Yorkshire Water plc

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Annual Report and Accounts 1999

Changing,
growing,
building value.

Contents

Annual Review

Statements by the Chairman and the Chief Executive are included in the separate Annual Review 1999. That document and this Annual Report and Accounts together comprise the full annual report and accounts of Yorkshire Water plc.

Operating and financial review

Accounting policy changes

The issue of a number of new Financial Reporting Standards (FRS) has affected the presentation of the group's accounts for 1998 / 99.

The results of the group's associated companies have been presented in accordance with the requirements of FRS 9 (Associates and Joint Ventures). This is effectively a presentational change and does not affect the results for the year. The adoption of FRS 10 (Goodwill and Intangible Assets) has resulted in goodwill arising on the group's acquisitions during the year being shown on the face of the balance sheet. A new group accounting policy normally requires goodwill to be written off over a maximum of twenty years. In 1998 / 99, the effect of the new accounting policy is a charge against profits of £0.3 million. Historic goodwill attributable to the purchase of wholly owned group assets and charged against reserves under the previous accounting policy has not been adjusted.

The introduction of FRS 11 (Impairment of Fixed Assets and Goodwill) has occasioned the review of the carrying value of a number of fixed assets. The overall effect on the group results of writing down assets to their value in use, including certain assets of associate companies, was a charge of £7.0 million.

FRS 12 (Provisions) and FRS 15 (Measurement of Tangible Fixed Assets) in combination have required a new accounting policy to be applied to infrastructure assets. This is fully described in the notes to the financial statements but has not affected the group's reported profits for the year. The fixed assets note to the financial statements has been restated accordingly, including adjustment of the previous provision for infrastructure renewals.

The disclosure requirements of FRS 13 (Derivatives and other Financial Instruments) have been incorporated into this OFR and the notes to the financial statements. Earnings per share and diluted earnings per share have been stated in accordance with FRS 14 (Earnings per share).

Operating review – regulated water services

Financial performance

Turnover in the regulated Yorkshire Water Services (YWS) business increased by 6.2% following an overall increase in tariffs of 7.6% from 1 April 1998. Charges within the tariff basket calculation represented 98% of turnover, of which two thirds are unmeasured charges. Charges from new customers amounted to over £4 million but were offset both by the effect of domestic metering and the continuing decline in consumption by industrial and commercial customers. Consumption by the latter group of customers was approximately 3% lower in 1998 / 99, similar to the reduction experienced in recent years and a trend expected to continue into the future. 20,000 new domestic meters were installed during the year and by the year end 302,500 (17%) domestic customers were paying for their water by meter.

The reduction in underlying regulated YWS operating costs was more than 3% in real terms, despite the upward pressure on operating costs from the continuing investment programme. Operating cost savings were secured in a number of areas, including through outsourcing, and resulted in a reduction in the number of directly employed staff from 3,082 at the start of the financial year to 2,811 at 31 March 1999. A further £7.4 million was incurred on restructuring costs arising from the change programme designed to secure future service improvements and operating efficiencies.

Following the change in accounting policy for infrastructure assets, depreciation comprises two elements. The depreciation charge on above ground assets after the amortisation of grants and contributions was £83.3 million (1998: £79.5 million) and that in respect of infrastructure assets £35.1 million (1998: £34.2 million). The depreciation charge for 1998 / 99 includes the final £7.4 million amortisation charge in respect of loan balances inherited by the previous Yorkshire Water Authority in 1974. The continuing increases in depreciation are a reflection of the major ongoing investment programme described below.

Response to billing contacts:

% answered within 5 days	%
94 / 95	87.9
95 / 96	89.2
96 / 97	90.0
97 / 98*	93.2
98 / 99	**99.0**

*Below industry average

Response to written complaints:

% answered within 10 days	%
94 / 95	98.9
95 / 96	97.2
96 / 97	96.3
97 / 98*	99.2
98 / 99	**99.3**

*Above industry average

Bills for metered customers:

% based on actual readings	%
94 / 95	N / A
95 / 96	98.9
96 / 97	99.2
97 / 98*	99.2
98 / 99	**99.8**

*Within industry average

Response to telephone calls:

% calls answered within 15 seconds	%
94 / 95	N / A
95 / 96	69.1
96 / 97	85.9
97 / 98*	94.0
98 / 99	**95.3**

*Above industry average

*OFWAT'S latest available industry comparison (1997/ 98)

Total leakage:
Megalitres per day

	Megalitres
94/95	536
95/96	485
96/97	420
97/98*	368
98/99	**333**

*No industry comparison

Water pressure:
Properties (000) below standard

	(000)
94/95	30.0
95/96	24.4
96/97	12.6
97/98*	6.3
98/99	**1.0**

*Within industry average

Unplanned interruptions to supply:
Properties (000) over 12 hours

	(000)
94/95	19.7
95/96	14.9
96/97	2.6
97/98*	1.0
98/99	**0.4**

*Within industry average

Sewer flooding due to blockages, collapses etc:
Properties (including cellars)

	Properties
94/95	886
95/96	791
96/97	716
97/98*	507
98/99	**473**

*Below industry average

*OFWAT'S latest available industry comparison (1997/98)

Water services profit before interest and taxation increased 10.1% to £249.3 million (1998: £226.4 million) representing an improvement in the operating margin to 43.0% compared to 41.5% in 1998.

Turnover and profit before interest and taxation from The York Waterworks Plc, acquired in March 1999, were £0.6 million and £0.1 million respectively. These results are reported together with the YWS regulated business results in the water services business segment.

The OFWAT Periodic Review
In April 1999, YWS submitted its draft business plan for future standards and prices to the Director General of Water Services (OFWAT). After submissions from the water companies, government, customers and other industry stakeholders, the Director General will set new price limits for water and sewerage charges for the period from 2000 to 2005.

The draft plan from YWS was put together following extensive consultation on the standards and prices that Yorkshire customers would like to see over the next few years. The consensus was that customers in the region prefer an even profile of relatively modest price increases to pay for specified improvements. The plan submitted to OFWAT included a five year £1.7 billion investment programme, to be funded in part by price rises of no more than 2.5% a year in real terms.

The structural changes in the water company, which aim to make Yorkshire Water Services a sector leader, have been in place for 12 months and are starting to deliver significant benefits in driving efficiency, in improving customer service and also enhancing operational and regulatory performance. This puts the business in good shape in anticipation of a challenging periodic review outcome.

In particular the separation of the services of water supply provision and the treatment and disposal of waste water into two distinct business units at the beginning of the year has gone exceptionally well. The next 12 months will see a consolidation of these changes as YWS moves towards meeting its stretching targets under its three strategic objectives of service, compliance and value.

Investing in customer service
Over the last five years there have been major improvements in services, shown particularly in water quality indicators and customer service measures. In 1994, around 30,000 properties in the Yorkshire Water Services area suffered low pressure – now the figure is below 1,000. Over the same period, the number of properties subject to interruptions of supply for more than 12 hours has reduced from nearly 20,000 to around 400.

Customer service performance has also improved to the point at which we respond to 99% of billing contacts within five days. Back in 1994, this figure was less than 90%. Our response to telephone calls has also improved and 95% are now answered within 15 seconds.

The company has also improved its performance against the statutory measures of service set by OFWAT. The latest OFWAT assessment showed YWS to be the fastest improving of the major water companies and the business intends to move further up the OFWAT rankings.

YWS was awarded the prestigious Charter Mark in January 1999 for the quality of its customer service. However, we are now developing new service measures and internal targets which go beyond the statutory requirements. These will measure the reliability of the service, the quality of the company's response when problems occur and the speed with which those problems are resolved.

Investing in future supplies
Leakage reduction remains an integral part of the company's long-term water supply strategy. For the past two years YWS has met and surpassed the mandatory leakage targets set by the industry regulator OFWAT, which recently acknowledged the company's 'sound' approach to tackling the issue. YWS has reduced leakage from its own and its customers' pipes by more than a third since 1995 and now saves enough water every day to meet the domestic and industrial demands of a city the size of Leeds.

Sewer flooding due to blockages, collapses etc:
Properties (excluding cellars)

	Properties
94/95	195
95/96	174
96/97	150
97/98	104
98/99	**115**

Water quality:
% overall compliance with standards (calendar year)

	%
94/95	99.7
95/96	99.7
96/97	99.8
97/98	99.7
98/99	**99.8**

Sewage treatment works:
Number failing sanitary consents

94/95	12
95/96	9
96/97	9
97/98	0
98/99	**0**

Bathing waters:
Number non-compliant

94/95	2
95/96	2
96/97	2
97/98	3
98/99	**1**

There is no OFWAT industry comparison for any of the above measures.

Another major component of the company's water resources strategy was the application for renewed time limited abstraction licences on the rivers Ure, Wharfe and Ouse. These were recently granted by the Environment Agency for a five year period. The new licences will give even greater protection to all three rivers by introducing staged abstraction rates for different river flows, ensuring that the licences are utilised effectively when the rivers are running at their highest flow levels.

Investment in the environment
Capital investment in 1998/99, the fourth year of the current investment period, was £382.8 million (1998: £350.1 million). It is expected that over £400 million will be spent in 1999/2000 and that total investment over the five-year period ending 31 March 2000 will amount to some £1.8 billion.

The extensive capital programme means that YWS is the biggest single investor in environmental improvements in the region. As the programme progresses and new sewage treatment works are completed, the benefits are being seen in the region's rivers and will soon make a difference to bathing waters on the Yorkshire coast.

Under the company's Rivercare programme, urban rivers such as the Aire, Dearne and Calder have all benefited from improvements to waste water treatment plants which discharge into their waters. In Barnsley, a newly completed £3.3 million scheme has increased the capacity of the town's sewerage system and eliminated the overflows that occasionally discharged sewage into the Dearne. In addition, the coming year will see the next step in cleaning up the Aire; already benefiting from the advanced new treatment plant at Esholt, the Aire will be further improved by the completion of a £46 million sewage treatment plant at Knostrop.

