



**YORKSHIRE WATER SERVICES LIMITED**

**ANNUAL REPORT AND ACCOUNTS**

For the year ended  
31 March 2004

Registered Number: 2366682



## ANNUAL REPORT AND ACCOUNTS 2004

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## **OPERATING REVIEW**

### **Financial performance**

Turnover increased by 6.9% to £612.7m (2003: £573.4m) following the interim price determination which took effect on 1 April 2003. The revenue increase is principally being used to fund additional investments and to recover the additional cost of bad debts.

Operating profit increased by 8.6% to £250.8m (2003: £231.0m) of which 49% (2003: 49%) accrued in the second half year. The operating cost outperformance target has been increased to £115m from £100m in the current price determination period.

Regulated capital investment for the year was £302.3m (2003: £319.5m). The investment continues to be directed primarily at upgrading the region's clean and waste water infrastructure. 2004/05 is the final year of the current asset management programme (AMP3), during which it is estimated that £1.5bn will have been invested in the region's infrastructure, and that Yorkshire Water Services Ltd will achieve capital cost outperformance of 12%.

### **Operational performance**

Yorkshire Water Services Ltd was ranked third by the Office of Water Services (Ofwat) in its Overall Performance Assessment, which compares the levels of service provided by the UK's ten major water and waste water companies. The report benchmarks companies' performance against a wide range of measures including water quality, water pressure, sewer flooding, leakage, treatment works' compliance and the speed at which customer queries are dealt with.

In addition, Ofwat's annual report on water and waste water unit costs and relative efficiency showed Yorkshire Water Services Ltd to be the most efficient company in terms of operating and capital maintenance. This was confirmed by a separate Ofwat report on financial performance and expenditure, which showed that the company had reduced overall operating costs by 12% since 1998/99 – the largest reduction of all the UK's water and waste water companies.

Yorkshire Water Services Ltd remains committed to improving its operational and customer service while at the same time keeping costs firmly under control.

### **Delivering safe and reliable water supplies**

2003 was one of the driest and hottest years on record. While water shortages in parts of the UK prompted some companies to apply for drought permits, recent investment in Yorkshire's water supply system and leakage reduction, coupled with prudent resource management, ensured that customers could continue to use their supplies without cause for concern.

In particular, the integrated water grid system enabled water to be pumped between areas to ensure that the supply and demand balance was managed effectively across the region as a whole.

In December 2003, Yorkshire's long term water resource situation was secured further when the Environment Agency (EA) announced its decision to allow water abstraction from the rivers Ure, Wharfe and Ouse until 2017. In the past the EA had only granted short term abstraction licences.

The agreement that these abstractions were not only necessary but sustainable in the long term significantly enhances the security of supplies to a population of more than 4.7m across Yorkshire.

The quality of the water provided to local homes and businesses also continued to be exceptionally high, with 99.89% of all the tests taken meeting the Drinking Water Inspectorate's (DWI) rigorous standards.

Work is continuing to upgrade the extensive network of underground water mains and, in November 2003, a two year programme of work to renew 1,202kms of pipes was successfully completed one month ahead of schedule. A further 1,081kms of mains will be renewed by 2006.

### **Delivering better customer service**

The company's new Integrated Customer and Operational Management (ICOM) system continued to deliver significant benefits. The implementation of this system has significantly improved the quality and speed of service provided to our customers. Employees now have access to more comprehensive information about planned work, unexpected bursts and other operational activities, and the impact on customers. This, in turn, means customer enquiries can be dealt with more quickly.

In addition, modern ways of working have been introduced, involving extended working hours for our customer-facing people, and customer appointments specified within two hour time slots. This enables service to be delivered more conveniently and efficiently to the customer. In March 2004 the company launched a scheme called "Close the Loop" which involves call centre staff ringing customers back to ensure that the company has delivered what it said it would and has resolved their issues to their satisfaction.

Yorkshire Water Services Ltd is pleased that its improvements in customer service have received external recognition. The ICOM system won the 'Best Use of Technology in Customer Service' category at the National Customer Services awards, the international 'Gartner Customer Relationship Management (CRM) Excellence Award 2003' and the Customer Care category at the Utility Industry Achievement Awards. For the third year running, Yorkshire Water Services Ltd was voted top for customer service in a national survey carried out by the independent Energy Information Centre. The report concluded: "compared to other suppliers, Yorkshire Water Services Ltd leads the pack for ease of contact, listening to needs, solving problems, explaining the industry and knowing the company."

95% of Yorkshire Water Services Ltd's business customers rank the company's service as good as or better than that provided by energy suppliers.

### **Delivering improvements to the environment**

In March 2004 Kelda was once again awarded 'Premier League' status in Business in the Environment's Index of Corporate Environmental Engagement. The Index measures the extent to which companies understand and manage their impact on the environment. The company remains committed to improving environmental performance and has recently introduced a new Environmental Management System (EMS) designed to help achieve ISO14001 certification and improve business process. To support the launch, an environmental awareness campaign was implemented and every employee was asked to take part in an IT based training programme.

During 2003 Yorkshire Water Services Ltd started to work with the Carbon Trust, a Government backed organisation that works with businesses to reduce carbon dioxide emissions. The Trust is now conducting a one year feasibility study into the performance of Yorkshire's water supply system with the aim of reducing its carbon dioxide emissions by up to 15%. The company is also looking at expanding its use of hydro and wind power to help reduce energy costs in the future.

The EA's annual 'Spotlight on Business' report published in September 2003 showed that Yorkshire Water Services Ltd had achieved 100% compliance with discharge consents during the previous year at its 612 waste water treatment works and 1,614 pumping stations. In 2003/04 the rate has fallen slightly to 99.9% but the aim is to restore 100% compliance in 2004/05.

There were no prosecutions for pollution incidents during 2003, although regrettably a small number of pollution incidents occurred during the year, some of which have already been the

subject of legal proceedings in 2004. The company regrets any incidents of pollution and will continue to make every effort to prevent them occurring in the future.

Despite these incidents, investment is continuing to improve the quality of the region's rivers and bathing waters. The EA has reported a 9% increase since 1990 in the number of Yorkshire rivers classified as 'good' or 'fair' and the number of East Coast bathing waters achieving the EU's higher 'guideline' quality standard has again risen to a record high of 15.

In December 2003, the company signed a partnership agreement with English Nature to protect and improve more than 50 of Yorkshire's 363 designated Sites of Special Scientific Interest (SSSIs). The new partnership agreement is designed to help English Nature fulfil its role in supporting the Government to achieve its target of 95% of SSSIs being in favourable or recovery status by 2010.

In Yorkshire, many upland moorlands have unintentionally suffered the effects of over-grazing and environmentally damaging farming practices. A joint steering group has now been set up by the company and English Nature, to share information about the status and management of SSSIs and to ensure they are maintained in the best possible condition.

## **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2004**

The Directors present their report for the year to 31 March 2004.

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

Profit on ordinary activities was £144.5m.

### **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	
Richard Flint	
Graham Dixon	
Alan Harrison	
Michael Smith	
Paul Wynn	

### Non-executive Directors

Elizabeth Kerry  
Derek F Roberts

Richard Flint was appointed as director on 31 July 2003. Charles Firlotte resigned with effect from 31 July 2003. All other directors held office at 1 April 2003 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 £100.3m comprises the following:

	<b>£m</b>
Interim Dividend	31.0
Proposed Final Dividend	<u>69.3</u>
Total Dividend for the year	<u>100.3</u>

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

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

## **Reserves**

An amount of £44.2m has been transferred to reserves, bringing the balance held in reserve to £837.4m.

## **Research & Development**

The company undertakes a major programme of research in pursuit of improvements in service and operating efficiency. In 2003/04 £3.6m was committed to research and development including £2.7m on fixed assets.

## **Fixed Assets**

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

Movements in fixed assets are shown in 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 £302.3m.

## **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 (ICChemEng).

The payment day ratio (the figure, expressed in days, which bears the same proportion to the number of days in the year as the amount owed to trade creditors at the year end bears to the amounts invoiced by suppliers during the year) is 30 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 57. 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 and places great emphasis on open two way communications. It values employee involvement, recognising that everyone in the business is a potential source of innovation and change. Internal consultation and communication processes provide the key to this involvement, and play a large part in making work both enjoyable and motivating.

The company promotes freedom of association, principally through its diversity strategy and through the formal recognition of UNISON and GMB trade unions for collective bargaining. In those parts of the company where union representation is low, wider franchise is achieved through involving 'workforce' representatives on joint working parties or 'works council' type arrangements.

