased security of supply to customers in these areas. The improvements were endorsed by the Environment Agency in its December 2002 report, the third Annual Review of Water Company Water Resource Plans.
- The number of properties flooded with sewage also reduced.

The company's water supply service was ranked in first place for operating cost efficiency in Ofwat's report "Water and Sewerage Service Unit Costs and Relative Efficiency 2001-02" published in December 2002.

Water quality

The DWI, in its annual report on drinking water quality in England and Wales for 2001, reported that 99.91% of all samples had complied with the relevant regulations. The quality of Yorkshire's tap water is the best it has ever been.

At the same time as the DWI's report, Yorkshire Water launched a campaign designed to encourage customers to bottle their tap water and take it with them wherever they went. The promotion saw 100,000 water bottles distributed to customers, contractors, sports clubs, schools and other community organisations. The DWI's Chief Inspector urged other water companies to adopt similar techniques to promote their product.

Further improvements in the quality and reliability of customers' supplies are expected to be delivered as a result of the company's ongoing programme of mains renewal and replacement. By 2010, a further 4,000km of pipes will be upgraded, leading to better quality drinking water and a reduction in the number of bursts and leaks.

Improvements to customer service

Significant progress has been made over the past year to improve not just the level of service afforded to customers, but also the "feel" of the service.

The new Integrated Customer and Operations Management (ICOM) system which became fully functional in April 2002 is now firmly embedded in the business and has delivered improvements in operational performance.

The volume of calls from customers is down by 25%, repeat customer calls are down by 10% and 98% of appointments offered within a two hour time band have been met.

An external review recently conducted by Trinity Horne, a firm of management consultants working within the water industry, concluded that the implementation of ICOM has delivered "a class leading system which can enable Yorkshire Water to achieve step change improvements in business performance and customer experience".

In October 2002 Yorkshire Water extended its "opening hours" to ensure that water customers can now receive visits until 9pm from Mondays to Fridays and between 8am and 6pm on Saturdays and Sundays. This new "business as usual" service is in addition to the traditional "out-of-hours" emergency service provided by the company.

Quarterly research shows that overall customer satisfaction levels are now consistently around 90%. Satisfaction among business customers is equally as high, according to a survey published in September 2002 by the Energy Information Centre (EIC). The EIC, a business customer trade body that merged recently with the Utility Buyers Forum, canvassed the views of 150 water and waste water business customers across the UK, with Yorkshire Water ranked as the top performer.

Environmental performance

In March 2003, Kelda was confirmed as the water industry's leading performer in the Business in The Environment (BiTE) Index of Corporate Environmental Engagement. Yorkshire Water's score of 97% made Kelda eligible for a place in BiTE's new "Premier League", an accolade shared by only 17 of the UK's largest 250 companies. The survey measured the extent to which companies understood and managed their impacts on the environment and examined whether environmental issues were an integral part of their business strategy. Yorkshire Water scored full marks in almost every category.

The report also pointed to the significant improvements made by the company over the past few years in all areas of its environmental performance. For example in the autumn of 2002, the Environment Agency reported that local bathing waters and rivers were becoming even cleaner and acknowledged the role played by Yorkshire Water in achieving this success.

As a direct result of the company's recent investment in new sewage treatment works on Yorkshire's East Coast, last year 14 bathing waters surpassed the EU's most stringent guideline quality standards. The result is that, for the first time, Bridlington can now apply to fly its own Blue Flag alongside those of the neighbouring tourist resorts of Scarborough and Whitby. By working in partnership with local authorities, the target for 2003/04 is to see 16 bathing waters attain guideline standards.

The agency also referred to the continuing revival of the region's inland waterways and to the contribution to it made by Yorkshire Water's "massive investment in sewage treatment" and the company's success at tackling pollution caused by its assets and operations. The Environment Agency confirmed in September 2002 that the company was one of only four companies in the sector to reduce incidents of pollution year-on-year.

As a result, for example, the River Don in South Yorkshire has seen substantial improvements in water quality and, in the River Calder in West Yorkshire, fish populations are on the increase according to recent studies.

During 2002, the number of Category 1 and 2 pollution incidents involving the company's assets reduced by more than a third. The number of Category 3 incidents also reduced significantly. By the end of 2003/04, we aim to report an overall reduction of 50% in the number of pollution incidents reported in 2000.

Capital investment

Regulated capital investment for the year was £319.5m, a slight decrease on the previous year's figure of £324.7m. It is now expected that capital cost outperformance in the current price determination period will be around 10%.

A substantial part of the work being undertaken during the current asset management programme (AMP3) is either to replace or reline old cast iron mains, which can cause discolouration, or to upgrade sewer overflows deemed unsatisfactory, either because of the frequency at which they discharge or the impact they have on local watercourses. For example, by 2005 the company will have invested more than £40m in Bradford. This fundamental overhaul of the water and waste water infrastructure in Bradford will involve the cleaning and relining of approximately 125km of trunk main, improvements to the city's biggest water treatment works and the upgrading of 65 unsatisfactory sewer overflows.

The company is also undertaking work on behalf of the Passenger Transport Executive to enable the construction of a new Supertram system in Leeds. In supporting this project, Yorkshire Water will make more than 500 changes to the water and sewerage system which are expected to take four years to complete.

Project Aquatrine

In April 2003 Brey Utilities, a consortium in which Yorkshire Water has a 45% interest and including Earth Tech Engineering Ltd and Halliburton KBR, was confirmed by the Ministry of Defence (MoD) as the service provider for Project Aquatrine, Package A.

Project Aquatrine is one of the most significant Public Private Partnership projects in the MoD, and the largest Private Finance Initiative water project in the UK. It involves the award of three packages (A, B and C) which will transfer the responsibility for the operation and maintenance of the MoD's water and waste water assets and infrastructure in the UK to private sector providers. This will enable the MoD to focus its resources and expertise on delivering military capability.

Under the terms of the 25 year contract for Package A, Brey Utilities will provide water and waste water services to over 1,000 MoD sites in the Midlands, Wales and South West England. The £1bn contract is expected to go live in December 2003.

Brey Utilities is the only consortium that has also been short-listed for Packages B and C covering Scotland and the rest of England.

Customer communications

To reinforce the significant financial, operational and service improvements made by the company in recent years, in July 2002 Yorkshire Water unveiled a new corporate logo.

The old Yorkshire Water logo has been replaced with a landscape design which presents a more modern image of the company and better reflects the environmental stewardship role at the heart of its activities. Customers and employees were consulted about the new design.

To coincide with the launch of the new logo, a series of new, customer led communications campaigns were also unveiled. The success of these campaigns resulted in the company's External Communications Department being voted the region's In-House Team of the Year at the Institute of Public Relations' Cream Awards in November 2002. The team won seven out of the 14 awards presented on the night.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2003

The Directors present their report for the year to 31 March 2003.

Financial Results for the year

Profit on ordinary activities was £115.1m.

Share Capital

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

Principal Activities

The principal activities of the company are the supply of clean water and the treatment and disposal of waste water in Yorkshire, for which the company is the water and sewerage undertaker.

Directors

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

John Napier	Chairman
Kevin Whiteman	Managing Director
Richard Ackroyd	
Allison Bainbridge	
Charles Firlotte	
Graham Dixon	
Alan Harrison	
John O'Kane	
Michael Smith	
Paul Wynn	

Non-executive Directors

Elizabeth Kerry
Derek F Roberts

John O'Kane resigned with effect from 30 September 2002. Allison Bainbridge and Michael Smith were both appointed as directors on 27 November 2002. All other directors held office at 1 April 2002 and throughout the year. 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 £100.8m comprises the following:

	£m
Interim Dividend	30.4
Proposed Final Dividend	70.4
Total Dividend for the year	100.8

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 £14.3m has been transferred to reserves, bringing the balance held in reserve to £793.2m.

Research & Development

The company undertakes a major programme of research in pursuit of improvements in service and operating efficiency. In 2002/03 £3.9m was committed to research and development including £3.0m on fixed assets.

Fixed Assets

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

Movements in fixed assets are shown in 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 £319.5m.