Sewage treatment schemes also form part of the Coastcare programme which is implementing standards of cleanliness well above the statutory level. New plants at a number of sites will bring the latest ultra violet treatment technology to the east coast and greatly improve Yorkshire's bathing water. Work is underway at Scarborough, Filey, Bridlington and Whitby and is carefully phased so as not to interrupt the summer tourist season.

Work is well advanced on the £170 million Humbercare scheme – one of the largest civil engineering projects of its type in Europe. Involving 11 km of tunnels under the city, the scheme will end the discharge of raw sewage into the Humber and improve the quality of the estuary.

Acquisition of The York Waterworks Plc
On 8 March 1999 Yorkshire Water plc acquired The York Waterworks Plc and the integration process is well underway. As YWS already provided waste water services in York, the main effect has been that York Waterworks customers are now served by one company instead of two. The acquisition will end the duplication and make water services in York more cost effective. The company has already undertaken that York Waterworks bills will be 15% lower by 2004 than would have been the case. Customers will also benefit from more secure supplies as York Waterworks is linked into the regional grid.

Operating review – White Rose Environmental
White Rose Environmental continued to trade strongly and to maintain market leadership in the clinical waste market. Sales increased by 10% to £24.6 million (1998: £22.3 million). Trading performance was slightly down on last year due to delays in fully integrating the Clinical Waste acquisition and a requirement to rationalise and upgrade the company's transport fleet.

The values of certain fixed assets were written down in 1998/99, following the implementation of FRS 11, resulting in a one-off charge of £4.9 million. Business profit before interest, taxation and these one-off costs was £1.2 million (1998: £1.2 million).

Healthcare Services, a new and separately branded offshoot, has been positioned to provide a carefully tailored service, using custom built trucks to provide waste disposal services to nursing and residential homes. In the year the company also established an initial local presence in the confidential waste market, offering a highly secure route for disposal of confidential material.

The company has a clear vision for the future, building on its core skills of logistics, waste handling and engineering innovation to become a national provider of a quality assured and secure route for a wide range of sensitive wastes. As a first step in this process the company operates two sites in a joint venture collaboration with the Facultative Group of the Netherlands for the disposal of bovine material from the Government over thirty months scheme.

Prospects for the coming years look encouraging as increasingly onerous legislation for incinerator operation and waste transport leads to consolidation of the market. White Rose will be making further capital investment in a number of its plants to meet the requirements of the Hazardous Waste Incineration Directive which takes full effect in June 2000. These investments will uniquely position White Rose Environmental as a national provider of disposal capability.

Operating review – Alcontrol
Alcontrol continued to strengthen its position in both the UK and Dutch environmental and food testing markets in which it operates. Year-on-year sales increased almost 80% to £18.1 million (1998: £10.2 million) of which the acquisition of the Biochem group of companies contributed £4.4 million. Business profit before interest and taxation was £3.2 million (1998: £1.8 million) representing an operating margin of 18%.

In the UK the integration of ACS Limited, acquired on 31 March 1998, has been successfully completed and the business is generating a higher than budgeted contribution. Work on the construction of the laboratory extension at Rotherham is complete and the building, which is now fully occupied, is expected to further contribute to Alcontrol's growth plans in 1999 / 2000. A new service, Alcontrol Xpress, providing a 24-hour testing service, was launched in 1999 and is outperforming expectations. Alcontrol was also awarded the contract to provide testing facilities to Yorkshire Water Services for a further three years from April 1999. This contract was won in the face of open competition from several of Alcontrol's main competitors. Finally in the UK, a further satellite laboratory providing time-critical analysis for food products was opened and accredited in Spalding.

In October, Alcontrol purchased a major competitor in Holland, Biochem Laboratorium BV. This acquisition boosted Alcontrol's share of the Dutch environmental testing market to around 35%. Work is underway on the full integration onto one site of the two existing environmental laboratories. When this work is completed by the end of the year it is expected to contribute further to Alcontrol's profitability by reducing significantly its fixed cost base. At the same time Alcontrol also purchased Biochem Food BV, a key player in the Dutch food testing market. This latter acquisition gave Alcontrol the opportunity to transfer its own emerging food testing business to Biochem Food's laboratory to take advantage of economies of scale. The two Biochem companies have exceeded expectations in the first six months of Alcontrol's ownership.

In the coming year Alcontrol will continue its strategy of growth by looking for further acquisitions throughout Europe and by increasing its volumes organically.

Operating review – Global
The operating results for the group's other environmental activities reflect the merger of the Global solid and liquid waste businesses with Waste Recycling Group plc (WRG) with effect from January 1999. The turnover of the Global businesses to the date of the merger was £40.1 million (1998: £46.1 million) reflecting the growth of the business while under the group's direct ownership. Business profit before interest and tax for the period of £6.9 million (1998:£6.0 million) was also proportionately lower than would have been the case if the businesses had been wholly owned for the full year.

In future years, the group's operating results will be correspondingly reduced. The results of the merged waste management businesses, in which the group retains a significant 46% interest, will form part of the group's share of profit from the enlarged WRG and be treated as an associated company. Their results for 1998 / 99 have not, therefore, been identified as discontinued activities.

The operating results for the two residual wholly owned businesses (White Rose Environmental and Alcontrol) and the Global businesses transferred to WRG are grouped together under 'Environmental' in the segmental analysis to the 1998 / 99 accounts. This presentation will be revised in 1999 / 2000 to reflect the growing importance of the individual businesses.

Operating review – First Renewables
The renewable energy activities of Yorkshire Water have been brought together in a new subsidiary company called First Renewables Ltd. These activities currently comprise the biomass power generation project known as ARBRE and a participation in two windfarms. The establishment of First Renewables will provide a more effective management focus for development in these and related areas. The company will own the existing 50% stake in Yorkshire Windpower, together with the 85% share of ARBRE and will be the vehicle for the development of further renewable energy projects as opportunities arise.

The results of Yorkshire Windpower in its last year of benefiting from the Non Fossil Fuel Obligation purchase price support were adversly affected by the need to write down the value of the wind turbines in accordance with the requirements of FRS 11. The group's share of the resultant operating loss was £0.6 million. In 1998 Yorkshire Electricity, our JV partner in Yorkshire Windpower, sold its interest to PowerGen.

Work is now progressing on site on the £30 million ARBRE project, with construction completion scheduled for winter 1999. The group already generates significant power from renewable sources, including three windfarms, landfill gas, waste to energy, and methane production from sludge digestion. When ARBRE comes on line later this year, the total electricity generated from these renewable sources will rise to the equivalent of 35% of the power requirements of YWS.

Operating review – Yorkshire Water Estates

The group's property interests comprise Yorkshire Water Estates (YWE) and investments in two associate companies with Evans of Leeds. The YWE property activities again made a positive contribution to the group's performance with business profit before interest and taxation of £4.3 million (1998: £7.4 million). An exceptional profit of £1.1 million from the sale of the group's 50% interest in White Rose Property Investments Limited was also realised.

The year has been characterised by a redefinition of the role of YWE, leading to the development of a strategy designed to provide a platform for sustainable and profitable growth. The revised strategy is based upon accelerated release of YWS non-operational resources, building upon the successful partnership with Evans of Leeds and the expansion of YWE alone, or in joint ventures with suitable partners.

The associated companies, White Rose Development Enterprises (WRDE) and White Rose (Leeds), owned jointly with Evans of Leeds, continue to make sound progress. The WRDE owned business parks at York and Follingsby have attracted strong interest and development at both is proceeding as planned. The White Rose Centre has traded well since its opening in 1997.

Operating review – other activities

The group has been pursuing certain Public Finance Initiative projects as well as researching opportunities in overseas markets. The development costs associated with these activities amounted to £1.3 million in 1998/99.

Group profit before taxation

Operating profit from the group's business activities described above was £265.0 million (1998: £241.2 million) before asset write-downs (£4.9 million) and the deduction of unallocated corporate costs amounting to £6.3 million (1998: £5.2 million).

The group's share of operating profit from its existing property and renewable energy associated undertakings was reduced by £2.1 million to £0.6 million (1998: £2.1 million) after FRS 11 write downs. Dividends receivable from 3C Waste, amounting to £2.5 million, in respect of the profit after taxation for the period of the group's ownership have been shown as investment income.

The group interest charge increased significantly to £46.8 million (1998: £32.5 million). Of this, £35.6 million was attributable to YWS reflecting the continuing water services investment programme described above. The balance of the group interest charge represents the cost of financing the group's other activities, including the purchase of 3C Waste Limited (3C) and windfall tax of £140.0 million. Interest cover fell from 7.3 times to 5.4 times.

The sale of BWEL, the group's engineering joint venture with Babcock International, resulted in an exceptional accounting profit of £10.4 million. The sale of the group's interest in White Rose Property Investments Ltd, a 50/50 joint venture with Evans of Leeds, realised £1.1 million. Headline FRS 3 group profit before taxation of £221.6 million (1998: £205.6 million) was, in consequence, some 7.8% higher than the previous year.

Group earnings and earnings per share

The corporation tax charge for the year of £10.1 million (1998: £22.1 million) was particularly low and is not representative of the underlying position. The group's accounting tax charge benefited from an £8.2 million reversal of the Advance Corporation Tax (ACT) accrued in respect of the final 1997/98 dividend taken as scrip. There was no ACT liability on the payment of the 1998/99 interim dividend because it was paid on 6 April 1999, after the abolition of the ACT regime. The group also had the advantage of a marginal rate of corporation tax of 11% in 1998/99 because of the availability of surplus ACT. The surplus has been fully utilised at 31 March 1999.

Profit after taxation increased to £211.5 million (1998: £43.5 million). In the previous year, the group took the full £140.0 million windfall tax charge, the second £70.0 million instalment of which was paid in December 1998. In consequence, the year-on-year increase in earnings per share from 11.6p to 55.6p is distorted. Adjusted to exclude the windfall tax in 1997/98 and the exceptional profits in 1998/99, the increase was 6.0% in spite of an increase of 11.6 million in the average number of shares in issue, principally because of the enhanced scrip dividend scheme in 1998. Diluted earnings per share were 55.2p (1998: 11.5p).