The strategy is based on a 'face-to-face first' approach and all messages are delivered through 'two-way' channels, including regular 'talk back' sessions with senior management. The internal communications processes have won the Yorkshire and Lincolnshire Cream Awards 2002 for Best Internal Communication. Yorkshire Water Services Ltd was also shortlisted in the National Utility Industry Awards 2003 for its internal communications approach – 'Putting Feedback Into Action'

The company magazine is distributed throughout the business and aims to provide business news through the eyes of our people. The magazine has won 15 CiB (Communicators in Business) Awards since 1998. These include Newsletter of the Year, Photograph of the Year, Electronic and Media Category, and Redesigned/Relaunched Magazine/Newsletter.

Regular employee satisfaction surveys are undertaken across the group, using a variety of survey tools including telephone based, on-line and paper based surveys.

The company's salary and benefits packages are designed to be competitive. The company sharesave scheme, which has a high level of participation at all levels in the business, and a profit related pay scheme provide an opportunity for all employees to share in the success of the business.

The company's approach to equality and diversity is reflected in the workplace. The policy covers gender, marital status, parental status, sexual orientation, race, colour ethnic or national origin, disability, age, religion or belief, and trade union membership. The company is in the process of

benchmarking performance on diversity using external indices including Race for Opportunity, and has recently reviewed recruitment processes to ensure they align with the diversity strategy. The group's commitment to positive action towards applicants with disabilities has been recognised with the 'double tick' accreditation from the UK employment service.

The company encourages and supports colleagues in volunteering, charitable giving and community involvement. One in five employees is active in a wide range of company supported 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. In addition to the 25% of employees who are involved in company supported activities, many are also active volunteers in their local community, which is encouraged and recognised by annual colleague awards and a Business Excellence Community Colleague of the Year award.

The company recognises that continuous development of its people has been, and will remain, key to business success. Through individual performance management the company aims to ensure that all employees know what they need to achieve and the values and behaviours which they need to demonstrate. The company provides a wide range of development opportunities, including in-house and accredited programmes to help them develop the necessary skills, knowledge, values and experience to realise their performance potential.

### **Environment and community**

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

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

The company contributes actively to the communities which it serves. This includes active encouragement of employee participation in community based schemes, as well as direct financial support. One in five of the group's employees takes part in voluntary community activities.

### **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, 22 JUNE 2004  
REGISTERED OFFICE: Western House, Halifax Road, Bradford BD6 2SZ  
REGISTERED IN ENGLAND NO 2366682

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

*for the Year Ended 31 March 2004*

	<i>Notes</i>	<b>2004</b> <b>£m</b>	<b>2003</b> <b>£m</b>
<b>Turnover</b>		<b>612.7</b>	573.4
Operating costs	2	<b>(361.9)</b>	<b>(342.4)</b>
<b>Operating profit</b>		<b>250.8</b>	231.0
Net interest payable	7	<b>(75.1)</b>	<b>(71.1)</b>
<b>Profit before taxation</b>		<b>175.7</b>	159.9
Taxation	8	<b>(31.2)</b>	<b>(44.8)</b>
<b>Profit for the year</b>		<b>144.5</b>	115.1
Dividends	9	<b>(100.3)</b>	<b>(100.8)</b>
<b>Retained profit for the financial year</b>	20	<b>44.2</b>	14.3

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

*for the Year Ended 31 March 2004*

There are no other recognised gains and losses arising other than the profit for the year of £144.5m (2003:£115.1m)

# Balance Sheet

as at 31 March 2004

	Notes	2004 £m	2003 £m
<b>Fixed assets</b>			
Intangible assets	10	14.2	15.1
Tangible assets	11	3,362.9	3,221.9
Investments	12	16.7	16.7
		<u>3,393.8</u>	<u>3,253.7</u>
<b>Current assets</b>			
Stocks	13	0.8	1.3
Debtors	14	326.1	425.9
Cash and short term deposits		-	-
		<u>326.9</u>	<u>427.2</u>
<b>Creditors: amounts falling due within one year</b>			
Short term borrowings	17	(37.4)	(32.0)
Other creditors	15	(285.0)	(277.8)
		<u>(322.4)</u>	<u>(309.8)</u>
<b>Net current assets/(liabilities)</b>		<u>4.5</u>	<u>(117.4)</u>
<b>Total assets less current liabilities</b>		<u>3,398.3</u>	<u>3,371.1</u>
<b>Creditors: amounts falling due after more than one year</b>			
Long term borrowings	16	(691.8)	(721.6)
Other creditors	15	(906.3)	(905.0)
<b>Provisions for liabilities and charges</b>	18	<u>(187.8)</u>	<u>(176.3)</u>
		<u>1,612.4</u>	<u>1,568.2</u>
<b>Capital and reserves</b>			
Called up equity share capital	19	775.0	775.0
Profit and loss account	20	837.4	793.2
<b>Total equity shareholder's funds</b>		<u>1,612.4</u>	<u>1,568.2</u>

Approved by the board of directors on 22 June 2004 and signed on their behalf by:



**Kevin Whiteman**  
Managing Director

# *Notes to the Accounts*

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## **1. ACCOUNTING POLICIES**

The following paragraphs summarise the more important accounting policies applied in the preparation of the accounts.

### ***Basis of accounting***

The accounts of the company are prepared under the historical cost convention in compliance with all applicable accounting standards (Financial Reporting Standards 'FRS', Statement of Standard Accounting Practice 'SSAP' and Urgent Issues Task Force abstract 'UITF') and, except where otherwise stated in the notes to the accounts, with the Companies Act 1985.

The 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

## Notes to the Accounts

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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 exceed 20 years. Impairment tests on the carrying value of goodwill are undertaken at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill arising on the transfer of the trade and net assets of The York Waterworks Ltd is being amortised over a 19 year period. The net book amount of £14.2m is shown under intangible assets in the balance sheet at 31 March 2004.

### **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.

## *Notes to the Accounts*

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### ***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.

## *Notes to the Accounts*

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### *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 Ltd 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 £14.2m (2003: £15.1m), net of amortisation of £3.7m (2003: £2.8m). The Group accounts are not affected by this transfer.

## Notes to the Accounts

<b>2. OPERATING COSTS</b>	<b>2004</b>	<b>2003</b>
	<b>£m</b>	<b>£m</b>
Own work capitalised	(22.5)	(21.0)
Raw materials and consumables	11.8	11.0
Other external charges	161.2	159.3
Wages and salaries	57.7	56.5
Social security costs	5.0	4.4
Other pension costs	5.6	5.5
Depreciation of fixed tangible assets:		
On owned assets		
- infrastructure	37.7	34.7
- other assets	90.7	82.3
On assets held under finance leases		
- infrastructure	1.3	1.3
- on other assets	13.3	13.8
Operating lease rentals		
- plant and equipment	1.7	1.8
- other	0.5	0.4
Amortisation of grants & contributions	(3.3)	(3.3)
Amortisation of goodwill on subsidiary undertakings	0.9	0.9
Restructuring costs	4.8	1.4
Research and development	0.9	0.9
Other operating income	(5.4)	(7.5)
	<b>361.9</b>	<b>342.4</b>
<b>Auditor's remuneration</b>		
Statutory audit fees and expenses	0.1	0.1
Non-audit work	-	0.1
	<b>0.1</b>	<b>0.2</b>
<b>Employees</b>		
The average number of persons employed by the company during the year was:	<b>2,157</b>	<b>2,147</b>

## Notes to the Accounts

### 3. DIRECTORS

	2004			2003	2004	2003
	Salary	Bonus	Benefits	Total	Total	Pension
<i>Remuneration of the Board</i>	£000	payments	in kind	emoluments	emoluments	contri-
		£000	£000	excluding	excluding	butions
				pension	pension	
				contributions	contributions	
				£000	£000	£000
						£000
<b>Chairman:</b>						
J. A. Napier	-	-	-	-	-	-
<b>Directors:</b>						
R. K. Ackroyd	112	35	4	151	138	12
A. M. Bainbridge	89	28	7	124	40	11
G. Dixon	91	30	7	128	119	11
C. V. Firlotte (resigned 31.7.2003)	56	-	1	57	157	-
R. D. Flint (appointed 31.7.2003)	57	19	4	80	-	7
A. Harrison	108	33	13	154	140	18
E. A. Kerry	16	-	-	16	16	-
M. C. Smith	86	26	8	120	38	10
K. I. Whiteman	-	-	-	-	-	-
P. D. Wynn	96	32	14	142	128	11
	<b>711</b>	<b>203</b>	<b>58</b>	<b>972</b>	<b>776</b>	<b>80</b>
						<b>57</b>

The Chairman, J. A. Napier, and the Managing Director, K. I. Whiteman, 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 2003/04 this scheme paid £420 (2003: £370) to each qualified participant and this is included in the emoluments table above.