Payment of Suppliers

The company's policy on the payment of suppliers is to ensure that all payments are made in accordance with the terms and conditions agreed with suppliers. For construction contracts, payment terms are covered by the appropriate Conditions of Contract, such as NEC Form of Contract, ICE 6th Edition and Model Form of Conditions of Contract for Process Plants (IChemEng).

The payment day ratio (the figure, expressed in days, which bears the same proportion to the number of days in the year as the amount owed to trade creditors at the year end bears to the amounts invoiced by suppliers during the year) is 44 days.

Instrument of Appointment

Condition F of the company's Instrument of Appointment as a water and sewerage undertaker requires the company to publish regulatory accounting information in a prescribed format in addition to that required for the statutory accounts. This additional information is included on pages 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 senior management 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 monitors the composition of the workforce to track the effectiveness of actions in relation to issues of diversity.

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**

The company contributes actively to the communities which it serves. 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.

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, 24 JUNE 2003
REGISTERED OFFICE: Western House, Halifax Road, Bradford BD6 2SZ
REGISTERED IN ENGLAND NO 2366682

Profit and Loss Account

for the Year Ended 31 March 2003

	Notes	***2003***	*2002*
		£m	£m
Turnover		**573.4**	565.4
Operating costs	*2*	**(342.4)**	(343.0)
Operating profit		**231.0**	222.4
Net interest payable	*7*	**(71.1)**	(64.1)
Profit before taxation		**159.9**	158.3
Taxation	*8*	**(44.8)**	(14.0)
Profit for the year		**115.1**	144.3
Dividends	*9*	**(100.8)**	(98.3)
Retained profit for the financial year	*20*	**14.3**	46.0

Statement of Recognised Gains and Losses

for the Year Ended 31 March 2003

	2003	*2002*
	£m	£m
Profit for the financial year and total recognised gains and losses relating to the year	**115.1**	144.3
Prior year adjustment	-	(125.0)
Total gains and losses recognised since last annual report	**115.1**	19.3

Balance Sheet

as at 31 March 2003

	Notes	***2003***	*2002*
		£m	£m
Fixed assets			
Intangible assets	*10*	**15.1**	16.0
Tangible assets	*11*	**3,221.9**	3,051.6
Investments	*12*	**16.7**	16.7
		3,253.7	3,084.3
Current assets			
Stocks	*13*	**1.3**	0.5
Debtors	*14*	**425.9**	197.7
Cash and short term deposits		**-**	0.3
		427.2	198.5
Creditors: amounts falling due within one year			
Short term borrowings	*17*	**(32.0)**	(27.5)
Other creditors	*15*	**(277.8)**	(296.4)
		(309.8)	(323.9)
Net current assets/(liabilities)		**117.4**	(125.4)
Total assets less current liabilities		**3,371.1**	2,958.9
Creditors: amounts falling due after more than one year			
Long term borrowings	*16*	**(721.6)**	(650.5)
Other creditors	*15*	**(905.0)**	(611.9)
Provisions for liabilities and charges	*18*	**(176.3)**	(142.6)
		1,568.2	1,553.9
Capital and reserves			
Called up equity share capital	*19*	**775.0**	775.0
Profit and loss account	*20*	**793.2**	778.9
Total equity shareholder's funds		**1,568.2**	1,553.9

Approved by the board of directors on 24 June 2003 and signed on their behalf by:

K. Whiteman

Kevin Whiteman
Managing Director

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 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.

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 in accordance with SSAP 24.

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:

- 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 net realisable value.

Intangible assets
Goodwill is the excess of the fair value of the consideration paid for a business or an associate over the fair value of the identifiable assets and liabilities acquired. Goodwill is capitalised and amortised on a straight line basis over its economic useful life, which normally will not exceeed 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 £15.1m is shown under intangible assets in the balance sheet at 31 March 2003.

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

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

Useful economic lives are principally as follows:-

Buildings	30 - 60 years
Fixed plant	20 - 40 years
Vehicles, mobile plant and computers	3 - 10 years

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

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 £15.1m (2002: £16.0m), net of amortisation of £2.8m (2002: £1.9m). The Group accounts are not affected by this transfer.

2. *OPERATING COSTS*

		2003	*2002*
		£m	£m
Own work capitalised		**(21.0)**	(21.4)
Raw materials and consumables		**11.0**	11.1
Other external charges		**159.3**	161.7
Wages and salaries		**56.5**	54.4
Social security costs		**4.4**	4.5
Other pension costs		**5.5**	5.3
Depreciation of fixed tangible assets:			
On owned assets	- infrastructure	**34.7**	32.2
	- other assets	**82.3**	82.4
On assets held under finance leases	- infrastructure	**1.3**	1.3
	- on other assets	**13.8**	13.6
Operating lease rentals	- plant and equipment	**1.8**	1.3
	- other	**0.4**	0.3
Amortisation of grants & contributions		**(3.3)**	(3.4)
Amortisation of goodwill on subsidiary undertakings		**0.9**	1.0
Restructuring costs		**1.4**	1.5
Research and development		**0.9**	1.0
Other operating income		**(7.5)**	(3.8)
		342.4	343.0

Auditor's remuneration

Statutory audit fees and expenses	**0.1**	0.1
Non-audit work	**0.1**	-
	0.2	0.1

Employees

The average number of persons employed by the company during the year was:	**2,147**	2,103

3. DIRECTORS

	2003				2002	2003	2002
				Total emoluments *excluding* pension	Total emoluments *excluding* pension	***Pension* contri-**	*Pension* contri-
		Bonus	**Benefits**				
	Salary	**payments**	**in kind**	**contributions**	contributions	**butions**	butions
Remuneration of the Board	**£000**	**£000**	**£000**	**£000**	£000	**£000**	£000
Chairman:							
J. A. Napier	-	-	-	-	-	-	-
Directors:							
R. K. Ackroyd	**100**	**24**	**14**	**138**	130	**12**	12
A. M. Bainbridge (appointed 27.11.2002)	**29**	**8**	**3**	**40**	-	**3**	-
G. Dixon	**86**	**20**	**13**	**119**	110	**10**	10
C. V. Firlotte	**131**	**25**	**1**	**157**	156	-	-
A. Harrison	**106**	**23**	**11**	**140**	126	**18**	17
E. A. Kerry	**16**	-	-	**16**	16	-	-
J. P. O'Kane (resigned 30.9.2002)	-	-	-	-	-	-	-
M. C. Smith (appointed 27.11.2002)	**28**	**7**	**3**	**38**	-	**3**	-
K. I. Whiteman	-	-	-	-	-	-	-
P. D. Wynn	**92**	**23**	**13**	**128**	118	**11**	11
	588	**130**	**58**	**776**	656	**57**	50

The Chairman, J. A. 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 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 2002/03 this scheme paid £370 (2002: £350) to each qualified participant and this is included in the emoluments table above.

During 2002/03, all executive directors, apart from J. A. Napier, the Chairman, and C. V. Firlotte, the highest paid director, were contributory members of the Kelda Group Pension Plan, a defined benefit scheme. £7,300 was paid during the year to Aquarion, a fellow subsidiary, in respect of payments made during the year relating to C. V. Firlotte.

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:

	Balance at 1 April 2002	Granted during year	Exercised/ lapsed during year	Balance at 31 March 2003	Exercise price (pence)	Market price at date of exercise (pence)	Date options Exercisable	Date options expire
R. K. Ackroyd								
Sharesave	1,614	-	(1,614)	-	240.0	426.0	-	-
Sharesave	1,943	-	-	**1,943**	299.0	-	1.3.04	31.8.04
A. M. Bainbridge								
Sharesave	2,407	-	-	**2,407**	275.0	-	1.3.07	31.8.07
Sharesave	-	1,771	-	**1,771**	320.0	-	1.3.06	31.8.06
G. Dixon								
Sharesave	2,421	-	(2,421)	-	240.0	426.0	-	-
Sharesave	1,295	-	-	**1,295**	299.0	-	1.3.04	31.8.04
Sharesave	-	1,771	-	**1,771**	320.0	-	1.3.06	31.8.06
A. Harrison								
Sharesave	6,018	-	-	**6,018**	275.0	-	1.3.07	31.8.07
M. C. Smith								
Sharesave	1,295	-	-	**1,295**	299.0	-	1.3.04	31.8.04
Sharesave	2,072	-	-	**2,072**	275.0	-	1.3.05	31.8.05
P. D. Wynn								
Sharesave	2,338	-	(2,338)	-	295.0	404.5	-	-
Sharesave	1,776	-	(1,776)	-	240.0	426.0	-	-
Sharesave	552	-	-	**552**	275.0	-	1.3.05	31.8.05

The Chairman, J. A. 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 2003 was 409.5p (2002: 389.5p) and has ranged from 356.7p to 440.0p during the year. The aggregate gain on the exercise of share options during the year was £13,369 (2002: £nil).