Profit for the financial year, after minority interests, was £211.0 million (1998: £42.9 million).

Dividends

The board is recommending the payment of a final dividend of 15.6p per share. An interim dividend of 6.75p per share was paid on 6 April 1999. The total dividend for the year of 22.35p per share represents an increase of 9.8%. The total cost of the dividend payments will be £85.5 million, which has been financed by dividend payments from the regulated water services business.

Dividends totalling £0.2 million were paid on the company's B shares up to the 3 December 1998 payment date, when all the outstanding shares then in issue were cancelled.

After payment of dividends, shareholders' funds increased by 11.7% to £1,581.2 million at 31 March 1999.

Cash flow

Cash generated from operating activities, principally the regulated water services business, was £358.3 million (1998: £351.6 million). The major cash outflow of the group derives from the water services capital investment programme. In 1998/99, capital expenditure was £402.9 million (1998: £353.5 million).

The group made two acquisitions during the year, Biochem in the Autumn of 1998, and The York Waterworks Plc in March 1999. In addition, 3C was purchased in September 1998 at an original cost of £119.9 million. The other significant cash outflow was taxation of £86.1 million (including the second £70.0 million windfall tax payment). Dividend cash payments were again restricted by the take up of scrip dividends and the decision to pay the interim dividend on 6 April 1999. There was a net cash inflow of £42.8 million from the management of liquid resources.

Financing and net debt

Overall, £258.8 million was raised from external financing, principally through the issue of £200 million bonds in April 1998. Group net debt increased to £882.8 million (1998: £573.3 million), giving a gearing ratio of 55.8%. YWS accounted for £622.2 million of the total group net debt. The group is experiencing an increasing level of indebtedness, principally because of the continuing water services investment programme. This trend will continue into the current financial year and beyond.

Following publication of the 'Prospects for Prices' document by OFWAT in October 1998, Standard & Poors downgraded the YW plc and the YWS debt ratings from AA- to A+ and AA to AA- respectively. Moody's placed the company on negative credit watch.

Treasury strategy

Treasury strategy is controlled centrally in accordance with approved board policies, guidelines and procedures. The strategy is designed to manage the group's exposure to fluctuations in interest and currency exchange rates, preclude speculation and to source and structure the group's borrowing requirements. For these purposes the group holds or issues various financial instruments.

Interest rate swaps, interest rate caps and collars and forward rate agreements are used to manage interest rate exposure under a policy that requires that at least 65% of net debt should be at fixed rates. At the financial year end the proportion was 70%.

Infrequently some UK group companies undertake transactions (normally purchases) in foreign currencies. Group policy requires all significant exposures to be eliminated by the use of forward currency contracts. The group's investments in Holland have been financed by Dutch guilder borrowings in order to fully hedge against the impact of movements in the guilder/sterling exchange rate on the translation of net assets denominated in Dutch guilders. Loans from the European Investment Bank denominated in Italian lire have been effectively converted into sterling by the use of currency swaps for the duration of the loans.

The group uses a combination of fixed capital, retained profits, long-term loans and finance leases, bank borrowings and commercial paper to finance its operations. Any funding required is raised by the group treasury department in the name of the holding company or operating company as appropriate, and supported by guarantees as necessary. Funds raised by the holding company may be on lent to operating subsidiaries at commercial rates of interest. Cash surplus to operating requirements is invested in short-term sterling instruments with institutions rated at least A1 or P1 by Standard & Poor's or Moody's rating agencies, respectively.

Notes 17 to 21 to the financial statements on pages 30 and 31 show details of the financial instruments held by the group at the financial year end, undrawn committed borrowing facilities and the effect of the use of hedges during the year.

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.

Post balance sheet events

On 12 April 1999, 3C was sold to WRG for £113.9 million, being the original purchase cost of £119.9 million less the £6.0 million option fee received as part of the merger agreement with WRG in August 1998. To fund the acquisition, WRG carried out a rights issue in which the company subscribed for its full entitlement at a cost of £56.5m.

On 1 June 1999 the company announced that it had entered into a conditional agreement to acquire Aquarion Company. Aquarion is a US water company serving parts of Connecticut and Long Island, New York. The total net consideration for Aquarion's equity will be $444 million (£276 million) which will be funded from existing cash resources and debt facilities. For the year ended 31 December 1998, Aquarion reported turnover of $116 million (£72 million), profit before taxation of $34 million (£21 million) and had net assets of $147 million (£91 million) at that date.

Directors' report

The directors present their report for the year to 31 March 1999.

Result and dividends
The profit attributable to shareholders for the year was £211.0 million. After payment of dividends totalling £85.7 million, £125.3 million was transferred to reserves.

The directors recommend a final dividend of 15.6p per share to be paid on 1 October 1999, to those shareholders on the register at the close of business on 6 September 1999. An interim dividend of 6.75p per share was paid on 6 April 1999. The total dividend for the year will amount to 22.35p per share (1998: 20.35p).

Significant post balance sheet events
Since the year end 3C Waste Limited was sold to Waste Recycling Group plc and the company announced the acquisition of Aquarion Company. Both of these events are described more fully in the operating and financial review.

Principal activities
The Directors' Report should be read in conjunction with the operating and financial review, which includes information about group businesses, the financial performance during the year and likely developments.

The principal activities of the group are the supply of clean water and the treatment and disposal of waste water, carried out by Yorkshire Water Services Limited. The group's main activity outside the regulated utility consists of clinical waste management (White Rose Environmental) and the analytical laboratory services of Alcontrol. In addition, the group holds 46% of the issued share capital of Waste Recycling Group plc, a leading waste management company to which the company's solid and liquid waste businesses were transferred during the year.

Directors
The directors who served during the year were: Brandon Gough (Chairman); Kevin Bond (Chief Executive); Jonson Cox (Managing Director, Yorkshire Water Services); James Newman (Group Finance Director); Phil Cox; Christopher Honeyborne (retired 29 July 1998); Pat Marsh; David Perry and Derek Roberts. Biographical details (other than in respect of Christopher Honeyborne) appear on pages 24 and 25 of the Annual Review.

Phil Cox, Jamie Pike and John Napier were appointed since the company's 1998 annual general meeting and, in accordance with article 87 of the company's articles of association, will retire at the forthcoming annual general meeting and will offer themselves for election (recommended by the board) in accordance with article 111. Mr Cox, Mr Pike and Mr Napier are non-executive directors and do not have service contracts with the company.

In accordance with article 105, Brandon Gough and David Perry will retire at the forthcoming annual general meeting and will offer themselves for re-election (recommended by the board) in accordance with article 109. Mr Gough and Mr Perry are non-executive directors and do not have service contracts with the company.

Pat Marsh resigned as a director on 27 May 1999.

Additional information relating to the directors who served during the year, including remuneration, service contracts and interests in the company's shares is contained on pages 11 to 14. The details of directors' interests in the company's shares form part of this report.

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

Employees
The group's human resource policy recognises the importance of employee involvement. There is an extensive consultation and communication process with employees and their representatives, including trade unions, to keep employees informed and involved. The group seeks to be an equal opportunity employer by responding to, and respecting the needs of, special interest groups, the disabled and ethnic minorities. It continues to set and achieve high standards in its health and safety policies. The group has continued to encourage staff to enhance their competence and develop new skills.

Community projects
During the year the company provided support to a wide range of voluntary and charitable organisations in the areas in which it operates via its community investment programme. Support is provided through financial assistance, gifts in kind and professional expertise through secondment and advice.

Charitable and political contributions
Charitable contributions totalling £0.7 million were made during the year. No political contributions were made.

Research and development
During the year £4.1 million (1998: £4.9 million) was committed to research and development including £2.7 million (1998: £3.6 million) on fixed assets.

Year 2000
Many computer systems store or process information using only the last two digits of the year and will, therefore, require modification or replacement in order to avoid malfunctions and disruptions from the year 2000 and beyond.

We have made excellent progress to ensure that our equipment and systems are Year 2000 compliant, with the majority having been modified or replaced by December 1998. We are confident that this will give a high level of protection against equipment failures and their potential impact on customers' services.

A wide-ranging assessment programme identified the risks associated with the Year 2000 problem. Risks given high priority include protection of public health, business continuity and safety of employees. Our programme has included assessing key customers and suppliers.

We have signed Pledge 2000 and made a significant contribution to the Cabinet Office's National Infrastructure Project aimed at ensuring there is no material disruption to public services as a result of the Year 2000 issue.

We are currently working on contingency plans for the millennium weekend. These contingency plans will be over and above our existing business continuity / emergency procedures which are developed and tested with emergency planning officers from a range of organisations, including the emergency services and local authorities.

The total cost of our work is now estimated at £7.2 million, including millennium weekend contingency costs. £3.7 million has been spent in 1998 / 99, of which £2.2 million was provided at 31 March 1998 and £0.7 million has been charged to the profit and loss account in 1998 / 99.

Summary financial statements
Unless shareholders notify the company in writing that they wish to receive the full Annual Report and Accounts, they will receive the Annual Review containing the summary financial statement.

Purchase of own shares
During the year the company purchased 1,180,053 of its B shares of 36p each for an aggregate consideration of £424,819.08. The purchases were made pursuant to the authority granted at the annual general meeting in July 1998. On 3 December 1998 all outstanding B shares were cancelled pursuant to a resolution passed at the annual general meeting.

At the forthcoming annual general meeting, the company will be seeking authority to purchase its ordinary shares. Authority was previously granted at the annual general meeting in 1998 in respect of 10% of the company's issued ordinary share capital but expires at the close of the forthcoming meeting.

Auditors
A resolution will be proposed at the annual general meeting to re-appoint Ernst & Young as auditors of the company and to authorise the directors to determine their remuneration.