During 2003/04, all executive directors, apart from J. A. Napier, the Chairman, were contributory members of the Kelda Group Pension Plan, a defined benefit scheme. The accrued pension benefit of the highest paid director in 2003/04, A. Harrison, was £55,200.

## Notes to the Accounts

### 4. DIRECTORS' SHARE OPTIONS

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

	<i>Balance at 1 April 2003</i>	<i>Granted during year</i>	<i>Exercised/ lapsed during 31 March year</i>	<i>Balance at 2004</i>	<i>Exercise price (pence)</i>	<i>Market price at date of exercise (pence)</i>	<i>Date options Exercisable</i>	<i>Date options expire</i>
<b>R. K. Ackroyd</b>								
Sharesave	1,943	-	(1,943)	-	299.0	454.5	1.3.04	31.8.04
Sharesave	-	1,008	-	<b>1,008</b>	366.0	-	1.3.07	31.8.07
<b>A. M. Bainbridge</b>								
Sharesave	2,407	-	-	<b>2,407</b>	275.0	-	1.3.07	31.8.07
Sharesave	1,771	-	-	<b>1,771</b>	320.0	-	1.3.06	31.8.06
<b>G. Dixon</b>								
Sharesave	1,295	-	(1,295)	-	299.0	454.5	1.3.04	31.8.04
Sharesave	1,771	-	-	<b>1,771</b>	320.0	-	1.3.06	31.8.06
<b>R. D. Flint</b>								
Sharesave	-	4,330	-	<b>4,330</b>	366.0	-	1.3.09	31.8.09
<b>A. Harrison</b>								
Sharesave	6,018	-	-	<b>6,018</b>	275.0	-	1.3.07	31.8.07
<b>M. C. Smith</b>								
Sharesave	1,295	-	(1,295)	-	299.0	455.0	1.3.04	31.8.04
Sharesave	2,072	-	-	<b>2,072</b>	275.0	-	1.3.05	31.8.05
<b>P. D. Wynn</b>								
Sharesave	552	-	-	<b>552</b>	275.0	-	1.3.05	31.8.05
Sharesave	-	3,637	-	<b>3,637</b>	366.0	-	1.3.09	31.8.09

The Chairman, J. A. Napier, and the Managing Director, K. I. Whiteman, 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 2004 was 450.75p (2003: 409.5p) and has ranged from 404.00p to 469.25p during the year. The aggregate gain on the exercise of share options during the year was £7,055 (2003: £13,369).

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

## *Notes to the Accounts*

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### **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 2004 and at the beginning of the year (or date of appointment if later) are set out below:

	<i>Ordinary shares of 15 5/9p each at 1 April 2003</i>	<i>Ordinary shares of 15 5/9p each sold in year</i>	<i>LTIPs Vested in year</i>	<i>Options Exercised in year</i>	<i>Ordinary shares of 15 5/9p each at 31 Mar 2004</i>
R. K. Ackroyd	10,191	(5,400)	4,585	1,943	11,319
A. M. Bainbridge	112	-	-	-	112
G. Dixon	2,421	(1,690)	-	1,295	2,026
M. C. Smith	10,027	(1,295)	-	1,295	10,027
P. D. Wynn	9,518	(6,282)	3,844	-	7,080

The Chairman, J. A. Napier, and the Managing Director, K. I. Whiteman, 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 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 21 June 2004 was 493.5p. The aggregate value of shares vested during the year was £98,537 (2003 restated: £30,119).

## *Notes to the Accounts*

	<i>At 1 April 2003</i>	<i>Granted during year</i>	<i>Dividend shares</i>	<i>Vested during year</i>	<i>At 31 March 2004</i>	<i>Earliest vesting date</i>
R. K. Ackroyd	6,612	-	1,160	(7,772)	-	21.9.03
	6,203	-	-	-	<b>6,203</b>	7.6.04
	5,741	-	-	-	<b>5,741</b>	11.6.05
	-	12,887	-	-	<b>12,887</b>	2.9.06
A. M. Bainbridge	2,866	-	-	-	<b>2,866</b>	7.6.04
	2,683	-	-	-	<b>2,683</b>	11.6.05
	-	10,915	-	-	<b>10,915</b>	2.9.06
G. Dixon	4,913	-	-	-	<b>4,913</b>	7.6.04
	4,890	-	-	-	<b>4,890</b>	11.6.05
	-	11,187	-	-	<b>11,187</b>	2.9.06
C. V. Firlotte	7,444	-	1,306	(8,750)	-	21.9.03
(resigned 31/7/03)	7,050	-	-	-	<b>7,050</b>	7.6.04
	7,518	-	-	-	<b>7,518</b>	11.6.05
R. D. Flint	1,874	-	-	-	<b>1,874</b>	7.6.04
(appointed 31/7/03)	1,878	-	-	-	<b>1,878</b>	11.6.05
	-	7,226	-	-	<b>7,226</b>	2.9.06
A. Harrison	6,062	-	-	-	<b>6,062</b>	7.6.04
	5,611	-	-	-	<b>5,611</b>	11.6.05
	-	12,594	-	-	<b>12,594</b>	2.9.06
M. C. Smith	2,184	-	-	-	<b>2,184</b>	7.6.04
	2,580	-	-	-	<b>2,580</b>	11.6.05
	-	10,655	-	-	<b>10,655</b>	2.9.06
P. D. Wynn	5,542	-	972	(6,514)	-	21.9.03
	5,623	-	-	-	<b>5,623</b>	7.6.04
	5,204	-	-	-	<b>5,204</b>	11.6.05
	-	11,794	-	-	<b>11,794</b>	2.9.06

## Notes to the Accounts

### 7. INTEREST

	2004	2003
	£m	£m
<b>Interest payable on:</b>		
Bank loans and overdrafts	21.8	17.5
Finance leases	17.1	23.9
Inter-company loans	46.6	31.7
Other loans	-	0.4
	<u>85.5</u>	<u>73.5</u>
<b>Interest receivable:</b>		
Inter-company loans	(10.1)	(2.2)
Other	(0.3)	(0.2)
	<u>75.1</u>	<u>71.1</u>

### 8. TAXATION

	2004	2003
	£m	£m
<b>Current Tax</b>		
Corporation tax at 30% (2003: 30%)	16.4	7.2
Group relief payments	2.6	4.1
	<u>19.0</u>	<u>11.3</u>
<b>Deferred Tax</b>		
Charge for timing differences arising and reversing in the year	34.4	37.2
Adjustments in respect of prior years	5.8	-
	<u>40.2</u>	<u>37.2</u>
Increase in discount	(28.0)	(3.7)
	<u>12.2</u>	<u>33.5</u>
<b>Total deferred tax (see Note 18)</b>		
	<u>12.2</u>	<u>33.5</u>
<b>Total tax on profit on ordinary activities</b>	<u>31.2</u>	<u>44.8</u>

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 shown overleaf:

## Notes to the Accounts

	<b>2004</b>	<b>2003</b>
	<b>£m</b>	<b>£m</b>
<b>Profit on ordinary activities before tax</b>	<u>175.7</u>	<u>159.9</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2003: 30%)	52.7	48.0
Effects of:		
Expenses not deductible for tax purposes	0.7	0.5
Capital allowances in excess of depreciation	(34.4)	(37.2)
<b>Current tax charge for period</b>	<u><b>19.0</b></u>	<u><b>11.3</b></u>

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

	<b>2004</b>	<b>2003</b>
	<b>£m</b>	<b>£m</b>
Interim paid	31.0	30.4
Final proposed	69.3	70.4
	<u><b>100.3</b></u>	<u>100.8</u>

### 10. INTANGIBLE ASSETS

	<i>Goodwill</i>
	<b>£m</b>
<b>Cost</b>	
Balance at 1 April 2003 and 31 March 2004	<u>17.9</u>
<b>Amortisation</b>	
Balance at 1 April 2003	(2.8)
Charge for the year	<u>(0.9)</u>
Balance at 31 March 2004	<u>(3.7)</u>
<b>Net book amount as at 31 March 2004</b>	<u><b>14.2</b></u>
Net book amount as at 31 March 2003	<u>15.1</u>