The Sharesave Scheme refers to shares in the holding company, Kelda Group plc and is described in the accounts of that company.

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 2003 and at the beginning of the year (or date of appointment if later) are set out below:

	Ordinary shares of 15 5/9p each at 1 April 2002	*Ordinary shares of 15 5/9p each sold in year*	*LTIPs Vested in year*	*Options Exercised in year*	*Ordinary shares of 15 5/9p each at 31 Mar 2003*
R. K. Ackroyd	6,052	-	2,525	1,614	**10,191**
A. M. Bainbridge (appointed 27.11.02)	112	-	-	-	**112**
G. Dixon	1,327	(1,327)	-	2,421	**2,421**
M. C. Smith (appointed 27.11.02)	10,027	-	-	-	**10,027**
P. D. Wynn	3,236	-	2,168	4,114	**9,518**

The Chairman, J. A. 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. I. Whiteman and J. P. 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 23 June 2003 was 423.3p. The aggregate value of shares vested during the year was £3,129 (2002: £11,795).

	At 1 April 2002	*Granted during year*	*Vested during year*	*Lapsed during year*	*At 31 March 2003*	*Earliest vesting date*
R. K. Ackroyd	5,054	-	(4,209)	(845)	-	-
	6,612	-	-	-	**6,612**	21.9.03
	6,203	-	-	-	**6,203**	7.6.04
	-	5,741	-	-	**5,741**	11.6.05
A. M. Bainbridge	2,866	-	-	-	**2,866**	7.6.04
	-	2,683	-	-	**2,683**	11.6.05
G. Dixon	4,913	-	-	-	**4,913**	7.6.04
	-	4,890	-	-	**4,890**	11.6.05
C. V. Firlotte	7,444	-	-	-	**7,444**	21.9.03
	7,050	-	-	-	**7,050**	7.6.04
	-	7,518	-	-	**7,518**	11.6.05
A. Harrison	6,062	-	-	-	**6,062**	7.6.04
	-	5,611	-	-	**5,611**	11.6.05
M. C. Smith	2,184	-	-	-	**2,184**	7.6.04
	-	2,580	-	-	**2,580**	11.6.05
P. D. Wynn	4,340	-	(3,614)	(726)	-	-
	5,542	-	-	-	**5,542**	21.9.03
	5,623	-	-	-	**5,623**	7.6.04
	-	5,204	-	-	**5,204**	11.6.05

7. *INTEREST*

	2003	*2002*
Interest payable on:	**£m**	£m
Bank loans and overdrafts	**17.5**	17.7
Finance leases	**23.9**	25.0
Inter-company loans	**31.7**	25.9
Other loans	**0.4**	0.1
	73.5	68.7
Interest receivable:		
Inter-company loans	**(2.2)**	(4.2)
Other	**(0.2)**	(0.4)
	71.1	64.1

8. *TAXATION*

	2003	*2002*
Current Tax	**£m**	£m
Corporation tax at 30% (2002: 30%)	**7.2**	-
Group relief payments	**4.1**	3.4
Adjustments in respect of prior years	-	(5.0)
Total current tax	**11.3**	(1.6)
Deferred Tax		
Charge for timing differences arising and reversing in the year	**37.2**	45.5
Adjustments in respect of prior years	-	(2.4)
	37.2	43.1
Increase in discount	**(3.7)**	(29.1)
Adjustments to discount in respect of prior years	-	1.6
Total deferred tax (see Note 18)	**33.5**	15.6
Total tax on profit on ordinary activities	**44.8**	14.0

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:

	2003	*2002*
	£m	**£m**
Profit on ordinary activities before tax	159.9	158.3
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2002: 30%)	48.0	47.5
Effects of:		
Expenses not deductible for tax purposes	0.5	1.4
Capital allowances in excess of depreciation	(37.2)	(45.5)
Adjustments to tax charge in respect of previous periods	-	(5.0)
Current tax charge for period	**11.3**	**(1.6)**

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

	2003	***2002***
	£m	**£m**
Interim paid	**30.4**	29.7
Final proposed	**70.4**	68.6
	100.8	98.3

10. INTANGIBLE ASSETS

	Goodwill
Cost	£m
Balance at 1 April 2002 and 31 March 2003	17.9
Amortisation	
Balance at 1 April 2002	(1.9)
Charge for the year	(0.9)
Balance at 31 March 2003	(2.8)
Net book amount as at 31 March 2003	**15.1**
Net book amount as at 31 March 2002	16.0

Profit and Loss Account
for the Year Ended 31 March 2003

	Notes	2003 £m	2002 £m
Turnover		**573.4**	565.4
Operating costs	2	**(342.4)**	(343.0)
Operating profit		**231.0**	222.4
Net interest payable	7	**(71.1)**	(64.1)
Profit before taxation		**159.9**	158.3
Taxation	8	**(44.8)**	(14.0)
Profit for the year		**115.1**	144.3
Dividends	9	**(100.8)**	(98.3)
Retained profit for the financial year	20	**14.3**	46.0

Statement of Recognised Gains and Losses
for the Year Ended 31 March 2003

	2003 £m	2002 £m
Profit for the financial year and total recognised gains and losses relating to the year	**115.1**	144.3
Prior year adjustment	-	(125.0)
Total gains and losses recognised since last annual report	**115.1**	19.3

Balance Sheet

as at 31 March 2003

	Notes	***2003***	*2002*
		£m	£m
Fixed assets			
Intangible assets	*10*	**15.1**	16.0
Tangible assets	*11*	**3,221.9**	3,051.6
Investments	*12*	**16.7**	16.7
		3,253.7	3,084.3
Current assets			
Stocks	*13*	**1.3**	0.5
Debtors	*14*	**425.9**	197.7
Cash and short term deposits		**-**	0.3
		427.2	198.5
Creditors: amounts falling due within one year			
Short term borrowings	*17*	**(32.0)**	(27.5)
Other creditors	*15*	**(277.8)**	(296.4)
		(309.8)	(323.9)
Net current assets/(liabilities)		**117.4**	(125.4)
Total assets less current liabilities		**3,371.1**	2,958.9
Creditors: amounts falling due after more than one year			
Long term borrowings	*16*	**(721.6)**	(650.5)
Other creditors	*15*	**(905.0)**	(611.9)
Provisions for liabilities and charges	*18*	**(176.3)**	(142.6)
		1,568.2	1,553.9
Capital and reserves			
Called up equity share capital	*19*	**775.0**	775.0
Profit and loss account	*20*	**793.2**	778.9
Total equity shareholder's funds		**1,568.2**	1,553.9

Approved by the board of directors on 24 June 2003 and signed on their behalf by:

Kevin Whiteman
Managing Director

11. TANGIBLE ASSETS

	Land and buildings £m	Infrastructure Assets £m	Plant and equipment £m	Under construction £m	Total £m
Cost					
At 1 April 2002	1,193.3	1,694.6	1,373.6	278.0	4,539.5
Additions – external	33.4	34.9	36.3	214.9	319.5
Transfers on commissioning	34.6	102.7	98.2	(235.5)	-
Disposals	(1.3)	-	(4.5)	(0.5)	(6.3)
Grants and contributions	-	-	-	(17.0)	(17.0)
At 31 March 2003	**1,260.0**	**1,832.2**	**1,503.6**	**239.9**	**4,835.7**
Depreciation					
At 1 April 2002	348.7	647.5	491.7	-	1,487.9
Disposals	(1.3)	-	(4.4)	(0.5)	(6.2)
Depreciation for the year	19.4	36.0	76.2	0.5	132.1
At 31 March 2003	**366.8**	**683.5**	**563.5**	**-**	**1,613.8**
Net book amount at 31 March 2003	**893.2**	**1,148.7**	**940.1**	**239.9**	**3,221.9**
Net book amount at 31 March 2002	844.6	1,047.1	881.9	278.0	3,051.6
At 31 March 2003 assets included above held under finance leases amounted to:					
Cost	150.8	59.4	282.9	32.5	525.6
Depreciation	19.5	7.3	94.8	-	121.6
Net book amount at 31 March 2003	**131.3**	**52.1**	**188.1**	**32.5**	**404.0**
Net book amount at 31 March 2002	134.0	53.4	199.3	32.5	419.2

The net book amount of land and buildings comprised:	**Cost at 31 March 2003 £m**	**Depreciation at 31 March 2003 £m**	**Net book value at 31 March 2003 £m**	Net book value at 31 March 2002 £m
Freehold properties	**1,258.5**	**366.4**	**892.1**	843.4
Properties held on long lease	**0.4**	**-**	**0.4**	0.4
Properties held on short lease	**1.1**	**0.4**	**0.7**	0.8
	1,260.0	**366.8**	**893.2**	844.6

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 £241.2m lower than it would have been had this treatment not been adopted.

11. TANGIBLE ASSETS

	Land and buildings £m	Infrastructure Assets £m	Plant and equipment £m	Under construction £m	Total £m
Cost					
At 1 April 2002	1,193.3	1,694.6	1,373.6	278.0	4,539.5
Additions – external	33.4	34.9	36.3	214.9	319.5
Transfers on commissioning	34.6	102.7	98.2	(235.5)	-
Disposals	(1.3)	-	(4.5)	(0.5)	(6.3)
Grants and contributions	-	-	-	(17.0)	(17.0)
At 31 March 2003	**1,260.0**	**1,832.2**	**1,503.6**	**239.9**	**4,835.7**
Depreciation					
At 1 April 2002	348.7	647.5	491.7	-	1,487.9
Disposals	(1.3)	-	(4.4)	(0.5)	(6.2)
Depreciation for the year	19.4	36.0	76.2	0.5	132.1
At 31 March 2003	**366.8**	**683.5**	**563.5**	**-**	**1,613.8**
Net book amount at 31 March 2003	**893.2**	**1,148.7**	**940.1**	**239.9**	**3,221.9**
Net book amount at 31 March 2002	844.6	1,047.1	881.9	278.0	3,051.6

At 31 March 2003 assets included above held under finance leases amounted to:

	Land and buildings £m	Infrastructure Assets £m	Plant and equipment £m	Under construction £m	Total £m
Cost	150.8	59.4	282.9	32.5	525.6
Depreciation	19.5	7.3	94.8	-	121.6
Net book amount at 31 March 2003	**131.3**	**52.1**	**188.1**	**32.5**	**404.0**
Net book amount at 31 March 2002	134.0	53.4	199.3	32.5	419.2

The net book amount of land and buildings comprised:	**Cost at 31 March 2003 £m**	**Depreciation at 31 March 2003 £m**	**Net book value at 31 March 2003 £m**	Net book value at 31 March 2002 £m
Freehold properties	**1,258.5**	**366.4**	**892.1**	843.4
Properties held on long lease	**0.4**	**-**	**0.4**	0.4
Properties held on short lease	**1.1**	**0.4**	**0.7**	0.8
	1,260.0	**366.8**	**893.2**	844.6

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 £241.2m lower than it would have been had this treatment not been adopted.

12. INVESTMENTS

	Shares in group undertakings	Other unlisted investments	Total
	£m	£m	£m
At 1 April 2002	16.6	0.1	16.7
Additions during the year	0.0*	-	0.0
At 31 March 2003	**16.6**	**0.1**	**16.7**

* Additions in the year of £49,999 are shown in the above table as £nil due to rounding.

Shares in group undertakings
The balance at 1 April 2002 relates to the 100% holding in The York Waterworks Ltd which was written down to the value of the underlying net assets in 2001.

The addition in the year of £49,999 relates to the purchase of 99.9% of the ordinary share capital of Yorkshire Water Services Finance Plc, whose principal activity is the raising of finance.

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

	2003	*2002*
	£m	£m
Raw materials and consumables	**1.3**	0.5

14. DEBTORS

	2003	*2002*
	£m	£m
Trade debtors	**38.2**	39.5
Amounts owed by group undertakings	**323.0**	75.3
Amounts owed by associated undertakings	**0.1**	0.2
Prepayments and accrued income	**48.1**	60.6
Other debtors:		
Receivable within one year	**16.3**	21.9
Receivable after more than one year	**0.2**	0.2
	425.9	197.7

15. OTHER CREDITORS

	2003	*2002*
	£m	£m
Amounts falling due within one year:		
Trade creditors	**29.6**	30.5
Capital creditors	**50.9**	94.7
Deferred grants and contributions on depreciating fixed assets	**3.3**	2.9
Amounts owed to group undertakings	**104.7**	97.1
Amounts owed to subsidiary undertakings	**17.4**	17.4
Social security and other taxes	**2.2**	2.2
Taxation	**6.1**	0.2
Receipts in advance	**37.6**	31.2
Other creditors	**26.0**	20.2
	277.8	296.4
Amounts falling due after more than one year:		
Amounts owed to parent company	**440.0**	440.0
Amounts owed to subsidiary undertakings	**296.5**	-
Deferred grants and contributions on depreciating fixed assets	**91.5**	92.8
Other creditors	**77.0**	79.1
	905.0	611.9

16. LONG TERM BORROWINGS

	2003	*2002*
	£m	£m
Maturities		
Repayable between one and two years:		
Bank loans	**6.4**	-
Finance leases	**0.2**	-
Repayable between two and five years:		
Bank loans	**4.3**	18.7
Finance leases	**-**	0.3
Repayable by instalments and maturing after five years:		
Bank loans	**236.3**	150.0
Finance leases	**470.4**	476.8
Wholly repayable after five years:		
Other loans	**4.0**	4.7
	721.6	650.5

17. AGGREGATE BORROWINGS AND CASH

	Bank loans and overdrafts	*Other loans*	*Finance leases*	*Total*
	£m	£m	£m	£m
Repayments				
Within one year or on demand	25.6	-	6.4	32.0
Between one and two years	22.5	-	6.9	29.4
Between two and five years	45.0	-	23.0	68.0
After five years	179.5	4.0	440.7	624.2
	272.6	**4.0**	**477.0**	753.6

Amounts owed by parent company	(317.0)
Amounts owed to parent company	440.0
Amounts owed to subsidiary company	296.5
Net debt	1,173.1

As shown above, the net debt as at 31 March 2003 was £1,173.1m (2002: £1,043.7m).