Payment terms to suppliers
The company's normal terms are to make payment by the 42nd day after receipt of goods or invoices, subject to satisfactory performance by the supplier.

At 31 March 1999 the company had no trade creditors outstanding.

The terms and performance of individual operating subsidiaries is disclosed in their accounts.

Major shareholdings
As at 31 May 1999 the company had been notified of the following interests amounting to 3% or more of the company's issued ordinary share capital:

Prudential Corporation plc 4.32%

Annual general meeting
The notice convening the company's 1999 annual general meeting at the Harrogate International Centre on 3 August 1999 at 11 am is set out in a separate document issued to shareholders.

By order of the board S J Webb, Company Secretary, 1 June 1999

Registered Office: 2 The Embankment, Sovereign Street, Leeds, LS1 4BG

Registered in England No 2366627

Corporate governance

The company is committed to high standards of corporate governance throughout the group. The board is accountable to the company's shareholders for good governance and this statement describes how the principles identified in the Combined Code (appended to the London Stock Exchange listing rules) are applied by the company.

In addition, the board confirms that the company has complied throughout the accounting period with the provisions set out in Section 1 of the Code, save for the nomination of a senior non-executive director, which occurred during the year following publication of the Code in June 1998.

Directors
The board consists of a non-executive chairman, five other non-executive directors and three executive directors. All of the non-executive directors are considered by the board to be independent.

Biographies of the board members appear on pages 24 and 25 of the Annual Review or, in the case of Jamie Pike and John Napier, in the notice of annual general meeting. These indicate the high level and range of experience which they possess.

The board meets at least ten times each year and more frequently where business needs require. The board has a schedule of matters reserved to it for decision and the requirement for board approval on these matters is communicated widely throughout the senior management of the group.

There is an agreed procedure for directors to take independent professional advice if necessary and at the company's expense. This is in addition to the access which every director has to the company secretary. The secretary is charged by the board with ensuring that board procedures are followed.

David Perry was nominated by the board as the senior non-executive director on 28 October 1998.

To enable the board to function effectively and assist directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of board meetings, this consists of a comprehensive set of papers, including regular business progress reports and discussion documents regarding specific matters.

Potential appointments of both executive and non-executive directors to the board are considered by the Nomination Committee. The members and principal terms of reference of the committee (along with the same information for the Audit, Remuneration and Environment Committees) is set out on page 10. The Nomination Committee consults with executive directors when considering appointments and external search consultants are used to ensure that a wide range of candidates can be considered. The Remuneration Committee will consider any remuneration package before it is offered to a potential appointee.

The recommendations of the Nomination Committee are ultimately made to the full board, which will consider them before any appointment is made.

Any director appointed during the year is required, under the provisions of the company's articles of association, to retire and seek election by shareholders at the next annual general meeting. The articles also require that one third of the directors retire by rotation each year and seek re-election at the annual general meeting. The directors required to retire will be those in office longest since their previous re-election and this will usually mean that each director retires at least every three years. In order to comply with the Combined Code, but avoid the expense of amending the company's articles to deal with this single point, the board has resolved that each director will retire at least every three years, even if this is not strictly required by application of the provisions of the articles.

Full details of directors' remuneration and a statement of the company's remuneration policy is set out in the Remuneration Report appearing on pages 11 to 14. The Chief Executive attends meetings of the Remuneration Committee to discuss the performance of the other executive directors and make proposals as necessary, but is not present when his own position is being discussed.

Each executive director abstains from any discussion or voting at full board meetings on Remuneration Committee recommendations where the recommendations have a direct bearing on his / her own remuneration package. The details of each executive director's individual package are fixed by the committee in line with the policy adopted by the full board.

Communication with stakeholders
The company places a great deal of importance on communication with its stakeholders. The company publishes a concise Annual Review as well as its full report and accounts and there is a separate environmental protection and stewardship report. The full report and accounts and environment report are available to all shareholders on request and the environment report is widely distributed to other parties who have an interest in the group's performance in this important area. Shareholders also have direct access to the company via its free shareholder information telephone service and the company responds to numerous letters from shareholders and customers on a wide range of issues.

There is regular dialogue with individual institutional shareholders as well as general presentations after the interim and preliminary results. All shareholders have the opportunity to put questions at the company's annual general meeting and the company will make a presentation at the meeting to highlight the key business developments during the financial year. The chairmen of the Audit, Remuneration and Nomination Committees will be available to take questions at the annual general meeting.

Audit and internal control

As permitted by the London Stock Exchange, the company has complied with Code provision D.2.1 on internal control by reporting on internal financial control in accordance with the guidance issued in December 1994.

The respective responsibilities of the directors and the auditors in connection with the accounts are explained on page 15; the statement of the directors on going concern appears on page 6.

The board is responsible for maintaining a system of internal financial control designed to provide reassurance with regard to the safeguarding of assets, the maintenance of proper accounting records and the reliability of the financial information used within the business or for publication. The Audit Committee on behalf of the board has reviewed the effectiveness of the system from information provided by management and the group's internal and external auditors. However, any system of internal control can only provide reasonable and not absolute assurance against material misstatement or loss.

Comprehensive and well defined control policies are formally set out in the company's financial regulations and procedures. Clear lines of accountability have been established and regular and thorough reporting of financial information to management, together with key performance indicators takes place. The company's internal audit department works to an annual programme developed in consultation with both the external auditors and the Audit Committee.

The Audit Committee met four times in the financial year and considered reports from the internal and external auditors, as well as from management. The reports from the internal audit function covered specific matters arising during the year in addition to the reviews identified as part of the annual programme mentioned above. Post investment reviews fell into both categories, as the board considers the experience and understanding gained to be an important way of improving future business decision making.

The Audit Committee keeps the scope and cost effectiveness of both the internal audit function and the external audit under review. The independence and objectivity of the external auditors is also considered on a regular basis, with particular regard to the level of non-audit fees. The split between audit and non-audit fees for the year under review appears on page 24. The non-audit fees were paid principally in respect of assurance work and are considered by the Committee not to affect independence or objectivity.

Membership of board committees and summary terms of reference

Membership changes arising from the resignation and appointments referred to in the directors' report will be determined at the first available opportunity.

Audit

Pat Marsh (Chairman), Phil Cox, David Perry, Derek Roberts.

Review the company's accounting policies and financial and other reporting procedures.

Remuneration

Phil Cox (Chairman), Brandon Gough, Pat Marsh, David Perry, Derek Roberts.

Recommend to the board remuneration policies for the executive directors and most senior management. Determine remuneration packages for those executives.

Nomination

Brandon Gough (Chairman), Pat Marsh, David Perry, Derek Roberts, Kevin Bond.

Make recommendations to the board on the appointment of directors.

Environment

David Perry (Chairman), Kevin Bond, Jonson Cox, Ian Knight (Finance Director, Yorkshire Environmental Solutions).

Recommend to the board appropriate environmental policies and produce the environmental protection and stewardship report.

Remuneration report

Remuneration policy

The company's policy is to establish remuneration packages which enable the company to attract, retain and motivate people with the skills and experience necessary to manage a business of its size and complexity and to meet the expectations of shareholders.

The company's natural comparator group lies within the utility sector, although, as the group becomes more diversified and the relative contributions of its constituent businesses change, this is a matter which will be kept under review. Subject to such changes and to competitive and other pressures the company will generally align its rates of remuneration with this sector, both in terms of overall packages and the division between basic and performance-related elements. However, it is recognised that such comparison is only one of a number of factors to be taken into account.

The company keeps its policy under review and, from time to time, commissions reports from external advisers covering appropriate comparators and the key elements of remuneration packages.

Annual salary and benefits

The board continues to follow the broad principle that base salaries should be aligned with comparable jobs in selected relevant companies. For guidance in determining base salaries, the Remuneration Committee uses published surveys carried out by remuneration consultants as well as internal research. Benefits in kind, which are not pensionable but are assessable to tax, include a car and life and health insurance.

Annual bonuses

As part of the Committee's policy of placing greater emphasis on performance-related remuneration, a revised annual bonus scheme was implemented in 1997/98. The maximum bonus payment under the scheme remains 40% of basic pay. The performance targets are demanding and maximum bonus for 1999/2000 will only be payable if a range of OFWAT measures, financial targets and corporate and personal objectives are fully satisfied.

During 1998/99 OFWAT introduced revised methodology for assessing the comparative levels of service of the major water and sewerage companies. It is appropriate to align the incentive for directors with OFWAT's independent appraisal of the service provided by the water services company. The committee therefore took account of this change and applied the revised methodology in determining that part of the annual bonus for 1998/99 payable in respect of OFWAT service standards.

The approach is to set realistic targets for annual improvement in performance, with the objective of achieving a sustainable improvement in a reasonable period of time. Due to the construction of the OFWAT measures the Committee regarded achievement of a 'B' ranking as a stretching target for 1998/99 (measured, as it is, against improving industry standards) and the maximum amount only became payable if the water services company improved its ranking from tenth in 1996/97 to seventh in 1998/99.

The bonuses awarded by the Committee in respect of the year ended 31 March 1999 are shown in the table on page 12 and are not pensionable. The amounts shown include provisional sums (not yet paid to the directors) in respect of the OFWAT rankings for the year. Following publication by OFWAT later in the year the Remuneration Committee will determine whether such sums are paid. The relevant amounts are: K Bond – £8,000; J Cox – £6,000 and J Newman – £5,000.

Long-term incentive plan

Shareholders approved the long-term incentive plan at the company's annual general meeting in 1997. Under the plan executive directors and other senior executives may receive, at the discretion of the committee, a conditional award of Yorkshire Water shares each year, with a value of up to 40% of basic pay. The proportion of the award to be vested in the participants after a period of three years will depend upon the company's performance in terms of total shareholder return (ie share price movements and reinvested dividends) during the three year period, relative to a comparator group of the major water and sewerage companies. No shares will be awarded to participants for below median performance. For the full award to be made, the company's total shareholder return must be in the top quartile of the comparator group.