## Notes to the Accounts

### 11. TANGIBLE ASSETS

	Land and buildings £m	Infrastructure Assets £m	Plant and equipment £m	Under construction £m	Total £m
<b>Cost</b>					
At 1 April 2003	1,260.0	1,832.2	1,503.6	239.9	4835.7
Additions	18.5	78.5	50.4	154.9	302.3
Transfers on commissioning	37.4	82.2	63.3	(182.9)	-
Disposals	(0.6)	-	(5.2)	(0.1)	(5.9)
Grants and contributions	-	-	-	(18.1)	(18.1)
<b>At 31 March 2004</b>	<b>1,315.3</b>	<b>1,992.9</b>	<b>1,612.1</b>	<b>193.7</b>	<b>5,114.0</b>
<b>Depreciation</b>					
At 1 April 2003	366.8	683.5	563.5	-	1,613.8
Disposals	(0.6)	-	(5.0)	(0.1)	(5.7)
Depreciation for the year	20.8	39.0	83.1	0.1	143.0
<b>At 31 March 2004</b>	<b>387.0</b>	<b>722.5</b>	<b>641.6</b>	<b>-</b>	<b>1,751.1</b>
<b>Net book amount at 31 March 2004</b>	<b>928.3</b>	<b>1,270.4</b>	<b>970.5</b>	<b>193.7</b>	<b>3,362.9</b>
Net book amount at 31 March 2003	893.2	1,148.7	940.1	239.9	3,221.9
At 31 March 2004 assets included above held under finance leases amounted to:					
Cost	150.8	59.4	281.8	32.4	524.4
Depreciation	22.1	8.5	104.6	-	135.2
<b>Net book amount at 31 March 2004</b>	<b>128.7</b>	<b>50.9</b>	<b>177.2</b>	<b>32.4</b>	<b>389.2</b>
Net book amount at 31 March 2003	131.3	52.1	188.1	32.5	404.0
	<b>Cost at 31 March 2004 £m</b>	<b>Depreciation at 31 March 2004 £m</b>	<b>Net book value at 31 March 2004 £m</b>	<b>Net book value at 31 March 2003 £m</b>	
<b>The net book amount of land and buildings comprised:</b>					
Freehold properties	1,313.7	386.6	927.1	892.1	
Properties held on long lease	0.4	-	0.4	0.4	
Properties held on short lease	1.2	0.4	0.8	0.7	
	<b>1,315.3</b>	<b>387.0</b>	<b>928.3</b>	<b>893.2</b>	

Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets. The company's accounting policy in respect of grants and contributions is a departure from the Companies Act 1985 requirements and is adopted, as explained in the accounting policy note on page 15, in order to show a true and fair view of the investment in infrastructure assets. As a consequence, the net book amount of fixed assets is £259.3m lower than it would have been had this treatment not been adopted.

## Notes to the Accounts

### 12. INVESTMENTS

	Shares in group undertakings £m	Other unlisted investments £m	Total £m
At 1 April 2003 and 31 March 2004	<b>16.6</b>	<b>0.1</b>	<b>16.7</b>

#### *Shares in group undertakings*

The balance at 1 April 2003 relates to the 100% holding in The York Waterworks Ltd which was written down to the value of the underlying net assets in 2001 and the 99.9% holding in 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

	2004 £m	2003 £m
Raw materials and consumables	0.7	1.3
Work in progress	0.1	-
	<b>0.8</b>	<b>1.3</b>

### 14. DEBTORS

	2004 £m	2003 £m
Trade debtors	39.6	38.2
Amounts owed by group undertakings	216.8	323.0
Amounts owed by associated undertakings	0.1	0.1
Prepayments and accrued income	49.9	48.1
<b>Other debtors:</b>		
Receivable within one year	19.5	16.3
Receivable after more than one year	0.2	0.2
	<b>326.1</b>	<b>425.9</b>

## Notes to the Accounts

### 15. OTHER CREDITORS

	2004	2003
	£m	£m
<b>Amounts falling due within one year:</b>		
Trade creditors	24.7	29.6
Capital creditors	46.5	50.9
Deferred grants and contributions on depreciating fixed assets	3.2	3.3
Amounts owed to group undertakings	101.9	104.7
Amounts owed to subsidiary undertakings	17.4	17.4
Social security and other taxes	2.3	2.2
Taxation	16.4	6.1
Receipts in advance	44.5	37.6
Other creditors	28.1	26.0
	<u>285.0</u>	<u>277.8</u>
<b>Amounts falling due after more than one year:</b>		
Amounts owed to parent company	440.0	440.0
Amounts owed to subsidiary undertakings	297.8	296.5
Deferred grants and contributions on depreciating fixed assets	88.3	91.5
Other creditors	80.2	77.0
	<u>906.3</u>	<u>905.0</u>

### 16. LONG TERM BORROWINGS

	2004	2003
	£m	£m
<i>Maturities</i>		
<b>Repayable between one and two years:</b>		
Bank loans	2.1	6.4
Finance leases	-	0.2
<b>Repayable between two and five years:</b>		
Bank loans	-	4.3
<b>Repayable by instalments and maturing after five years:</b>		
Bank loans	222.4	236.3
Finance leases	463.7	470.4
<b>Wholly repayable after five years:</b>		
Other loans	3.6	4.0
	<u>691.8</u>	<u>721.6</u>

## Notes to the Accounts

### 17. AGGREGATE BORROWINGS AND CASH

	<i>Bank loans and overdrafts</i>	<i>Other loans</i>	<i>Finance leases</i>	<i>Total</i>
	£m	£m	£m	£m
<b>Repayments</b>				
Within one year or on demand	30.5	-	6.9	37.4
Between one and two years	16.2	-	7.2	23.4
Between two and five years	53.5	-	25.1	78.6
After five years	154.8	3.6	431.4	589.8
	<b>255.0</b>	<b>3.6</b>	<b>470.6</b>	729.2
Amounts owed by parent company				(213.0)
Amounts owed to parent company				440.0
Amounts owed to subsidiary company				294.5
Net debt				<u>1,250.7</u>

As shown above, the net debt as at 31 March 2004 was £1,250.7m (2003: £1,173.1m).

Borrowings repayable instalments after more than five years include £431.4m (2003: £440.7m) 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

	<i>Deferred tax</i>	<i>Self Insurance</i>	<i>Total</i>
	£m	£m	£m
At 1 April 2003	174.1	2.2	176.3
Additions during the year	12.2	1.4	13.6
Utilised in year	-	2.1	2.1
<b>At 31 March 2004</b>	<b>186.3</b>	<b>1.5</b>	<b>187.8</b>

#### *Deferred tax*

	<b>2004</b>	<b>2003</b>
	£m	£m
At 1 April 2003	<b>174.1</b>	140.6
Deferred tax charged to the profit and loss account	<b>12.2</b>	33.5
<b>At 31 March 2004</b>	<b>186.3</b>	174.1

## Notes to the Accounts

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

Deferred tax is provided as follows:

	At 31 March 2004	At 31 March 2003
	£m	£m
Accelerated capital allowances	541.1	502.2
Short term timing differences	(0.4)	(1.7)
Undiscounted provision for deferred tax	<u>540.7</u>	<u>500.5</u>
Discount	(354.4)	(326.4)
Discounted provision for deferred tax	<u>186.3</u>	<u>174.1</u>

The current rate of corporation tax of 30% (2003: 30%) has been used to calculate the amount of deferred tax. Provision has been made for all deferred tax assets and liabilities in respect of accelerated capital allowances and other material timing differences. These deferred tax assets and liabilities have been discounted to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse.

### 19. CALLED UP SHARE CAPITAL

	<i>Authorised</i>	<i>Allotted and fully paid</i>
Ordinary shares of £1 each at 31 March 2003 and 2004	<u>775,000,000</u>	<u>775,000,000</u>

### 20. MOVEMENT IN SHAREHOLDER'S FUNDS

	<i>Reserves</i>	<i>Share capital</i>	<i>Total funds</i>
	£m	£m	£m
At 1 April 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	<u>793.2</u>	<u>775.0</u>	<u>1,568.2</u>
Profit for the year	144.5	-	144.5
Dividends	(100.3)	-	(100.3)
At 31 March 2004	<u>837.4</u>	<u>775.0</u>	<u>1,612.4</u>

## Notes to the Accounts

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### 21. COMMITMENTS

	<i>2004</i>	<i>2003</i>
	<b>£m</b>	<b>£m</b>
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	<b>194.9</b>	<b>197.7</b>

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 December 2004.

At 31 March 2004 the company was committed to making the following payments during the next financial year under non-cancellable operating leases expiring as set out below:

	<i>Land and</i>		<i>Land and</i>	
	<i>Buildings</i>	<i>Other</i>	<i>Buildings</i>	<i>Other</i>
	<i>2004</i>	<i>2004</i>	<i>2003</i>	<i>2003</i>
<b>Leases which expire:</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Within one year	-	<b>1.0</b>	-	0.4
Between one and five years	<b>0.3</b>	<b>0.1</b>	0.3	0.8
	<b>0.3</b>	<b>1.1</b>	0.3	1.2

### 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 2004.

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 2004.