Borrowings repayable instalments after more than five years include £440.7m (2002: £448.7m) 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

	Deferred tax	*Self Insurance*	*Total*
	£m	£m	£m
At 1 April 2002	140.6	2.0	142.6
Additions during the year	33.5	0.8	34.3
Utilised in year	-	(0.6)	(0.6)
At 31 March 2003	**174.1**	**2.2**	**176.3**

Deferred tax

	2003	2002
	£m	£m
At 1 April 2002	**140.6**	125.0
Deferred tax charged to the profit and loss account	**33.5**	15.6
At 31 March 2003	**174.1**	140.6

18. PROVISION FOR LIABILITIES AND CHARGES (continued)

Deferred tax is provided as follows:

	At 31 March 2003	At 31 March 2002
	£m	£m
Accelerated capital allowances	**502.2**	466.7
Short term timing differences	**(1.7)**	(3.4)
Undiscounted provision for deferred tax	**500.5**	463.3
Discount	**(326.4)**	(322.7)
Discounted provision for deferred tax	**174.1**	140.6

The current rate of corporation tax of 30% (2002: 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

	Authorised	***Allotted and fully paid***
Ordinary shares of £1 each at 31 March 2002 and 2003	**775,000,000**	**775,000,000**

20. MOVEMENT IN SHAREHOLDER'S FUNDS

	Reserves	*Share capital*	*Total funds*
	£m	£m	£m
At 1 April 2001	732.9	775.0	1,507.9
Profit for the year	144.3	-	144.3
Dividends	(98.3)	-	(98.3)
At 31 March 2002	778.9	775.0	1,553.9
Profit for the year	115.1	-	115.1
Dividends	(100.8)	-	(100.8)
At 31 March 2003	**793.2**	**775.0**	**1,568.2**

21. COMMITMENTS

	2003	*2002*
Capital and infrastructure renewals expenditure	**£m**	£m
commitments for contracts placed at 31 March were:	**197.7**	239.1

The long term investment programme for the company, which is expected to identify substantial future capital expenditure commitments in the period 1 April 2005 to 31 March 2010, will be determined as part of the Periodic Review 2004. Final price limits are due to be announced in November 2004.

At 31 March 2003 the Company was committed to making the following payments during the next financial year under non-cancellable operating leases expiring as set out below:

	Land and Buildings 2003	***Other 2003***	*Land and Buildings 2002*	*Other 2002*
Leases which expire:	**£m**	**£m**	£m	£m
Within one year	**-**	**0.4**	-	0.5
Between one and five years	**0.3**	**0.8**	0.3	0.8
	0.3	**1.2**	0.3	1.3

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 £200m and £240m respectively at 31 March 2003.

The Company has guaranteed bonds at 5.375% due 2023 and 3.048% due 2033 issued by the subsidiary company Yorkshire Water Services Finance Plc. The liabilities under these guarantees amounted to £200 million and £100 million respectively at 31 March 2003.

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 most recent actuarial valuation of the KGPP was carried out as at 31 March 2001 when the market value of assets was £559.9m and the scheme surplus was £22.2m.

23. PENSIONS (continued)

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.

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 2003 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.

An accrual for unfunded benefits of £0.5m (2002 £0.2m) has been included in the company's accounts.

The company's total pension charge for the year was £5.5m (2002: £5.3m).

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 2003.

24. ULTIMATE PARENT COMPANY

Kelda Group plc, which is registered in England and Wales, is the Company's ultimate parent company and controlling party and is the parent undertaking of the smallest and 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

In relation to the accounts

The following statement, which should be read in conjunction with the Auditors' 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.

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 2003, 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.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP

Registered Auditor, Leeds

10 July 2003

Regulatory Accounting Information 2003

Contents

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 2003

	2003			2002		
		Non-			Non-	
	Appointed	**appointed**	**Total**	Appointed	Appointed	Total
	£m	**£m**	**£m**	£m	£m	£m
Turnover	**567.8**	**4.7**	**572.5**	560.4	4.2	564.6
Operating costs	**(344.5)**	**(4.5)**	**(349.0)**	(340.6)	(5.4)	(346.0)
Operating income	**6.0**	**-**	**6.0**	2.3	-	2.3
Operating profit/(loss)	**229.3**	**0.2**	**229.5**	222.1	(1.2)	220.9
Other income	**1.5**	**-**	**1.5**	1.5	-	1.5
Interest receivable	**2.4**	**-**	**2.4**	4.6	-	4.6
Interest payable	**(73.5)**	**-**	**(73.5)**	(68.7)	-	(68.7)
Profit/(loss) on ordinary activities before taxation	**159.7**	**0.2**	**159.9**	159.5	(1.2)	158.3
Taxation - current tax	**(11.3)**	**-**	**(11.3)**	1.6	-	1.6
- deferred tax	**(33.5)**	**-**	**(33.5)**	(15.6)	-	(15.6)
Profit/(loss) on ordinary activities after taxation	**114.9**	**0.2**	**115.1**	145.5	(1.2)	144.3
Dividends - interim	**(30.4)**	**-**	**(30.4)**	(29.7)	-	(29.7)
- final	**(70.4)**	**-**	**(70.4)**	(68.6)	-	(68.6)
Retained profit/(loss) for the year	**14.1**	**0.2**	**14.3**	47.2	(1.2)	46.0

Turnover and operating cost figures for 2003 have been adjusted by £0.9m (2002: £0.8m) to eliminate double-counted costs 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.

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 2003

	2003			2002		
		Non-			Non-	
	Appointed	**Appointed**	**Total**	Appointed	Appointed	Total
	£m	**£m**	**£m**	£m	£m	£m
Fixed assets						
Tangible assets	**3,221.2**	**5.7**	**3,226.9**	3,066.1	5.9	3,072.0
Investments	**15.2**	**-**	**15.2**	16.1	-	16.1
	3,236.4	**5.7**	**3,242.1**	3,082.2	5.9	3,088.1
Current assets						
Stocks	**1.3**	**-**	**1.3**	0.5	-	0.5
Debtors	**107.6**	**1.3**	**108.9**	123.5	0.2	123.7
Cash at bank and in hand	**-**	**-**	**-**	0.3	-	0.3
Short term investments	**317.0**	**-**	**317.0**	74.0	-	74.0
	425.9	**1.3**	**427.2**	198.3	0.2	198.5
Creditors: amounts falling due within one year						
Borrowings	**(29.4)**	**(2.6)**	**(32.0)**	(25.8)	(1.7)	(27.5)
Dividends payable	**(70.4)**	**-**	**(70.4)**	(68.6)	-	(68.6)
Other creditors	**(187.1)**	**(0.4)**	**(187.5)**	(207.9)	(0.4)	(208.3)
	(286.9)	**(3.0)**	**(289.9)**	(302.3)	(2.1)	(304.4)
Net current assets/(liabilities)	**139.0**	**(1.7)**	**137.3**	(104.0)	(1.9)	(105.9)
Total assets less current liabilities	**3,375.4**	**4.0**	**3,379.4**	2,978.2	4.0	2,982.2
Creditors: amounts falling due after more than 1 year						
Borrowings	**(1,458.1)**	**-**	**(1,458.1)**	(1,090.5)	-	(1,090.5)
Other creditors	**(77.0)**	**-**	**(77.0)**	(79.1)	-	(79.1)
	(1,535.1)	**-**	**(1,535.1)**	(1,169.6)	-	(1,169.6)
Provisions for liabilities and charges						
Deferred tax	**(174.1)**	**-**	**(174.1)**	(140.6)	-	(140.6)
Other	**(7.2)**	**-**	**(7.2)**	(22.4)	-	(22.4)
Deferred income	**(89.1)**	**(5.7)**	**(94.8)**	(89.8)	(5.9)	(95.7)
	1,569.9	**(1.7)**	**1,568.2**	1,555.8	(1.9)	1,553.9
Capital and reserves						
Called up share capital	**775.0**	**-**	**775.0**	775.0	-	775.0
Profit and loss account	**794.9**	**(1.7)**	**793.2**	780.8	(1.9)	778.9
	1,569.9	**(1.7)**	**1,568.2**	1,555.8	(1.9)	1,553.9

Current Cost Profit and Loss Account for the Appointed Business

for the year ended 31 March 2003

	Notes	**2003 £m**	2002 £m
Turnover	*6*	**567.8**	560.4
Current cost operating costs	*7*	**(395.0)**	(393.9)
Operating income	*6*	**6.0**	1.7
		178.8	168.2
Working capital adjustment	*6*	**0.3**	(0.1)
Current cost operating profit		**179.1**	168.1
Other income		**1.5**	1.5
Interest receivable		**2.4**	4.6
Interest payable		**(73.5)**	(68.7)
Financing adjustment		**39.4**	15.6
Current cost profit on ordinary activities before taxation		**148.9**	121.1
Taxation - current tax		**(11.3)**	1.6
- deferred tax		**(33.5)**	(15.6)
Current cost profit on ordinary activities after taxation		**104.1**	107.1
Dividends		**(100.8)**	(98.3)
Current cost profit retained		**3.3**	8.8