In addition, there is an overriding performance condition that no awards will vest unless the committee is satisfied that the underlying financial performance of the company has been satisfactory over the three year period, taking account of all relevant circumstances, including the regulatory regime in place during the period.

No benefits received under the plan will be pensionable.

The conditional awards made during the year are shown in the table on page 13.

Directors' emoluments

	Salary / fees £000	Annual bonus £000	Benefits in kind £000	**1999 Total emoluments £000**	1998 Total emoluments £000
Executive directors					
K Bond	195	60	21	**276**	298
J Cox	145	44	15	**204**	192
J H Newman	138	42	12	**192**	44
B J Wilson (resigned 5.1.98)					158
Non-executive directors					
C B Gough (Chairman)	120		15	**135**	135
C I Cooke (resigned 26.11.97)					13
P R Cox (appointed 1.8.98)	17			**17**	–
C H B Honeyborne (resigned 29.7.98)	8			**8**	25
P Marsh	25			**25**	25
D G Perry	25			**25**	25
D F Roberts	41			**41**	34
Total	714	146	63	**923**	949

In the years ended 31 March 1998 and 31 March 1999 J Cox exercised save-as-you-earn share options realising gains of £15,667 and £5,633 respectively. No other director exercised options in either year.

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 1998 / 99 this scheme paid £458 to each qualified participant and this is included in the salaries shown in the table above.

The annual bonuses referred to above are performance-related and are fully described in the narrative section of this report. They include provisional sums as described in the narrative section.

Pensions

The main features of the Yorkshire Water Pension Plan applicable to executive directors are:

(i) a normal retirement age of 60;
(ii) an accrual rate of 1 / 30th per year of pensionable service;
(iii) four times pensionable pay for death in service;
(iv) spouse's pension on death.

The Yorkshire Water Pension Plan is fully funded and subject to Inland Revenue limits. The company makes provision for other potential liabilities arising from contractual commitments to directors, such as limits arising from the earnings 'cap'.

Directors' pension information

	Increase in accrued pension (excluding inflation) during year £000	Transfer value of increase in accrued pension (excluding inflation) during year £000	Total accrued pension entitlement **1999 £000**	Total accrued pension entitlement 1998 £000
K Bond	9	95	**46**	37
J Cox	5	36	**27**	22
J H Newman	5	49	**6**	1

Transfer values are shown after deductions of directors' contributions to the pension fund and include the unfunded element. The company has made provision for contributions to the pension fund at the rate of 12% of gross salary.

Directors' shareholdings

The beneficial interests of the directors, who held office at the end of the year, and their immediate families in the ordinary shares of the company at 31 March 1999 and at the beginning of the year (or date of appointment where later) are set out below:

	At 31 March 1999	At 1 April 1998
C B Gough	**1,854**	1,800
K Bond	**–**	–
J Cox	**8,260**	5,318
J H Newman	**3,091**	3,000
P R Cox (appointed 1.8.98)	**–**	–
P Marsh	**1,825**	1,825
D G Perry	**5,934**	5,762
D F Roberts	**1,973**	1,915

In addition to the above beneficial interests in the company's shares, the executive directors are regarded for Companies Act purposes as being interested in 8,594,339 ordinary shares of the company held by The Yorkshire Water Employees' Trust. All employees (including executive directors) are potential beneficiaries of the trust, the principal purpose of which is to provide shares to satisfy options under the company's save-as-you-earn share option scheme and grants made pursuant to the long-term incentive plan. It is not anticipated that any employee or executive director will be entitled to receive from the trust a greater number of shares than that to which they are entitled on exercise of options granted to them under the share option scheme or the vesting of awards pursuant to the long-term incentive plan.

There have not been any changes to the shareholdings or options of the directors between 31 March 1999 and 31 May 1999.

Directors' share options

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

	At 1 April 1998	Granted during year	Exercised during year	At 31 March 1999	Exercise price (p)	Market price at date of exercise (p)	Date options exercisable	Date options expire
K Bond	3,305	–	–	3,305	295.0	–	1.5.2000	31.10.2000
J Cox	2,782	–	(2,782)	–	248.0	450.5	1.3.1999	31.8.1999
	2,660	–	–	2,660	389.0	–	1.3.2003	31.8.2003
	–	1,477	–	1,477	457.0	–	1.3.2004	31.8.2004
J Newman	–	2,119	–	2,119	457.0	–	1.3.2002	31.8.2002

The market price of the shares subject to these options at 31 March 1999 was 445.5p (1998: 523.5p) and has ranged from 425.5p to 579.0p during the year.

Long-term incentive plan

Interests of the directors in the plan are:

	Date of award	Maximum number of shares	Earliest vesting date
K Bond	5.8.1997	17,289	5.8.2000
	18.8.1998	14,538	18.8.2001
J Cox	5.8.1997	12,616	5.8.2000
	18.8.1998	10,810	18.8.2001
J H Newman	5.1.1998	10,569	5.1.2001
	18.8.1998	10,438	18.8.2001

The market price of the shares on 28 May 1999 was 439.0p

Service agreements

All executive directors have service agreements which are terminable by the company on twelve months' notice. Jonson Cox's service agreement contains provisions entitling him to a payment equal to twelve months salary and benefits in the event of early termination, his notice period having been reduced from two years in 1997/98.

Fees payable to the company

Waste Recycling Group plc (WRG) pays fees of £12,500 per annum in respect of each of Kevin Bond and James Newman for their services as non-executive directors of WRG. Such fees are received by the company and not the individuals.

Non-executive directors

The fees for non-executive directors are determined by the board. The £120,000 fees paid to the chairman represent no change since his appointment in 1996. The fees for other non-executives were increased to £20,000 in 1997. An additional £5,000 is payable for chairmanship of board committees. Derek Roberts also received fees of £16,000 in his capacity as a non-executive director of Yorkshire Water Services.

Non-executive directors do not participate in the annual bonus scheme, the long-term incentive plan or any company pension scheme.

Directors' responsibilities

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 for shareholders the respective responsibilities of the directors and of the auditors 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 and the group as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the accounts on pages 16 to 39, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements 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 group and to prevent and detect fraud and other irregularities.

Auditors' report

Auditors' report to the members of Yorkshire Water plc

We have audited the accounts on pages 16 to 39 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 21 to 23.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described above. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, 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 the information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

We review whether the statement on pages 9 and 10 reflects the company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of either the company's corporate governance procedures or its internal controls.

Basis of audit opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 March 1999 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young, Registered Auditor, Leeds.
1 June 1999

Group profit and loss account

Year ended 31 March 1999

	Notes	1999 £m	1998 £m
Turnover	2	**671.4**	635.4
Operating costs	3	**(417.6)**	(399.4)
Group operating profit		**253.8**	236.0
Share of operating profit of associated undertakings		**0.6**	2.1
Profit on sale of associated undertakings	4	**11.5**	–
Investment income	5	**2.5**	–
Profit before interest and taxation		**268.4**	238.1
Net interest payable	6	**(46.8)**	(32.5)
Profit before taxation		**221.6**	205.6
Taxation – Corporation tax	7	**(10.1)**	(22.1)
– Windfall tax		**–**	(140.0)
Profit after taxation		**211.5**	43.5
Equity minority interests		**(0.5)**	(0.6)
Profit for the year	8	**211.0**	42.9
Dividends (including non-equity)	9	**(85.7)**	(76.3)
Transferred to reserves		**125.3**	(33.4)

Basic earnings per ordinary share	10	**55.6p**	11.6p*
Adjusted earnings per ordinary share	10	**52.7p**	49.7p*
Diluted earnings per share	10	**55.2p**	11.5p

*Restated for revised FRS14 treatment of scrip dividend share issues.

The turnover and operating profit in both years were attributable to the continuing operations of the group.

Movements on reserves are set out in note 24.

Statement of total recognised gains and losses

Year ended 31 March 1999

	1999 £m	1998 £m
Profit for the year	**211.0**	42.9
Exchange rate translation changes	**0.5**	1.0
Total recognised gains and losses relating to the year	**211.5**	43.9

Group balance sheet
At 31 March 1999

	Notes	1999 £m	1998 £m
Fixed assets			
Intangible assets	11	**30.5**	–
Tangible assets	12	**2,553.4**	2,313.2
Investments	13	**29.3**	30.9
Investment in associated undertakings	13	**58.6**	22.6
		2,671.8	2,366.7
Current assets			
Investment held for resale	5	**113.9**	–
Stocks	14	**2.0**	2.1
Debtors	15	**137.6**	126.1
Cash and short-term deposits		**108.7**	146.0
		362.2	274.2
Creditors: amounts falling due within one year			
Short-term borrowings	18	**(71.7)**	(27.4)
Other creditors	16	**(306.1)**	(353.8)
		(377.8)	(381.2)
Net current liabilities		**(15.6)**	(107.0)
Total assets less current liabilities		**2,656.2**	2,259.7
Creditors: amounts falling due after more than one year			
Long-term borrowings	17	**(919.8)**	(691.9)
Other creditors	16	**(155.1)**	(146.8)
Provisions for liabilities and charges	22	**–**	(3.5)
Net assets		**1,581.3**	1,417.5
Capital and reserves			
Called up share capital	23	**60.8**	65.8
Share premium account	24	**11.1**	10.4
Capital redemption reserve	24	**142.6**	142.2
Special reserve	24	**5.7**	–
Profit and loss account	24	**1,361.0**	1,197.6
Shareholders' funds	25	**1,581.2**	1,416.0
Equity minority interests		**0.1**	1.5
Capital employed		**1,581.3**	1,417.5
Shareholders' funds comprise:			
Equity shareholders' funds		**1,581.3**	1,409.9
Non-equity shareholders' funds		**–**	6.1
		1,581.3	1,416.0

Approved by the board of directors on 1 June 1999 and signed on their behalf by:

Brandon Gough, Chairman

James H Newman, Group Finance Director

Parent company balance sheet
At 31 March 1999

	Notes	1999 £m	1998 £m
Fixed assets			
Tangible assets	12	**0.2**	0.2
Investments	13	**1,134.6**	973.1
		1,134.8	973.3
Current assets			
Debtors	15	**65.6**	94.2
Cash and short-term deposits		**103.9**	140.1
		169.5	234.3
Creditors: amounts falling due within one year			
Short-term borrowings		**(20.5)**	(0.1)
Other creditors	16	**(243.8)**	(408.8)
		(264.3)	(408.9)
Net current liabilities		**(94.8)**	(174.6)
Total assets less current liabilities		**1,040.0**	798.7
Creditors: amounts falling due after more than one year			
Long-term borrowings	17	**(215.7)**	(10.0)
Net assets		**824.3**	788.7
Capital and reserves			
Called up share capital	23	**60.8**	65.8
Share premium account	24	**11.1**	10.4
Capital redemption reserve	24	**142.6**	142.2
Special reserve	24	**5.7**	–
Profit and loss account	24	**604.1**	570.3
Shareholders' funds		**824.3**	788.7
Shareholders' funds comprise:			
Equity shareholders' funds		**824.3**	782.6
Non-equity shareholders' funds		**–**	6.1
		824.3	788.7

Approved by the board of directors on 1 June 1999 and signed on their behalf by:

Brandon Gough, Chairman

James H Newman, Group Finance Director

Group cash flow statement
Year ended 31 March 1999

	1999 £m	1998 £m
Cash flow from operating activities	**358.3**	351.6
Dividends received from associated undertakings	**1.8**	–
Returns on investments and servicing of finance		
Interest received	**17.6**	6.5
Interest paid	**(18.5)**	(9.5)
Interest element of finance lease rental payments	**(24.7)**	(21.7)
Dividends received	**1.8**	–
Dividends on B shares	**(0.3)**	(0.4)
Dividends paid to minority interests	**(0.4)**	(0.4)
Net cash outflow for return on investments and servicing of finance	**(24.5)**	(25.5)
Taxation	**(86.1)**	(96.9)
Capital expenditure and financial investment		
Purchase of tangible fixed assets (excluding assets financed by leases)	**(402.9)**	(353.5)
Capital grants and contributions	**14.1**	19.8
Sale (purchase) of ordinary shares by ESOT	**2.3**	(0.2)
Proceeds from sale of tangible fixed assets	**12.8**	3.1
Net cash outflow for capital expenditure and financial investment	**(373.7)**	(330.8)
Acquisitions and disposals		
Acquisition of subsidiary and associated undertakings	**(49.6)**	(1.3)
Acquisition of investment held for resale	**(113.9)**	–
Net cash acquired with subsidiary undertakings	**0.7**	0.1
Net cash transferred to associated undertaking	**(7.8)**	–
Payments to acquire businesses	**(0.3)**	–
Proceeds from sales of investments in associated undertakings	**12.7**	–
Net cash outflow for acquisitions and disposals	**(158.2)**	(1.2)
Equity dividends paid	**(20.0)**	(34.6)
Net cash inflow from management of liquid resources	**42.8**	48.1
Financing		
Issue of ordinary share capital	**1.8**	2.9
Redemption of B share capital	**(6.1)**	(9.1)
Capital reorganisation costs	**–**	(1.2)
Financing transactions with associated undertakings	**3.1**	–
Increase (repayment) of short-term borrowings	**36.9**	(46.8)
Sale and lease-back finance	**11.2**	53.7
Increase in long-term borrowings	**218.7**	126.6
Capital element of finance lease rentals	**(6.8)**	(7.2)
Net cash inflow from financing	**258.8**	118.9
(Decrease) increase in cash in the year	**(0.8)**	29.6

Notes to the group cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities

	1999 £m	1998 £m
Operating profit	**253.8**	236.0
Depreciation	**137.4**	123.9
Amortisation of goodwill	**0.3**	–
Release of grants and contributions	**(3.7)**	(2.8)
Profit on sale of fixed assets and other adjustments	**(4.3)**	(6.0)
Reduction in stocks	**0.4**	1.9
Increase in debtors	**(6.8)**	(9.4)
(Reduction) increase in creditors	**(18.8)**	8.0
Net cash inflow from operating activities	**358.3**	351.6

Reconciliation of net cash flow to movement in net debt

	1999 £m	1998 £m
(Decrease) increase in cash in the year	**(0.8)**	29.6
Cash inflow from decrease in liquid resources	**(42.8)**	(48.1)
Cash inflow from increase in debt and lease financing	**(260.0)**	(126.3)
Change in net debt resulting from cash flows	**(303.6)**	(144.8)
Exchange rate translation and other non-cash adjustments	**(5.9)**	1.6
Movement in net debt in the year	**(309.5)**	(143.2)
Net debt at the beginning of the year	**(573.3)**	(430.1)
Net debt at 31 March	**(882.8)**	(573.3)

Movement in net debt

	1 April 1998 £m	Cash flows £m	Other changes £m	Currency translation £m	**At 31 March 1999 £m**
Cash	23.8	5.5			**29.3**
Overdrafts	(8.6)	(6.3)			**(14.9)**
	15.2	(0.8)			**14.4**
Short-term deposits	83.1	(11.4)			**71.7**
Commercial paper	39.1	(31.4)			**7.7**
	122.2	(42.8)			**79.4**
Bank and other loans due within one year	(13.1)	(36.9)	(1.0)		**(51.0)**
Finance leases due within one year	(5.7)	–	(0.1)		**(5.8)**
Bank and other loans due after one year	(196.8)	(218.6)	(6.8)	0.6	**(421.6)**
Finance leases due after one year	(495.1)	(4.5)	1.4		**(498.2)**
	(710.7)	(260.0)	(6.5)	0.6	**(976.6)**
	(573.3)	(303.6)	(6.5)	0.6	**(882.8)**

Notes to the accounts

1. Accounting policies

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

Basis of accounting and consolidation

The accounts have been prepared under the historical cost convention.

The accounts of the group are prepared in compliance with the requirements of The Stock Exchange and all applicable accounting standards. The treatment of grants and contributions in order to present a true and fair view is described in a later paragraph of this note.

The consolidated accounts include the accounts of the company and its subsidiary undertakings together with the group's share of the profits for the year and retained post-acquisition reserves of its associated undertakings to 31 March 1999. The group profit and loss account includes that proportion of the results of subsidiary undertakings acquired or disposed of during the year applicable to the effective period of control and the group's share of the net income of associated undertakings.

Turnover

Turnover comprises charges to customers for water, sewerage and environmental services, excluding value added tax, together with the proceeds from the sale of commercial and residential properties to third parties.

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.

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.

Landfill restoration and post-closure costs

The cost of restoring landfill sites at the end of their operational lives is assessed on an individual site basis and is provided for annually in proportion to the void space used which creates the obligation. Provision is also made for post-closure costs on a similar basis.

Taxation

Advance corporation tax in respect of dividends for the year is written off in the profit and loss account unless it can be recovered against mainstream corporation tax in the current or following year.

No provision is made for deferred taxation unless there is a reasonable probability that a liability will occur in the foreseeable future.

Financial instruments

Capital instruments issued as a means of raising finance are accounted for in accordance with the requirements of FRS 4. In respect of debt instruments the carrying amount is the net proceeds from the issue together with the appropriate proportion of the issue costs. The issue costs are accrued over the term of the instrument.

Derivative financial instruments relating to assets and liabilities used by the group are interest rate swaps, caps and collars, forward rate agreements and forward exchange contracts. Payments and receipts in respect of interest differentials on derivatives are adjusted on the corresponding interest payable or receivable. Gains and losses on forward exchange contracts are applied to the underlying transaction when it is effected. Where a derivative instrument is terminated early, the gain or loss is taken to profit and loss account in that period.

Infrastructure assets

Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams and sea outfalls) comprise a network of systems. Increases in capacity or enhancements of the network and expenditure on maintaining the operating capability of the network in accordance with defined standards of service are treated as additions to fixed assets and included at cost after deducting grants and contributions.

1. Accounting policies continued

Fixed assets held under leases
Assets which are financed by leasing agreements that transfer substantially all the risks and rewards of ownership to the group are capitalised and generally depreciated over the shorter of their estimated useful lives and the term of the lease: however where 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 liability to the leasing company is included within borrowings.

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.

Other tangible assets
Other tangible assets are included at cost less accumulated depreciation.

Depreciation
Depreciation is charged, where appropriate, on a straight-line basis so as to write down the original cost of the assets to their residual values over the estimated economic lives of the assets. Freehold land is not depreciated. The depreciation charge for infrastructure assets is the estimated average level of annual expenditure required to maintain the operating capability of the network which is based on an independently certified asset management plan.

Depreciation, other than on infrastructure assets, is charged from the date of commissioning of assets and the principal economic lives used are:

Buildings	25 – 60 years
Fixed plant	20 – 40 years
Vehicles, mobile plant and computers	3 – 10 years

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.

Grants and contributions
Grants and contributions in respect of tangible assets, other than infrastructure assets, are deferred and credited to the profit and loss account by instalments over the expected economic 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. The presentation is adopted because infrastructure assets do not have determinable finite lives, and grants and contributions relating to such assets would not be taken to the profit and loss account but would remain as liabilities in perpetuity. The directors consider that the group'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 rates of exchange ruling at the dates of the transactions. Trading results of overseas subsidiaries are translated at the average exchange rates for the year. The exchange differences arising as a result of restating retained profits at closing rates are taken to reserves. Assets and liabilities of overseas subsidiaries are translated into sterling at the rates of exchange ruling at the group balance sheet date. Exchange differences arising from the translation of opening balance sheets and foreign currency borrowings, to the extent that they are used to finance group equity investment in foreign businesses, are taken directly to reserves.

1. Accounting policies continued

Goodwill
Goodwill represents the difference between the consideration paid for a business and the fair value of the identifiable assets and liabilities acquired. Goodwill is stated at cost less a provision for amortisation. Amortisation is calculated to write off the cost of goodwill in equal annual instalments over its expected useful life which normally will not exceed 20 years. It is reviewed for impairment 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.