### 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.

## ***Notes to the Accounts***

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### ***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. In deriving the pension costs under SSAP 24, the surplus is being spread over the future working lifetime of the employees.

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

Contributions over the year ended 31 March 2004 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 £0.7m (2003 £0.5m) has been included in the company's accounts.

The company's total pension charge for the year was £5.6m (2003: £5.5m).

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 2004.

### ***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*

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## **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 31, 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.

# *Auditors' Report*

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

We have audited the company's financial statements for the year ended 31 March 2004, 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.

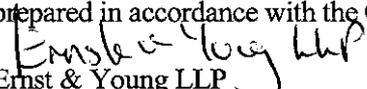
### **Basis of audit opinion**

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 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
Ernst & Young LLP  
Registered Auditor, Leeds

22 June 2004

## Regulatory Accounting Information 2004

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#### *Explanatory note*

Pages 34 to 57 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 2004*

	2004			2003		
	Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- Appointed £m	Total £m
<b>Turnover</b>	<b>605.2</b>	<b>6.5</b>	<b>611.7</b>	567.8	4.7	572.5
Operating costs	(360.3)	(6.0)	(366.3)	(344.5)	(4.5)	(349.0)
Operating income	3.5	-	3.5	6.0	-	6.0
<b>Operating profit</b>	<b>248.4</b>	<b>0.5</b>	<b>248.9</b>	229.3	0.2	229.5
Other income	1.9	-	1.9	1.5	-	1.5
Interest receivable	10.4	-	10.4	2.4	-	2.4
Interest payable	(85.4)	(0.1)	(85.5)	(73.5)	-	(73.5)
<b>Profit on ordinary activities before taxation</b>	<b>175.3</b>	<b>0.4</b>	<b>175.7</b>	159.7	0.2	159.9
Taxation - current tax	(19.0)	-	(19.0)	(11.3)	-	(11.3)
- deferred tax	(12.2)	-	(12.2)	(33.5)	-	(33.5)
<b>Profit on ordinary activities after taxation</b>	<b>144.1</b>	<b>0.4</b>	<b>144.5</b>	114.9	0.2	115.1
Dividends - interim	(31.0)	-	(31.0)	(30.4)	-	(30.4)
- final	(69.3)	-	(69.3)	(70.4)	-	(70.4)
<b>Retained profit for the year</b>	<b>43.8</b>	<b>0.4</b>	<b>44.2</b>	14.1	0.2	14.3

Turnover and operating cost figures for 2004 have been adjusted by £0.9m (2003: £0.9m) 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 2004

	2004			2003		
	Appointed	Non-Appointed	Total	Appointed	Non-Appointed	Total
	£m	£m	£m	£m	£m	£m
<b>Fixed assets</b>						
Tangible assets	3,377.3	5.4	3,382.7	3,221.2	5.7	3,226.9
Investments	14.3	-	14.3	15.2	-	15.2
	<b>3,391.6</b>	<b>5.4</b>	<b>3,397.0</b>	<b>3,236.4</b>	<b>5.7</b>	<b>3,242.1</b>
<b>Current assets</b>						
Stocks	0.8	-	0.8	1.3	-	1.3
Debtors	112.6	0.5	113.1	107.6	1.3	108.9
Cash at bank and in hand	-	-	-	-	-	-
Short term investments	213.0	-	213.0	317.0	-	317.0
	<b>326.4</b>	<b>0.5</b>	<b>326.9</b>	<b>425.9</b>	<b>1.3</b>	<b>427.2</b>
<b>Creditors: amounts falling due within one year</b>						
Borrowings	(36.0)	(1.4)	(37.4)	(29.4)	(2.6)	(32.0)
Dividends payable	(69.3)	-	(69.3)	(70.4)	-	(70.4)
Other creditors	(195.5)	(0.4)	(195.9)	(187.1)	(0.4)	(187.5)
	<b>(300.8)</b>	<b>(1.8)</b>	<b>(302.6)</b>	<b>(286.9)</b>	<b>(3.0)</b>	<b>(289.9)</b>
<b>Net current assets/(liabilities)</b>	<b>25.6</b>	<b>(1.3)</b>	<b>24.3</b>	<b>139.0</b>	<b>(1.7)</b>	<b>137.3</b>
<b>Total assets less current liabilities</b>	<b>3,417.2</b>	<b>4.1</b>	<b>3,421.3</b>	<b>3,375.4</b>	<b>4.0</b>	<b>3,379.4</b>
<b>Creditors: amounts falling due after more than 1 year</b>						
Borrowings	(1,426.3)	-	(1,426.3)	(1,458.1)	-	(1,458.1)
Other creditors	(83.5)	-	(83.5)	(77.0)	-	(77.0)
	<b>(1,509.8)</b>	<b>-</b>	<b>(1,509.8)</b>	<b>(1,535.1)</b>	<b>-</b>	<b>(1,535.1)</b>
<b>Provisions for liabilities and charges</b>						
Deferred tax	(186.3)	-	(186.3)	(174.1)	-	(174.1)
Other	(21.3)	-	(21.3)	(7.2)	-	(7.2)
Deferred income	(86.1)	(5.4)	(91.5)	(89.1)	(5.7)	(94.8)
	<b>1,613.7</b>	<b>(1.3)</b>	<b>1,612.4</b>	<b>1,569.9</b>	<b>(1.7)</b>	<b>1,568.2</b>
<b>Capital and reserves</b>						
Called up share capital	775.0	-	775.0	775.0	-	775.0
Profit and loss account	838.7	(1.3)	837.4	794.9	(1.7)	793.2
	<b>1,613.7</b>	<b>(1.3)</b>	<b>1,612.4</b>	<b>1,569.9</b>	<b>(1.7)</b>	<b>1,568.2</b>

***Current Cost Profit and Loss Account***  
***for the Appointed Business***  
*for the year ended 31 March 2004*

	<i>Notes</i>	<b>2004</b> £m	2003 £m
<b>Turnover</b>	6	<b>605.2</b>	567.8
Current cost operating costs	7	<b>(417.0)</b>	(395.0)
Operating income	6	<b>3.5</b>	6.0
		<b>191.7</b>	178.8
Working capital adjustment	6	<b>(7.4)</b>	0.3
<b>Current cost operating profit</b>		<b>184.3</b>	179.1
Other income		<b>1.9</b>	1.5
Interest receivable		<b>10.4</b>	2.4
Interest payable		<b>(85.4)</b>	(73.5)
Financing adjustment		<b>43.5</b>	39.4
<b>Current cost profit on ordinary activities before taxation</b>		<b>154.7</b>	148.9
Taxation - current tax		<b>(19.0)</b>	(11.3)
- deferred tax		<b>(12.2)</b>	(33.5)
<b>Current cost profit on ordinary activities after taxation</b>		<b>123.5</b>	104.1
Dividends		<b>(100.3)</b>	(100.8)
<b>Current cost profit retained</b>		<b>23.2</b>	3.3

***Current Cost Balance Sheet***  
***For the Appointed Business***  
*for the year ended 31 March 2004*

	<i>Notes</i>	2004 £m	2003 £m
<b>Fixed assets</b>			
Tangible assets	8	19,957.2	19,343.3
Third party contributions since 1989/90		(301.3)	(285.2)
<b>Working capital</b>	9	164.2	281.7
<b>Net operating assets</b>		19,820.1	19,339.8
Cash and investments		14.3	15.2
Non-trade debtors		19.7	16.5
Non-trade creditors due within one year		(107.9)	(93.0)
Creditors due after one year		(1,509.8)	(1,535.1)
Provisions for liabilities and charges:			
- deferred tax		(186.3)	(174.1)
- other		(1.5)	(2.2)
Dividends payable		(69.3)	(70.4)
<b>Net assets employed</b>		17,979.3	17,496.7
<b>Capital and reserves</b>			
Called up share capital		775.0	775.0
Profit and loss account		292.2	269.0
Current cost reserve	10	16,912.1	16,452.7
		17,979.3	17,496.7