Current Cost Balance Sheet
For the Appointed Business

for the year ended 31 March 2003

	Notes	**2003**	2002
		£m	£m
Fixed assets			
Tangible assets	*8*	**19,343.3**	18,648.4
Third party contributions since 1989/90		**(285.2)**	(265.6)
Working capital	*9*	**281.7**	(9.9)
Net operating assets		**19,339.8**	18,372.9
Cash and investments		**15.2**	16.4
Non-trade debtors		**16.5**	24.6
Non-trade creditors due within one year		**(93.0)**	(69.8)
Creditors due after one year		**(1,535.1)**	(1,169.6)
Provisions for liabilities and charges:			
- deferred tax		**(174.1)**	(140.6)
- other		**(2.2)**	(2.0)
Dividends payable		**(70.4)**	(68.6)
Net assets employed		**17,496.7**	16,963.3
Capital and reserves			
Called up share capital		**775.0**	775.0
Profit and loss account		**269.0**	265.7
Current cost reserve	*10*	**16,452.7**	15,922.6
		17,496.7	16,963.3

Current Cost Cash Flow Statement

for the year ended 31 March 2003

		2003			2002		
			Non-			Non-	
	Notes	**Appointed**	**appointed**	**Total**	Appointed	appointed	Total
		£m	**£m**	**£m**	£m	£m	£m
Net cash flow from operating activities	*11*	**367.3**	**(0.9)**	**366.4**	348.0	(1.2)	346.8
Returns on investments and servicing of finance							
Interest received		**1.1**	**-**	**1.1**	4.8	-	4.8
Interest paid		**(43.5)**	**-**	**(43.5)**	(39.0)	-	(39.0)
Interest in finance lease rentals		**(11.2)**	**-**	**(11.2)**	(19.8)	-	(19.8)
Net cash flow from returns on Investments and servicing of finance		**(53.6)**	**-**	**(53.6)**	(54.0)	-	(54.0)
Taxation							
Tax paid		**(4.6)**	**-**	**(4.6)**	(18.2)	-	(18.2)
Capital expenditure and financing of investment							
Gross cost of purchase of fixed assets		**(307.1)**	**-**	**(307.1)**	(235.4)	(0.1)	(235.5)
Receipt of grants and contributions		**17.0**	**-**	**17.0**	18.1	0.1	18.2
Infrastructure renewals expenditure		**(51.4)**	**-**	**(51.4)**	(47.1)	-	(47.1)
Disposal of fixed assets		**2.9**	**-**	**2.9**	2.3	-	2.3
Net cash outflow from investing activities		**(338.6)**	**-**	**(338.6)**	(262.1)	-	(262.1)
Equity dividends paid		**(99.0)**	**-**	**(99.0)**	(95.0)	-	(95.0)
Net cash outflow before financing		**(128.5)**	**(0.9)**	**(129.4)**	(81.3)	(1.2)	(82.5)
Financing							
Capital element in finance lease rentals		**(4.2)**	**-**	**(4.2)**	(5.7)	-	(5.7)
New bank loans		**100.0**	**-**	**100.0**	-	-	-
Movement in inter-company loans		**53.4**	**-**	**53.4**	94.0	-	94.0
Repayment of bank loans		**(13.1)**	**-**	**(13.1)**	(12.4)	-	(12.4)
Net cash inflow from financing		**136.1**	**-**	**136.1**	75.9	-	75.9
Increase/(decrease) in cash		**7.6**	**(0.9)**	**6.7**	(5.4)	(1.2)	(6.6)

1. ACCOUNTING POLICIES - CURRENT COST INFORMATION

The current cost information has been prepared for the Appointed Business of Yorkshire Water Services Ltd in accordance with guidance issued by the Director General of Water Services for modified real terms financial statements suitable for regulation in the water industry. Profitability is measured on the basis of real financial capital maintenance in the context of assets which are valued at their modern equivalent asset value to the business.

The accounting policies used are the same as those adopted in the statutory historical cost accounts, except as set out below.

Infrastructure assets

As noted on page 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 2002/03 Regulatory Accounting Information.

- **Land and buildings**
  Non-specialised operational properties are valued on the basis of open market value for existing use and have been expressed in real terms by indexing using the Retail Price Index (RPI).

  Specialised operational properties are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between periodic Asset Management Plan (AMP) reviews by adjusting for inflation as measured by changes in the RPI. The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described below).

- **Infrastructure assets**
  Mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls are valued at replacement cost, determined principally on the basis of data provided by the AMP.

  Values now reflect the AMP carried out at the last Periodic Review. A process of continuing refinement of asset records is expected to produce adjustments to existing values when periodic reviews of the AMP take place. In the intervening years, values are restated to take account of changes in the general level of inflation, as measured by changes in the RPI over the year.

- **Other fixed assets**
  All other fixed assets are valued periodically at depreciated replacement cost. Between periodic AMP reviews, values are restated for inflation as measured by changes in the RPI.

- **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 compensating 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.

2. *RING FENCING*

In the opinion of the Directors, the company was in compliance with paragraph 3.1 of Condition K of the Instrument of Appointment at the end of the financial year. This relates to the availability of rights and assets in the event of a special administration order.

3. *APPOINTED AND NON-APPOINTED BUSINESS*

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

The Appointed Business is defined to be the regulated activities of the Appointee, i.e. 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 2003, the sum invested was £317m. 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. On 21 February 2003, £197.1m was lent by Yorkshire Water Services Finance Plc, a subsidiary of the company, at a fixed rate of 5.375%, repayable in 2023 and £99.4m, at a floating rate, repayable in 2033. No other material sums were lent to or borrowed from other associated companies.

Dividends paid to associated undertakings

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

Guarantees/securities

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

This facility is subject to provision of cross guarantees by each company within the pooling arrangement, guaranteeing each of the other companies' current account liabilities with the bank. This is provided the net amount of aggregate cleared debit less credit balances must not exceed £20m nor must the aggregate cleared debit balances exceed £25m.

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 £5.5m (2002: £2.1m).

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	5.0	Cost allocation	3.1
Customer Services	Loop Customer Management	17.3	Cost allocation	15.4

The Directors declare that, to the best of their knowledge, all appropriate transactions with associated companies have been disclosed.

6. ANALYSIS OF TURNOVER & OPERATING INCOME FOR THE APPOINTED BUSINESS
for the year ended 31 March 2003

	2003			2002		
	Water services £m	**Sewerage services £m**	**Total Appointed Business £m**	Water services £m	Sewerage services £m	Total Appointed Business £m
Turnover						
Measured	**98.9**	**83.9**	**182.8**	94.4	78.9	173.3
Unmeasured	**156.6**	**173.3**	**329.9**	157.4	174.8	332.2
Trade effluent	**-**	**10.6**	**10.6**	-	12.3	12.3
Large user revenues	**17.6**	**15.4**	**33.0**	17.9	15.7	33.6
Other sources	**1.0**	**5.7**	**6.7**	1.0	3.0	4.0
Third party services	**4.7**	**0.1**	**4.8**	4.9	0.1	5.0
Total turnover	**278.8**	**289.0**	**567.8**	275.6	284.8	560.4
Operating income						
Current cost profit on fixed assets Net of expenses	**5.5**	**0.5**	**6.0**	1.4	0.3	1.7
Total operating income	**5.5**	**0.5**	**6.0**	1.4	0.3	1.7
Working capital adjustment	**0.2**	**0.1**	**0.3**	(0.1)	-	(0.1)

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.