Prior to 1 April 1998 the group's policy was to charge the cost of goodwill directly to reserves in the year of acquisition. On disposal or termination of a business in which goodwill was so treated, the goodwill will be charged against profit with a corresponding amount being credited to reserves.

Scrip dividends
The amount of dividends taken as shares instead of in cash under scrip dividend schemes is added back to reserves. The nominal value of shares issued is funded out of the share premium account.

Prior years adjustment
It has been necessary to change the method of accounting for infrastructure assets following the introduction of FRS 12 (Provisions, Contingent Liabilities and Contingent Assets) as it is no longer allowable to account for the difference between planned and actual expenditure on infrastructure renewals as a provision or prepayment. As a consequence the balance sheet has been adjusted to take account of the necessary changes since 31 March 1989, when renewals accounting was adopted, and the previous provision has been subsumed into fixed assets. Further information is given in note 12 to the accounts on page 27. Comparative balance sheet figures on page 17 and in the five year summary on page 40 and cash flow figures on pages 19 and 20 have been adjusted. The change of accounting policy has no effect on the profit and loss account other than to reclassify the renewals charge as depreciation.

2. Segmental information

	Water services		Other activities		Total	
	1999 £m	1998 £m	**1999 £m**	1998 £m	**1999 £m**	1998 £m
Turnover						
Business turnover	**581.7**	547.1	**96.4**	95.8	**678.1**	642.9
Elimination of inter-segment transactions	**(1.0)**	(1.0)	**(5.7)**	(6.5)	**(6.7)**	(7.5)
External turnover	**580.7**	546.1	**90.7**	89.3	**671.4**	635.4
Profit						
Business operating profit (before exceptional costs)	**249.3**	226.4	**15.7**	14.8	**265.0**	241.2
Exceptional costs (see note below)					**(4.9)**	–
Unallocated corporate office costs					**(6.3)**	(5.2)
Group operating profit					**253.8**	236.0
Share of operating profit of associated undertakings					**0.6**	2.1
Profit on sale of associated undertakings					**11.5**	–
Investment income					**2.5**	–
Profit before interest and taxation					**268.4**	238.1
Operating assets						
In group companies	**2,264.8**	2,009.5	**52.5**	62.8	**2,317.3**	2,072.3

Exceptional costs comprise the write-down of certain non-regulated fixed assets arising from the implementation of FRS 11 'Impairment of Fixed Assets and Goodwill'.

The total of operating assets represents the balance sheet total after adjusting for minority interests, net debt, goodwill, investments, proposed dividends and outstanding windfall tax.

2. Segmental information continued

Other activities

The analysis of turnover and operating profit for other activities may be further analysed over the main businesses:

	1999 £m	1998 £m
Turnover		
Environmental	**84.8**	79.7
Property	**4.1**	8.7
Other	**1.8**	0.9
	90.7	89.3
Business operating profit		
Environmental	**10.2**	7.2
Property	**3.5**	6.8
Other	**2.0**	0.8
	15.7	14.8

3. Operating costs

	Group	
	1999 £m	1998 £m
Staff costs (see note 30)	**108.0**	110.3
Raw materials and consumables	**26.4**	32.3
Other external charges	**177.5**	162.3
Research and development	**1.4**	1.3
Operating lease rentals – plant and equipment	**1.2**	5.2
– other	**0.4**	0.9
Depreciation of tangible assets:		
On owned assets – infrastructure	**33.4**	34.2
– other assets (including exceptional write-downs)	**87.5**	78.0
On assets held under finance leases – infrastructure	**1.7**	–
– other assets	**14.8**	11.7
Amortisation of grants and contributions	**(3.7)**	(2.8)
Amortisation of goodwill	**0.3**	–
Year 2000 modification costs	**0.7**	3.4
Other operating income	**(9.0)**	(4.6)
Own work capitalised	**(23.0)**	(32.8)
	417.6	399.4

Other external charges include restructuring costs of £7.4 million. The carrying value of certain clinical waste incinerators has been re-assessed, based on their value in use, by discounting estimated contract cash flows at a rate of 8%. The write-down of £4.9 million is included in depreciation.

Auditors' remuneration	1999 £m	1998 £m
Statutory audit fees and expenses	**0.2**	0.2
Assurance work	**0.4**	0.1
Other services	**0.1**	0.2
	0.7	0.5

4. Exceptional items

During the year the group's 50% shareholdings in Babcock Water Engineering Limited and White Rose Property Investments Limited were disposed of realising a profit of £11.5 million before attributable tax of £0.8 million.

5. Investment income

3C Waste Limited was acquired in September 1998 subject to an option agreement whereby Waste Recycling Group plc could purchase the investment from the group. The option was exercised and completed on 12 April 1999 and accordingly the investment has not been consolidated in these financial statements. The profit after tax of 3C Waste Limited during the group's period of ownership has been distributed as dividends and reported as investment income to the group.

6. Net interest payable

	Group	
	1999 £m	1998 £m
Interest payable on:		
Bank loans and overdrafts	**17.3**	8.3
Other loans	**1.3**	2.1
$6\frac{7}{8}$% Guaranteed Bonds 2010	**13.1**	–
Finance leases	**34.4**	28.7
Share of net interest expense of associated undertakings	**0.2**	0.8
	66.3	39.9
Interest receivable	**(19.5)**	(7.4)
Net interest payable	**46.8**	32.5

7. Taxation

	Group	
	1999 £m	1998 £m
Taxation comprises:		
Corporation tax	**57.7**	33.8
Advance corporation tax (ACT) offset against mainstream corporation tax	**(37.6)**	(21.8)
ACT on dividends added back / written off in the year	**(8.2)**	9.8
Prior year corporation tax	**(3.0)**	–
Overseas taxation	**0.4**	–
Associated undertakings taxation	**0.8**	0.3
	10.1	22.1
Windfall tax	**–**	140.0
	10.1	162.1

The effective tax rate, excluding windfall tax, on the profit for the year is less than 31% principally as a result of timing differences for which deferred tax has not been provided.

8. Profit attributable to parent company

The group accounts do not include a separate profit and loss account for the parent company as permitted by Section 230(1)–(4) of the Companies Act 1985. The profit of the parent company, after taking account of dividends from subsidiary undertakings, was £92.3 million. The parent company profit and loss account was approved by the board on 1 June 1999.

9. Dividends

	1999 £m	1998 £m
On equity ordinary shares:		
Interim dividend of 6.75p per share (1998: 6.15p) paid 6 April 1999	**25.8**	22.7
Proposed final dividend of 15.6p per share (1998: 14.2p) payable 1 October 1999	**59.7**	53.2
	85.5	75.9
On non-equity B shares:		
Total dividend of 1.53p per share (1998: 1.89p)	**0.2**	0.4
	85.7	76.3

10. Earnings per ordinary share

The calculation of basic earnings per ordinary share is based on earnings of £210.8 million (1998: £42.5 million), being the profit for the year of £211.0 million (1998: £42.9 million) less non-equity dividends of £0.2 million (1998: £0.4 million), and 379,335,879 ordinary shares (1998: 367,677,754) being the weighted average number of shares in issue during the year ended 31 March 1999 excluding shares held by the ESOT. The reconciliation from basic earnings per ordinary share to adjusted earnings per ordinary share is:

	Group	
	1999 p	1998 p
Basic earnings per ordinary share	**55.6**	11.6
Non-operating exceptional items (net of tax)	**(2.9)**	–
Windfall tax	**–**	38.1
Adjusted earnings per ordinary share	**52.7**	49.7

Adjusted earnings per ordinary share is considered by the directors to be a better and more consistent indication of the group's underlying performance.

The weighted average number of shares used in calculating diluted earnings per share is 381,530,425 shares (1998: 370,031,007 shares). The number is derived from the number of shares used in calculating basic earnings per share as follows:

	1999 Number	1998 Number
Basic earnings per share	**379,335,879**	367,677,754
Dilutive effect of shares under SAYE options	**2,194,546**	2,353,253
Diluted earnings per share	**381,530,425**	370,031,007

11. Intangible assets – goodwill

	Group **£m**
Net book value at 1 April 1998	**–**
On acquisition of subsidiary undertakings (note 27)	**30.8**
Amortisation	**(0.3)**
Net book value at 31 March 1999	**30.5**

12. Tangible assets

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Group total £m	Company total £m
Cost						
At 1 April 1998	925.6	774.4	931.5	403.3	3,034.8	3.2
Prior period adjustment (see note below)		423.3			423.3	
Exchange rate translation changes	–		0.3	–	0.3	
On acquisition of subsidiaries	7.2	10.9	21.8	–	39.9	
Additions	106.2	52.7	174.0	84.6	417.5	0.1
Disposals	(52.4)		(48.5)	(1.9)	(102.8)	(0.6)
Grants and contributions				(13.6)	(13.6)	–
At 31 March 1999	**986.6**	**1,261.3**	**1,079.1**	**472.4**	**3,799.4**	**2.7**
Depreciation						
At 1 April 1998	296.3	–	339.2	–	635.5	3.0
Prior period adjustment (see note below)		509.4			509.4	
Exchange rate translation changes	–		0.2	–	0.2	
On acquisition of subsidiaries	0.6	2.9	9.9	–	13.4	
Disposals	(20.1)		(27.9)	(1.9)	(49.9)	(0.6)
Depreciation for the year	25.2	35.1	75.2	1.9	137.4	0.1
At 31 March 1999	**302.0**	**547.4**	**396.6**	**–**	**1,246.0**	**2.5**
Net book amount at 31 March 1999	**684.6**	**713.9**	**682.5**	**472.4**	**2,553.4**	**0.2**
Net book amount at 31 March 1998 (as restated)	629.3	688.3	592.3	403.3	2,313.2	0.2

As a result of the adoption of FRS 12 and its application to provisions, the provision for infrastructure renewals expenditure accumulated since 1988/89, standing at £86.1 million at 31 March 1998, has been allocated to infrastructure assets. Over the 1988/89 to 1997/98 period the accrual for planned expenditure, totalling £509.4 million, is shown above as depreciation and the actual expenditure of £423.3 million is added to the cost of infrastructure assets. In the year ended 31 March 1999 net expenditure of £54.6 million compared to depreciation of £35.1 million.