# Current Cost Cash Flow Statement

for the year ended 31 March 2004

	Notes	2004			2003		
		Appointed £m	Non- appointed £m	Total £m	Appointed £m	Non- appointed £m	Total £m
<b>Net cash flow from operating activities</b>	11	381.3	1.3	382.6	367.3	(0.9)	366.4
<b>Returns on investments and servicing of finance</b>							
Interest received		11.2	-	11.2	1.1	-	1.1
Interest paid		(63.5)	(0.1)	(63.6)	(43.5)	-	(43.5)
Interest in finance lease rentals		(17.4)	-	(17.4)	(11.2)	-	(11.2)
<b>Net cash flow from returns on Investments and servicing of finance</b>		(69.7)	(0.1)	(69.8)	(53.6)	-	(53.6)
<b>Taxation</b>							
Tax paid		(10.2)	-	(10.2)	(4.6)	-	(4.6)
<b>Capital expenditure and financing of investment</b>							
Gross cost of purchase of fixed assets		(250.9)	-	(250.9)	(307.1)	-	(307.1)
Receipt of grants and contributions		16.2	-	16.2	17.0	-	17.0
Infrastructure renewals expenditure		(49.6)	-	(49.6)	(51.4)	-	(51.4)
Disposal of fixed assets		5.4	-	5.4	2.9	-	2.9
<b>Net cash outflow from investing activities</b>		(278.9)	-	(278.9)	(338.6)	-	(338.6)
<b>Equity dividends paid</b>		(101.3)	-	(101.3)	(99.0)	-	(99.0)
<b>Net cash outflow before financing</b>		(78.8)	1.2	(77.6)	(128.5)	(0.9)	(129.4)
<b>Financing</b>							
Capital element in finance lease rentals		(6.4)	-	(6.4)	(4.2)	-	(4.2)
New bank loans		-	-	-	100.0	-	100.0
Movement in inter-company loans		102.0	-	102.0	53.4	-	53.4
Repayment of bank loans		(22.1)	-	(22.1)	(13.1)	-	(13.1)
<b>Net cash inflow from financing</b>		73.5	-	73.5	136.1	-	136.1
<b>Increase/(decrease) in cash</b>		(5.3)	1.2	(4.1)	7.6	(0.9)	6.7

# Notes to the Regulatory Accounting Information

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## 1. ACCOUNTING POLICIES - CURRENT COST INFORMATION

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

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

### Infrastructure assets

As noted on page 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 2003/04 Regulatory Accounting Information.

#### - Land and buildings

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

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

#### - Infrastructure assets

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

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

# *Notes to the Regulatory Accounting Information*

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- **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 Instrument of Appointment.

## **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 Services Ltd. 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.

## *Notes to the Regulatory Accounting Information*

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### **3. APPOINTED AND NON-APPOINTED BUSINESS**

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

The Appointed Business is defined to be the regulated activities of the Appointee, 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 Ltd 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 of the Instrument of Appointment. 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 2004, the sum invested was £213m. 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. £195.8m has been lent by Yorkshire Water Services Finance Plc, a subsidiary of the company, at a fixed rate of 5.375%, repayable in 2023 and £98.7m, at a floating rate, repayable in 2033. No other material sums were lent to or borrowed from other associated companies.

# Notes to the Regulatory Accounting Information

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## Dividends paid to associated undertakings

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

## Guarantees/securities

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

This facility is subject to provision of cross guarantees by each company within the pooling arrangement, guaranteeing each of the other companies' current account liabilities with the bank. This is 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 £3.5m (2003: £5.5m).

## 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	3.0
Customer Services	Loop Customer Management	19.9	Cost allocation	16.9

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

## Notes to the Regulatory Accounting Information

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

for the year ended 31 March 2004

	2004			2003		
	Water services £m	Sewerage services £m	Total Appointed Business £m	Water services £m	Sewerage services £m	Total Appointed Business £m
<b>Turnover</b>						
Measured	111.6	89.8	201.4	98.9	83.9	182.8
Unmeasured	163.7	181.3	345.0	156.6	173.3	329.9
Trade effluent	-	11.5	11.5	-	10.6	10.6
Large user revenues	17.5	17.4	34.9	17.6	15.4	33.0
Other sources	0.9	5.4	6.3	1.0	5.7	6.7
Third party services	5.9	0.2	6.1	4.7	0.1	4.8
<b>Total turnover</b>	<b>299.6</b>	<b>305.6</b>	<b>605.2</b>	<b>278.8</b>	<b>289.0</b>	<b>567.8</b>
<b>Operating income</b>						
Current cost profit on fixed assets	1.3	2.2	3.5	5.5	0.5	6.0
Net of expenses						
<b>Total operating income</b>	<b>1.3</b>	<b>2.2</b>	<b>3.5</b>	<b>5.5</b>	<b>0.5</b>	<b>6.0</b>
<b>Working capital adjustment</b>	<b>(3.7)</b>	<b>(3.7)</b>	<b>(7.4)</b>	<b>0.2</b>	<b>0.1</b>	<b>0.3</b>

### 7. ANALYSIS OF OPERATING COSTS AND ASSETS

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

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

# Notes to the Regulatory Accounting Information

## 7. ANALYSIS OF OPERATING COSTS AND ASSETS

for the year ended 31 March 2004

	Resources and treatment	Distribution	Water Supply sub total
	£m	£m	£m
<b>Direct costs</b>			
Employment costs	5.2	3.9	9.1
Power	6.9	3.4	10.3
Agencies	-	-	-
Hired and contracted services	4.8	11.7	16.5
Associated companies	-	-	-
Materials and consumables	4.5	0.1	4.6
Service charges EA	5.1	-	5.1
Bulk supply imports	2.4	-	2.4
Other direct costs	1.2	2.7	3.9
<b>Total direct costs</b>	30.1	21.8	51.9
General and support expenditure	10.4	12.0	22.4
<b>Functional expenditure</b>	40.5	33.8	74.3
Total business activities			16.1
Local authority rates			17.4
Doubtful debts			3.7
Exceptional items			-
<b>Total opex less third party services</b>			111.5
Third party services - opex			5.9
<b>Total operating expenditure</b>			117.4
<b>Capital costs</b>			
Infrastructure renewals expenditure	4.8	23.5	28.3
Movement in infrastructure renewals accrual/prepayment	(0.2)	(0.7)	(0.9)
Current cost depreciation (allocated)	43.4	21.7	65.1
Amortisation of deferred credits			(1.6)
Amortisation of intangible assets			0.9
Business activities current cost depreciation (non-allocated)			1.3
<b>Total capital maintenance</b>			93.1
<b>TOTAL OPERATING COSTS</b>			210.5
<b>CCA GROSS MEA VALUES</b>			
Service activities	4168.0	5101.0	9269.0
Business activities			11.0
<b>Service totals</b>			9,280.0
Services for third parties			-
<b>TOTAL</b>			9,280.0

## 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
3.0	5.3	3.0	8.3	11.3			
1.5	7.9	2.1	10.0	11.5			
-	-	-	-	-			
6.1	9.3	5.7	15.0	21.1			
-	-	-	-	-			
0.2	1.1	2.8	3.9	4.1			
1.0	3.0	-	3.0	4.0			
-	-	-	-	-			
1.1	1.1	0.7	1.8	2.9			
12.9	27.7	14.3	42.0	54.9	16.9	6.4	2.8
4.8	10.3	4.7	15.0	19.8	0.8	1.6	0.6
17.7	38.0	19.0	57.0	74.7	17.7	8.0	3.4
				13.0			
				10.6			
				3.8			
				-			
				102.1			
				0.2			
				102.3			
21.3	-	-	-	21.3			
(9.6)	-	-	-	(9.7)			
8.9	67.1	16.8	83.9	92.8			
				(1.5)			
				-			
				1.3			
				104.2			
				206.5			
9,946.1	2,997.4	300.8	3,298.2	13,244.3			
				8.2			
				13,252.5			
				-			
				13,252.5			

## *Notes to the Regulatory Accounting Information*

### **7. ANALYSIS OF OPERATING COSTS AND ASSETS**

*for the year ended 31 March 2003*

	Resources and treatment	Distribution	Water Supply sub total
	£m	£m	£m
<b>Direct costs</b>			
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
<b>Total direct costs</b>	29.2	20.9	50.1
General and support expenditure	10.7	12.5	23.2
<b>Functional expenditure</b>	39.9	33.4	73.3
Total business activities			15.3
Local authority rates			17.4
Doubtful debts			3.8
Exceptional items			-
<b>Total opex less third party services</b>			109.8
Third party services - opex			4.7
<b>Total operating expenditure</b>			114.5
<b>Capital costs</b>			
Infrastructure renewals expenditure	10.4	22.3	32.7
Movement in infrastructure renewals accrual/prepayment	(1.3)	(6.3)	(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
<b>Total capital maintenance</b>			93.8
<b>TOTAL OPERATING COSTS</b>			208.3
<b>CCA GROSS MEA VALUES</b>			
Service activities	4,047.6	4,915.4	8,963.0
Business activities			9.8
<b>Service totals</b>			8,972.8
Services for third parties			-
<b>TOTAL</b>			8,972.8