7. ANALYSIS OF OPERATING COSTS AND ASSETS
for the year ended 31 March 2003

	Resources and treatment	Distribution	**Water Supply sub total**
Direct costs	£m	£m	£m
Employment costs	4.6	4.4	**9.0**
Power	6.3	3.7	**10.0**
Agencies	-	-	-
Hired and contracted services	5.2	10.5	**15.7**
Associated companies	-	-	-
Materials and consumables	4.6	0.1	**4.7**
Service charges EA	5.1	-	**5.1**
Bulk supply imports	2.3	-	**2.3**
Other direct costs	1.1	2.2	**3.3**
Total direct costs	29.2	20.9	**50.1**
General and support expenditure	10.7	12.5	**23.2**
Functional expenditure	39.9	33.4	**73.3**
Total business activities			**15.3**
Local authority rates			**17.4**
Doubtful debts			**3.8**
Exceptional items			-
Total opex less third party services			**109.8**
Third party services - opex			**4.7**
Total operating expenditure			**114.5**
Capital costs			
Infrastructure renewals expenditure	10.4	22.3	**32.7**
Movement in infrastructure renewals accrual/prepayment	(1.3)	(5.3)	**(6.6)**
Current cost depreciation (allocated)	44.4	23.7	**68.1**
Amortisation of deferred credits			**(1.5)**
Amortisation of intangible assets			**0.9**
Business activities current cost depreciation (non-allocated)			**0.2**
Total capital maintenance			**93.8**
TOTAL OPERATING COSTS			**208.3**
CCA GROSS MEA VALUES			
Service activities	4,047.6	4,915.4	**8,963.0**
Business activities			**9.8**
Service totals			**8,972.8**
Services for third parties			-
TOTAL			**8,972.8**

Sewerage	Sewage treatment	Sludge treatment and disposal	Sewage treatment and disposal	**Sewerage services sub total**	Customer Services	Scientific services	Cost of Regulation
£m	£m	£m	£m	£m	£m	£m	£m
2.6	4.8	3.0	7.8	**10.4**			
1.3	7.7	2.1	9.8	**11.1**			
-	-	-	-	-			
6.5	8.1	5.9	14.0	**20.5**			
-	-	-	-	-			
0.2	1.2	2.2	3.4	**3.6**			
1.3	2.4	0.1	2.5	**3.8**			
-	-	-	-	-			
2.7	0.8	0.7	1.5	**4.2**			
14.6	25.0	14.0	39.0	**53.6**	15.1	6.4	2.7
5.4	9.3	4.7	14.0	**19.4**	0.7	1.7	0.6
20.0	34.3	18.7	53.0	**73.0**	15.8	8.1	3.3
				11.9			
				11.1			
				4.1			
				-			
				100.1			
				0.1			
				100.2			
18.7	-	-	-	**18.7**			
(8.8)	-	-	-	**(8.8)**			
6.4	56.6	14.9	71.5	**77.9**			
				(1.5)			
				-			
				0.2			
				86.5			
				186.7			
9,606.6	2,868.6	277.0	3,145.6	**12,752.2**			
				7.0			
				12,759.2			
				-			
				12,759.2			

7. ANALYSIS OF OPERATING COSTS AND ASSETS
for the year ended 31 March 2002

	Resources and treatment	Distribution	**Water Supply sub total**
Direct costs	£m	£m	£m
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	4.4	0.1	**4.5**
Service charges EA	5.0	-	**5.0**
Bulk supply imports	2.3	-	**2.3**
Other direct costs	0.8	3.2	**4.0**
Total direct costs	28.4	22.3	**50.7**
General and support expenditure	10.3	12.8	**23.1**
Functional expenditure	38.7	35.1	**73.8**
Total business activities			**15.1**
Local authority rates			**18.7**
Doubtful debts			**4.3**
Exceptional items			**-**
Total opex less third party services			**111.9**
Third party services - opex			**4.8**
Total operating expenditure			**116.7**
Capital costs			
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			**(1.6)**
Amortisation of intangible assets			**1.0**
Business activities current cost depreciation (non-allocated)			**2.7**
Total capital maintenance			**86.8**
TOTAL OPERATING COSTS			**203.5**
CCA GROSS MEA VALUES			
Service activities	3,901.0	4,720.4	**8,621.4**
Business activities			**8.3**
Service totals			**8,629.7**
Services for third parties			**-**
TOTAL			**8,629.7**

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			

8. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE
as at 31 March 2003

	Specialised Operational Assets £m	Non-specialised operational properties £m	Infrastructure Assets £m	Other tangible assets £m	Total £m
WATER SERVICES					
Gross replacement cost					
At 1 April 2002	1,744.3	98.2	6,637.0	150.2	8,629.7
RPI adjustment	54.0	3.1	205.7	4.7	267.5
Disposals	(28.3)	(0.4)	-	(0.8)	(29.5)
Additions	43.5	2.5	42.6	16.5	105.1
At 31 March 2003	**1,813.5**	**103.4**	**6,885.3**	**170.6**	**8,972.8**
Depreciation					
At 1 April 2002	734.8	3.2	-	92.8	830.8
RPI adjustment	22.8	0.1	-	2.9	25.8
Disposals	(28.3)	(0.4)	-	(0.8)	(29.5)
Charge for year	46.8	0.5	-	21.0	68.3
At 31 March 2003	**776.1**	**3.4**	**-**	**115.9**	**895.4**
Net book amount at 31 March 2003	**1,037.4**	**100.0**	**6,885.3**	**54.7**	**8,077.4**
Net book amount at 1 April 2002	1,009.5	95.0	6,637.0	57.4	7,798.9
SEWERAGE SERVICES					
Gross replacement cost					
At 1 April 2002	2,893.3	133.7	9,077.7	123.0	12,227.7
RPI adjustment	89.7	4.2	281.4	3.8	379.1
Disposals	(4.9)	(0.3)	-	(0.6)	(5.8)
Additions	104.7	4.9	32.0	16.6	158.2
At 31 March 2003	**3,082.8**	**142.5**	**9,391.1**	**142.8**	**12,759.2**
Depreciation					
At 1 April 2002	1,290.3	20.2	-	67.7	1,378.2
RPI adjustment	40.0	0.6	-	2.1	42.7
Disposals	(4.9)	(0.2)	-	(0.6)	(5.7)
Charge for year	58.2	1.1	-	18.8	78.1
At 31 March 2003	**1,383.6**	**21.7**	-	**88.0**	**1,493.3**
Net book amount at 31 March 2003	**1,699.2**	**120.8**	**9,391.1**	**54.8**	**11,265.9**
Net book amount at 1 April 2002	1,603.0	113.5	9,077.7	55.3	10,849.5

8. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE (continued)
as at 31 March 2003

	Specialised Operational Assets £m	Non-specialised operational properties £m	Infrastructure Assets £m	Other tangible assets £m	Total £m
TOTAL					
Gross replacement cost					
At 1 April 2002	4,637.6	231.9	15,714.7	273.2	20,857.4
RPI adjustment	143.7	7.3	487.1	8.5	646.6
Disposals	(33.2)	(0.7)	-	(1.4)	(35.3)
Additions	148.2	7.4	74.6	33.1	263.3
At 31 March 2003	**4,896.3**	**245.9**	**16,276.4**	**313.4**	**21,732.0**
Depreciation					
At 1 April 2002	2,025.1	23.4	-	160.5	2,209.0
RPI adjustment	62.8	0.7	-	5.0	68.5
Disposals	(33.2)	(0.6)	-	(1.4)	(35.2)
Charge for year	105.0	1.6	-	39.8	146.4
At 31 March 2003	**2,159.7**	**25.1**	**-**	**203.9**	**2,388.7**
Net book amount at 31 March 2003	**2,736.6**	**220.8**	**16,276.4**	**109.5**	**19,343.3**
Net book amount at 1 April 2002	2,612.5	208.5	15,714.7	112.7	18,648.4

9. WORKING CAPITAL

	2003	2002
	£m	£m
Stocks	**1.3**	0.5
Trade debtors	**37.7**	39.3
Trade creditors	**(30.9)**	(33.6)
Short term capital creditors	**(50.9)**	(94.7)
Infrastructure renewals accrual	**(5.0)**	(20.4)
Trade payments in advance	**(37.6)**	(31.2)
Payroll related taxes & social security contributions	**(2.2)**	(2.2)
Group trade debtors	**321.2**	74.3
Prepayments	**48.1**	58.1
	281.7	(9.9)

10. MOVEMENT ON CURRENT COST RESERVE

	2003	2002
	£m	£m
Balance at 1 April 2002	**15,922.6**	15,703.4
RPI adjustments		
Fixed assets	**578.1**	237.8
Working capital	**(0.3)**	0.1
Financing	**(39.4)**	(15.6)
Grants & third party contributions	**(8.3)**	(3.1)
Balance at 31 March 2003	**16,452.7**	15,922.6

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

	2003	2002
	£m	£m
Current cost operating profit	**179.1**	168.1
Working capital adjustment	**(0.3)**	0.1
Change in stocks	**(0.8)**	0.1
Receipts from other income	**1.5**	1.5
Current cost depreciation	**144.3**	146.9
Current cost profit on sale of assets	**(6.0)**	(1.7)
Decrease/(increase) in debtors and prepaid expenses	**7.3**	(2.6)
Increase in creditors and accrued expenses	**5.9**	1.2
Infrastructure renewals expenditure	**51.4**	47.1
Decrease in provisions	**(15.1)**	(12.7)
Net cash flow from operating activities	**367.3**	348.0

12. ANALYSIS OF NET DEBT

	At 31 Mar 2002	Cash flow	At 31 Mar 2003
	£m	£m	£m
Cash in hand and bank	(0.3)	0.3	-
Overdrafts	11.0	(7.0)	**4.0**
Loans due within one year	12.3	9.3	**21.6**
Loans due after one year	173.4	77.6	**251.0**
Finance leases	481.3	(4.3)	**477.0**
Inter-company loan	366.0	53.5	**419.5**
Total net debt	1,043.7	129.4	**1,173.1**
Appointed Business	1,042.0	128.5	**1,170.5**
Non – Appointed Business	1.7	0.9	**2.6**
Total net debt	1,043.7	129.4	**1,173.1**

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

	2003	*2002	*2001	*2000	*1999
	£m	£m	£m	£m	£m
Turnover	**567.8**	572.2	562.1	666.3	639.8
Current cost operating costs	**(395.0)**	(402.2)	(403.4)	(411.8)	(417.2)
Operating income	**6.0**	1.7	9.7	5.5	2.0
	178.8	171.7	168.4	260.0	224.6
Working capital adjustment	**0.3**	(0.1)	0.5	(0.1)	(1.6)
Current cost operating profit	**179.1**	171.6	168.9	259.9	223.0
Other income	**1.5**	1.5	2.1	2.6	1.6
Net interest	**(71.1)**	(65.4)	(58.9)	(45.3)	(39.0)
Financing adjustment	**39.4**	15.9	23.8	24.5	19.0
Current cost profit before taxation	**148.9**	123.6	135.9	241.7	204.6
Taxation – current tax	**(11.3)**	1.6	(19.5)	(12.0)	(19.9)
- deferred tax	**(33.5)**	(15.9)	(12.1)	-	-
***Current cost profit on ordinary* activities**	**104.1**	109.3	104.3	229.7	184.7
Dividends	**(100.8)**	(100.4)	(200.5)	(99.0)	(93.9)
Current cost profit retained	**3.3**	8.9	(96.2)	130.7	90.8

* Figures for prior years shown in the table have been restated to 2002/03 prices using RPI indexation.

Total turnover for the year increased by 1.3% to £567.8m in 2002/03 (2002: £560.4m), compared with the 1.2% overall increase in charges from 1 April 2002, and additional income was 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 increase in the tax charge for 2003. The current year tax charge has increased by £12.9m to £11.3m, due to a tax credit in 2002 in respect of previous years. The deferred tax charge has increased by £17.9m to £33.5m reflecting a fall in the interest rate used for discounting purposes. This 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. Comparative figures prior to 2001 have not been calculated 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. The 2001 figure included an efficiency dividend of £98m.

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

	2003	*2002	*2001	*2000	*1999
	£m	£m	£m	£m	£m
Fixed assets					
Tangible assets	**19,343.3**	19,226.5	19,113.2	19,008.7	18,119.6
Third party contributions since 1989/90	**(285.2)**	(273.8)	(254.8)	(217.3)	(198.7)
Working capital	**281.7**	(10.2)	10.6	(23.7)	3.7
Net operating assets	**19,339.8**	18,942.5	18,869.0	18,767.7	17,924.6
Cash and investments	**15.2**	16.9	18.1	19.2	0.1
Non-trade debtors	**16.5**	25.4	15.5	28.8	22.6
Non-trade creditors due within one year	**(93.0)**	(72.0)	(69.7)	(49.7)	(91.3)
Creditors due after one year	**(1,535.1)**	(1,205.9)	(1,143.2)	(1,015.9)	(834.0)
Provisions for liabilities and charges:					
- deferred tax	**(174.1)**	(145.0)	(130.6)	-	-
- other	**(2.2)**	(2.1)	(1.1)	-	-
Dividends payable	**(70.4)**	(70.7)	(69.6)	(69.2)	(66.3)
Net assets employed	**17,496.7**	17,489.1	17,488.4	17,680.9	16,955.7
Capital and reserves					
Called up share capital	**775.0**	799.0	809.9	827.7	849.4
Profit and loss account	**269.0**	273.9	268.4	494.5	374.0
Current cost reserve	**16,452.7**	16,416.2	16,410.1	16,363.9	15,720.5
Other reserves	**-**	-	-	(5.2)	11.8
	17,496.7	17,489.1	17,488.4	17,680.9	16,955.7

* Figures for prior years shown in the table have been restated to 2002/03 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 substantial capital investment programme. The operating review on page 1 of the statutory accounts describes the 2002/03 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 has increased significantly between 2002 and 2003 due to an increase of £243.0m in loans to the parent company. This is offset however by increases in net debt included within creditors due over one year. 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 £66.6m in 1999 to £5.0m in 2003.

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. Comparative figures prior to 2001 have not been calculated as this is not a requirement for statutory accounts.

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:-

	Infrastructure Assets £m
Cost	
At 31 March 2003 per Regulatory Accounts	**1,154.2**
Adjustment to opening balance	626.6
Infrastructure renewals capitalised in the year	51.4
At 31 March 2003 per Statutory Accounts	**1,832.2**

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

Depreciation	
At 31 March 2003 per Regulatory Accounts	**(0.5)**
Adjustment to opening balance	(647.0)
Depreciation charge for infrastructure renewals expenditure	(36.0)
At 31 March 2003 per Statutory Accounts	**(683.5)**
Net Book Value	
At 31 March 2003 per Regulatory Accounts	**1,153.7**
Adjustment for infrastructure renewals accounting	(5.0)
At 31 March 2003 per Statutory Accounts	**1,148.7**
Provisions and Liabilities	
At 31 March 2003 per Regulatory Accounts	**(5.0)**
Less infrastructure renewals accrual	5.0
At 31 March 2003 per Statutory Accounts	-

16. REGULATORY CAPITAL VALUES AT 2002/03 PRICES

		2003 £m
Opening regulatory capital value for the year	*	2,845
Capital expenditure	*	293
Infrastructure renewals expenditure		43
Grants and contributions		(16)
Depreciation		(131)
Infrastructure renewals charge		(28)
Outperformance of regulatory assumptions (5 years in arrears)		(47)
Closing regulatory capital value	*	**2,959**
Average regulatory capital value		**2,863**

* The table shows the regulatory capital value used in setting the price limits for the period 2000/01 to 2004/05. The differences from the actual capital expenditure, depreciation, etc will not affect price limits in the current period. Capital efficiencies will be taken into account in the calculation for the next periodic review.

Auditors' Report on the Regulatory Accounting Information

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.

This report is made solely to the Directors as a body and the Regulator in accordance with the Regulatory Accounting Guidelines and other relevant material issued by the Director General of Water Services and the terms of our engagement with Yorkshire Water Services Limited. Our audit work has been undertaken so that we might state to the Directors and the Regulator those matters that we have agreed to state to them in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors as a body, the Company and the Regulator, for our audit work, for our report, or for the opinions we have formed. The terms of our engagement do not confer benefits on any other parties and exclude the application of the Contracts (Rights of Third Parties) Act 1999.

Basis of audit 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 2003 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

Ernst & Young LLP
Registered Auditor, Leeds

10 July 2003