## Notes to the Regulatory Accounting Information

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			

## Notes to the Regulatory Accounting Information

### 8. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE

as at 31 March 2004

	Specialised Operational Assets £m	Non- specialised operational properties £m	Infrastructure Assets £m	Other tangible assets £m	Total £m
<b>WATER SERVICES</b>					
<b>Gross replacement cost</b>					
At 1 April 2003	1,813.5	103.4	6,885.3	170.6	8,972.8
RPI adjustment	47.2	2.7	179.0	4.4	233.3
Reclassification of renewals expenditure	-	-	25.3	-	25.3
Disposals	(3.8)	(0.4)	-	(1.5)	(5.7)
Additions	23.2	1.3	42.6	12.5	79.6
<b>At 31 March 2004</b>	<b>1,880.1</b>	<b>107.0</b>	<b>7,132.2</b>	<b>186.0</b>	<b>9,305.3</b>
<b>Depreciation</b>					
At 1 April 2003	776.1	3.4	-	115.9	895.4
RPI adjustment	20.1	0.1	-	3.0	23.2
Disposals	(3.8)	(0.1)	-	(1.5)	(5.4)
Charge for year	43.7	0.3	-	22.4	66.4
<b>At 31 March 2004</b>	<b>836.1</b>	<b>3.7</b>	<b>-</b>	<b>139.8</b>	<b>979.6</b>
<b>Net book amount at 31 March 2004</b>	<b>1,044.0</b>	<b>103.3</b>	<b>7,132.2</b>	<b>46.2</b>	<b>8,325.7</b>
Net book amount at 1 April 2003	1,037.4	100.0	6,885.3	54.7	8,077.4
<b>SEWERAGE SERVICES</b>					
<b>Gross replacement cost</b>					
At 1 April 2003	3,082.8	142.5	9,391.1	142.8	12,759.2
RPI adjustment	80.1	3.7	244.2	3.7	331.7
Disposals	(3.7)	(0.1)	-	(1.5)	(5.3)
Additions	76.4	3.5	74.4	12.6	166.9
<b>At 31 March 2004</b>	<b>3,235.6</b>	<b>149.6</b>	<b>9,709.7</b>	<b>157.6</b>	<b>13,252.5</b>
<b>Depreciation</b>					
At 1 April 2003	1,383.6	21.7	-	88.0	1,493.3
RPI adjustment	36.0	0.6	-	2.3	38.9
Disposals	(3.7)	(0.1)	-	(1.5)	(5.3)
Charge for year	71.6	1.1	-	21.4	94.1
<b>At 31 March 2004</b>	<b>1,487.5</b>	<b>23.3</b>	<b>-</b>	<b>110.2</b>	<b>1,621.0</b>
<b>Net book amount at 31 March 2004</b>	<b>1,748.1</b>	<b>126.3</b>	<b>9,709.7</b>	<b>47.4</b>	<b>11,631.5</b>
Net book amount at 1 April 2003	1,699.2	120.8	9,391.1	54.8	11,265.9

## Notes to the Regulatory Accounting Information

### 8. CURRENT COST ANALYSIS OF FIXED ASSETS BY ASSET TYPE (continued) as at 31 March 2004

	Specialised Operational Assets £m	Non- specialised operational properties £m	Infrastructure Assets £m	Other tangible assets £m	Total £m
<b>TOTAL</b>					
<b>Gross replacement cost</b>					
At 1 April 2003	4,896.3	245.9	16,276.4	313.4	21,732.0
RPI adjustment	127.3	6.4	423.2	8.1	565.0
Reclassification of renewals expenditure	-	-	25.3	-	25.3
Disposals	(7.5)	(0.5)	-	(3.0)	(11.0)
Additions	99.6	4.8	117.0	25.1	246.5
<b>At 31 March 2004</b>	<b>5,115.7</b>	<b>256.6</b>	<b>16,841.9</b>	<b>343.6</b>	<b>22,557.8</b>
<b>Depreciation</b>					
At 1 April 2003	2,159.7	25.1	-	203.9	2,388.7
RPI adjustment	56.1	0.7	-	5.3	62.1
Disposals	(7.5)	(0.2)	-	(3.0)	(10.7)
Charge for year	115.3	1.4	-	43.8	160.5
<b>At 31 March 2004</b>	<b>2,323.6</b>	<b>27.0</b>	<b>-</b>	<b>250.0</b>	<b>2,600.6</b>
<b>Net book amount at 31 March 2004</b>	<b>2,792.1</b>	<b>229.6</b>	<b>16,841.9</b>	<b>93.6</b>	<b>19,957.2</b>
Net book amount at 1 April 2003	2,736.6	220.8	16,276.4	109.5	19,343.3

## *Notes to the Regulatory Accounting Information*

### **9. WORKING CAPITAL**

	2004	2003
	£m	£m
Stocks	0.8	1.3
Trade debtors	39.5	37.7
Trade creditors	(28.4)	(30.9)
Short term capital creditors	(46.5)	(50.9)
Infrastructure renewals accrual	(19.8)	(5.0)
Trade payments in advance	(44.5)	(37.6)
Payroll related taxes & social security contributions	(2.3)	(2.2)
Group trade debtors	215.6	321.2
Prepayments	49.8	48.1
	<hr/>	<hr/>
	164.2	281.7
	<hr/>	<hr/>

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

	2004	2003
	£m	£m
<b>Balance at 1 April</b>	<b>16,452.7</b>	<b>15,922.6</b>
RPI adjustments		
Fixed assets	502.9	578.1
Working capital	7.4	(0.3)
Financing	(43.5)	(39.4)
Grants & third party contributions	(7.4)	(8.3)
	<hr/>	<hr/>
<b>Balance at 31 March</b>	<b>16,912.1</b>	<b>16,452.7</b>
	<hr/>	<hr/>

## Notes to the Regulatory Accounting Information

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

	2004 £m	2003 £m
<b>Current cost operating profit</b>	<b>184.3</b>	<b>179.1</b>
Working capital adjustment	7.4	(0.3)
Change in stocks	0.5	(0.8)
Receipts from other income	1.9	1.5
Current cost depreciation	158.3	144.3
Current cost profit on sale of assets	(3.5)	(6.0)
(Increase)/decrease in debtors and prepaid expenses	(7.2)	7.3
Increase in creditors and accrued expenses	1.2	5.9
Infrastructure renewals expenditure	49.6	51.4
Decrease in provisions	(11.2)	(15.1)
<b>Net cash flow from operating activities</b>	<b>381.3</b>	<b>367.3</b>

### 12. ANALYSIS OF NET DEBT

	At 31 Mar 2003 £m	Cash flow £m	At 31 Mar 2004 £m
Cash in hand and bank	-	-	-
Overdrafts	4.0	4.1	8.1
Loans due within one year	21.6	0.8	22.4
Loans due after one year	251.0	(22.9)	228.1
Finance leases	477.0	(6.4)	470.6
Inter-company loan	419.5	102.0	521.5
<b>Total net debt</b>	<b>1,173.1</b>	<b>77.6</b>	<b>1,250.7</b>
Appointed Business	1,170.5	78.8	1,249.3
Non – Appointed Business	2.6	(1.2)	1.4
<b>Total net debt</b>	<b>1,173.1</b>	<b>77.6</b>	<b>1,250.7</b>

## Notes to the Regulatory Accounting Information

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

	2004	*2003	*2002	*2001	*2000
	£m	£m	£m	£m	£m
<b>Turnover</b>	<b>605.2</b>	583.7	588.1	578.1	685.0
Current cost operating costs	(417.0)	(406.1)	(413.4)	(414.9)	(423.3)
Operating income	<u>3.5</u>	<u>6.2</u>	<u>1.8</u>	<u>10.0</u>	<u>5.7</u>
	<b>191.7</b>	183.8	176.5	173.2	267.4
Working capital adjustment	<u>(7.4)</u>	<u>0.3</u>	<u>(0.1)</u>	<u>0.5</u>	<u>(0.1)</u>
<b>Current cost operating profit</b>	<b>184.3</b>	184.1	176.4	173.7	267.3
Other income	1.9	1.5	1.6	2.1	2.6
Net interest	(75.0)	(73.1)	(67.3)	(60.6)	(46.6)
Financing adjustment	<u>43.5</u>	<u>40.5</u>	<u>16.4</u>	<u>24.5</u>	<u>25.2</u>
<b>Current cost profit before taxation</b>	<b>154.7</b>	153.0	127.1	139.7	248.5
Taxation – current tax	(19.0)	(11.6)	1.7	(20.0)	(12.3)
- deferred tax	<u>(12.2)</u>	<u>(34.4)</u>	<u>(16.4)</u>	<u>(12.5)</u>	<u>-</u>
<b>Current cost profit on ordinary activities</b>	<b>123.5</b>	107.0	112.4	107.2	236.2
Dividends	<u>(100.3)</u>	<u>(103.6)</u>	<u>(103.2)</u>	<u>(206.2)</u>	<u>(101.8)</u>
<b>Current cost profit retained</b>	<b>23.2</b>	3.4	9.2	(99.0)	134.4

\* Figures for prior years shown in the table have been restated to 2003/04 prices using RPI indexation.

Total turnover for the year increased to £605.2m in 2003/04 (2003: £583.7m), which represents an increase of 6.6% (3.7% after adjusting for inflation) compared with the 6.3% overall increase in charges from 1 April 2003. The impact of the tariff reduction of 13.1% in 2001 can be seen in the 2001 turnover numbers.

Operating expenditure (adjusted for inflation) has decreased steadily over the five year period due to continuing cost reductions and efficiency improvement but increasing capital maintenance costs arising from the large capital programme have led to an increase in overall operating costs in 2003/04.

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

There has been a reduction in the overall tax charge for 2004. The current year tax charge has increased by £7.4m to £19.0m, due to a higher taxable profits and reduced capital allowances. The deferred tax charge has reduced by £22.2m to £12.2m reflecting a fall in the interest rate used for discounting purposes. This

## Notes to the Regulatory Accounting Information

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

	2004	*2003	*2002	*2001	*2000
	£m	£m	£m	£m	£m
<b>Fixed assets</b>					
Tangible assets	19,957.2	19,846.2	19,728.1	19,607.1	19,510.6
Third party contributions since 1989/90	(301.3)	(292.6)	(281.0)	(261.3)	(223.1)
<b>Working capital</b>	<b>164.2</b>	289.0	(10.5)	10.9	(24.3)
<b>Net operating assets</b>	<b>19,820.1</b>	19,842.6	19,436.6	19,356.7	19,263.2
Cash and investments	14.3	15.6	17.4	18.5	19.7
Non-trade debtors	19.7	16.9	26.0	15.9	29.6
Non-trade creditors due within one year	(107.9)	(95.4)	(73.8)	(71.5)	(51.1)
Creditors due after one year	(1,509.8)	(1,575.0)	(1,237.3)	(1,172.8)	(1,042.7)
Provisions for liabilities and charges:					
- deferred tax	(186.3)	(178.6)	(148.7)	(134.0)	-
- other	(1.5)	(2.3)	(2.1)	(1.2)	-
Dividends payable	(69.3)	(72.2)	(72.6)	(71.4)	(71.0)
<b>Net assets employed</b>	<b>17,979.3</b>	17,951.6	17,945.5	17,940.2	18,147.7
<b>Capital and reserves</b>					
Called up share capital	775.0	795.1	819.9	830.8	849.6
Profit and loss account	292.2	276.0	281.1	275.4	507.5
Current cost reserve	16,912.1	16,880.5	16,844.5	16,834.0	16,796.0
Other reserves	-	-	-	-	(5.4)
	<b>17,979.3</b>	17,951.6	17,945.5	17,940.2	18,147.7

\* Figures for prior years shown in the table have been restated to 2003/04 prices using RPI indexation.

## Notes to the Regulatory Accounting Information

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 2003/04 programme in detail.

Working capital increased significantly between 2002 and 2003 due to an increase of £243.0m in loans to the parent company (which then reduced by £104.0m in 2004). This is offset however by increases in net debt which occurred in 2003 and is 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 a prepayment of £5.5m in 2004.

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:-

	<b>Infrastructure Assets £m</b>
<b>Cost</b>	
At 31 March 2004 per Regulatory Accounts	1,290.6
Adjustment to opening balance	678.0
Reclassification of renewals expenditure	(25.3)
Infrastructure renewals capitalised in the year	49.6
<b>At 31 March 2004 per Statutory Accounts</b>	<b>1,992.9</b>

## Notes to the Regulatory Accounting Information

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

#### Depreciation

At 31 March 2004 per Regulatory Accounts	(0.4)
Adjustment to opening balance	(683.1)
Depreciation charge for infrastructure renewals expenditure	(39.0)
<b>At 31 March 2004 per Statutory Accounts</b>	<b>(722.5)</b>

#### Net Book Value

At 31 March 2004 per Regulatory Accounts	1,290.2
Adjustment for infrastructure renewals accounting	(19.8)
<b>At 31 March 2004 per Statutory Accounts</b>	<b>1,270.4</b>

#### Provisions and Liabilities

At 31 March 2004 per Regulatory Accounts	(19.8)
Less infrastructure renewals accrual	19.8
<b>At 31 March 2004 per Statutory Accounts</b>	<b>-</b>

### 16. REGULATORY CAPITAL VALUES AT 2003/04 PRICES

	2004
	£m
Opening regulatory capital value for the year	* 3,035
Capital expenditure	* 287
Infrastructure renewals expenditure	44
Grants and contributions	(16)
Depreciation	(137)
Infrastructure renewals charge	(29)
Outperformance of regulatory assumptions (5 years in arrears)	(37)
<b>Closing regulatory capital value</b>	<b>* 3,147</b>
<b>Average regulatory capital value</b>	<b>3,054</b>

\* 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***

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## **To the Director General of Water Services (the "Regulator") and Yorkshire Water Services Limited**

We have audited the regulatory accounts of Yorkshire Water Services Limited ("the company") on pages 33 to 55, which comprise the historical cost profit and loss account, historical cost balance sheet, current cost profit and loss account for the appointed business, current cost balance sheet for the appointed business, current cost cash flow statement and the related notes to the regulatory accounts.

This report is made, on terms that have been agreed, solely to the company and the Regulator in order to meet the requirements of the company's Instrument of Appointment as a water and sewerage undertaker. Our audit work has been undertaken so that we might state to the company and the Regulator those matters that we have agreed to state them in our report, in order (a) to assist the company to meet its obligations under the company's Instrument of Appointment as a water and sewerage undertaker to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions 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 Regulator, for our audit work, for our report, or for the opinions we have formed.

### **Basis of preparation**

The Regulatory Accounts have been prepared in accordance with the company's Instrument of Appointment as a water and sewerage undertaker, the Regulatory Accounting Guidelines 1 to 4 issued by the Regulator, and the accounting policies set out in the statement of accounting policies.

The Regulatory Accounts are separate from the statutory financial statements of the company and have not been prepared under the basis of Generally Accepted Accounting Principles in the United Kingdom ("UK GAAP"). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 1985.

### **Respective responsibilities of the Regulator, the Directors and Auditors**

The Regulator determines the nature, form and content of the regulatory accounts. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly, we make no such assessment.

The directors are responsible for preparing the regulatory accounts in accordance with the company's Instrument of Appointment as a water and sewerage undertaker.

Our responsibility is to audit the regulatory accounts in accordance with United Kingdom auditing standards issued by the Auditing Practices Board, except as stated in the 'Basis of audit opinion' below and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities'.

We report our opinion as to whether the Regulatory Accounts present fairly, in accordance with the company's Instrument of Appointment as a water and sewerage undertaker, the Regulatory Accounting Guidelines 1 to 4 issued by the Regulator and the accounting policies set out on page 39, the results and financial position of the company. We also report to you if, in our opinion, the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

# *Auditors' Report on the Regulatory Accounting Information*

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## **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board, except as noted below. 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 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. However, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

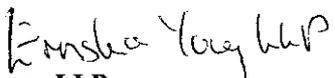
Our opinion on the Regulatory Accounts is separate from our opinion on the statutory accounts of the company on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the company (our "Statutory" audit) was made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our Statutory audit work was undertaken so that we might state to the company's members those matters that we are required to state to them in a Statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the company and the company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

## **Opinion**

In our opinion, the Regulatory Accounts fairly present in accordance with the company's Instrument of Appointment as a water and sewerage undertaker, the Regulatory Accounting Guidelines issued by the Regulator, and the accounting policies set out on page 39, the state of the company's affairs at 31 March 2004 on an historical cost and current cost basis, the historical cost and current cost profit for the year then ended and current cost cash flow for the year the ended, and have been properly prepared in accordance with those conditions, guidelines and accounting policies.

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 1 to 4 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 extracted from the statutory accounts set out on pages 11 to 30, in conjunction therewith fairly present 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 1.03, Accounting for Current Costs, issued in June 2002 by the Office of Water Services.

  
**Ernst & Young LLP**  
Registered Auditor, Leeds

22 June 2004