The assets of the parent company comprise plant and equipment, at cost, of £2.7 million (net £0.2 million).

Assets included above held under finance leases amount to:

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Group total £m	Company total £m
Cost	150.8	59.4	286.3	34.8	531.3	–
Depreciation	9.0	1.7	49.5	–	60.2	–
Net book amount at 31 March 1999	**141.8**	**57.7**	**236.8**	**34.8**	**471.1**	**–**
Net book amount at 31 March 1998	105.6	–	237.6	134.2	477.4	–

The net book amount of land and buildings comprise:	
Freeholds	**678.7**
Long leaseholds	**0.8**
Short leaseholds	**5.1**
	684.6

Grants and contributions received relating to infrastructure assets are deducted from the cost of fixed assets. This is a departure from the Companies Act 1985 requirements and is adopted, as explained in the accounting policy note on page 22, 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 £129.3 million lower than it would have been had this treatment not been adopted.

13. Investments

Group	Share of net assets in associated undertakings £m	Loans to associated undertakings £m	Total investment in associated undertakings £m	Other investments £m
Cost				
At 1 April 1998	1.3	14.1	15.4	30.9
Acquisitions	45.1		45.1	
Disposals	(0.8)	(5.0)	(5.8)	(1.6)
Movement in the year		1.9	1.9	
At 31 March 1999	**45.6**	**11.0**	**56.6**	**29.3**
Share of post-acquisition retained profits				
At 1 April 1998	7.2		7.2	
Dividends received	(1.8)		(1.8)	
Disposals	(3.3)		(3.3)	
Share of retained profits (losses) for the year	(0.1)		(0.1)	
At 31 March 1999	**2.0**		**2.0**	
Net book amount at 31 March 1999	**47.6**	**11.0**	**58.6**	**29.3**
Net book amount at 31 March 1998	8.5	14.1	22.6	30.9

Effective from 1 January 1999 the solid and liquid waste businesses of Yorkshire Environmental Solutions Limited were transferred to Waste Recycling Group plc (WRG) in exchange for shares. No profit has been recognised on this transfer. The carrying value of the investment represents the net assets transferred, associated costs and goodwill previously written off to reserves. As a result the group holds 46% of the equity of WRG, which is being accounted for as an associate. The market value at 31 March 1999 of the WRG holding was £176.9 million. The financial year end of WRG is 31 December and the group's share of the WRG annual results for 1999, together with a calculation of the goodwill on the investment, will be included in the accounts to 31 March 2000. The group's results for the current year consolidate the solid and liquid waste business results for the nine months to 31 December 1998.

Company	Shares in group undertakings £m	Loans to group undertakings £m	Other investments £m	Total £m
Cost				
At 1 April 1998	874.2	68.3	30.6	973.1
Additions	35.2			35.2
Movement in the year		127.9	(1.6)	126.3
At 31 March 1999	**909.4**	**196.2**	**29.0**	**1,134.6**

Other investments are stated at cost and consist primarily of 8,594,339 ordinary shares of the company with a market value at 31 March 1999 of £38.3 million which are held in the Employee Share Ownership Trust explained in note 23. The market value of these shares at 28 May 1999 was £37.7 million.

Details of principal subsidiary and associated undertakings are set out on page 39.

14. Stocks

	Group 1999 £m	Group 1998 £m
Raw materials and consumables	**1.6**	1.6
Work in progress	**0.4**	0.5
	2.0	2.1

15. Debtors

	Group		Company	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Trade debtors	**48.5**	49.3	**–**	–
Amounts owed by group undertakings			**62.1**	93.5
Amounts owed by associated undertakings	**1.4**	–	**–**	–
Prepayments and accrued income	**63.2**	53.9	**3.0**	0.7
Other debtors:				
Receivable within one year	**23.8**	22.2	**0.5**	–
Receivable after more than one year	**0.7**	0.7	**–**	–
	137.6	126.1	**65.6**	94.2

16. Other creditors

	Group		Company	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Amounts falling due within one year				
Trade creditors	**48.2**	65.5	**–**	–
Capital creditors	**68.9**	58.6	**–**	–
Amounts owed to group undertakings			**140.8**	267.9
Amounts owed to associated undertakings	**0.7**	6.2	**–**	–
Deferred grants and contributions on depreciated fixed assets	**8.1**	6.7	**–**	–
Taxation	**21.4**	97.5	**–**	85.5
Social security and payroll deductions	**2.8**	2.7	**–**	–
Receipts in advance	**31.4**	32.1	**–**	–
Other creditors	**39.1**	31.3	**17.5**	2.2
Proposed dividends	**85.5**	53.2	**85.5**	53.2
	306.1	353.8	**243.8**	408.8
Amounts falling due after more than one year				
Capital creditors	**4.1**	2.6	**–**	–
Amounts owed to associated undertakings	**–**	0.6	**–**	–
Deferred grants and contributions on depreciated fixed assets	**95.6**	91.1	**–**	–
Landfill restoration	**–**	6.2	**–**	–
Other creditors	**55.4**	46.3	**–**	–
	155.1	146.8	**–**	–

Other creditors, which consist principally of deferred interest on leases, and capital creditors are payable in the following periods:

Between one and two years	**11.4**	10.8	**–**	–
Between two and five years	**37.9**	36.5	**–**	–
After five years	**10.2**	2.2	**–**	–
	59.5	49.5	**–**	–

17. Long-term borrowings

	Group		Company	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Maturities				
Maturing between one and two years:				
Bank loans	**–**	20.0	**–**	–
Finance leases	**1.6**	1.0	**–**	–
Maturing between two and five years:				
Bank loans	**10.6**	–	**10.6**	–
Other loans	**–**	1.6	**–**	–
Finance leases	**–**	0.6	**–**	–
Repayable by instalments and maturing after five years:				
Bank loans	**204.0**	164.8	**–**	–
Other loans	**1.8**	0.3	**–**	–
Finance leases	**496.6**	493.6	**–**	–
Wholly repayable after five years:				
Bank loans	**–**	10.0	**–**	10.0
Other loans	**6.8**	–	**6.7**	–
6 7/8% Guaranteed Bonds 2010	**198.4**	–	**198.4**	–
	919.8	691.9	**215.7**	10.0

18. Aggregate borrowings and cash

	Group			
	Bank loans and overdrafts £m	Other loans £m	Finance leases £m	**Total £m**
Repayments				
Within one year or on demand	48.5	17.4	5.8	**71.7**
Between one and two years	11.2	1.8	7.5	**20.5**
Between two and five years	56.3	–	18.9	**75.2**
After five years	147.1	205.2	471.8	**824.1**
	263.1	224.4	504.0	**991.5**
Cash and short-term deposits				**108.7**
Net debt at 31 March 1999				**882.8**

Borrowings, any part of which is repayable after five years, have been negotiated at fixed and variable interest rates which at 31 March 1999 ranged between 3.5% and 11.5%. The majority of bank loans are repayable by instalments over fifteen years and finance leases are repayable by annual instalments over periods up to thirty-five years.

19. Borrowing facilities

The group has the following undrawn committed borrowing facilities available to it:-

	£m
Expiring in one year or less	**–**
Expiring in more than one year but not more than two years	**–**
Expiring in more than two years	**85.3**
At 31 March 1999	**85.3**

20. Currency and interest rate exposure of borrowings

After taking into account interest rate swaps entered into by the group treasury department, the currency and interest rate exposure of the net borrowings of the group at 31 March 1999 was:-

	Total net borrowings £m	Fixed rate borrowings £m	Floating rate borrowings £m	Cash and deposits £m	Weighted average interest rate of fixed rate borrowings %	Weighted average period for which rate is fixed (years)
Sterling	859.2	615.9	350.3	107.0	7.2	9.5
Dutch guilders	23.6	7.6	17.7	1.7	7.1	4.0
	882.8	623.5	368.0	108.7	7.2	9.5

Floating rate sterling and guilder debt bears interest at rates based on LIBOR and the Amsterdam Inter-Bank Offer Rate, respectively.

Surplus cash is invested, at optimum interest rates prevailing at the time, in short-term sterling instruments with institutions rated at least A1 or P1 by Standard & Poor's and Moody's.

The guilder debt hedges the group's investment in Dutch businesses and, as such, exchange gains or losses on the debt are included in the statement of total recognised gains and losses.

21. Fair values of financial assets and liabilities

	Group	
	Book value £m	Fair value £m
Primary financial instruments financing the group's operations		
Short-term borrowings and current portion of long-term borrowings	(71.7)	(73.3)
Long-term borrowings	(919.8)	(960.4)
Cash and short-term deposits	108.7	108.7
Derivative financial instruments held to manage the interest rate profile		
Interest rate swaps	–	(17.1)
Interest rate caps and collars	–	(0.4)

The above table excludes short-term debtors and creditors which are primarily of a trading nature and expected to be settled within normal commercial terms. Market values, where available, have been used to determine fair values, otherwise fair values have been calculated by discounting cash flows at year end interest rates.

Hedges

The group's policy is to hedge interest rate risk within approved board policies and guidelines as described on page 6 in the Operating and Financial Review. Gains and losses on hedges are not recognised until the interest payment that is being hedged is itself recognised. Unrecognised gains and losses on hedges and the movements during the year are as follows:-

	Gains £m	Losses £m	Total net gains (losses) £m
Unrecognised gains and losses on hedges at 1 April 1998	0.5	(10.2)	(9.7)
Gains and losses arising in previous years recognised during the year	(0.1)	1.3	1.2
Gains and losses arising in the year that were not recognised	0.1	(9.1)	(9.0)
Unrecognised gains and losses on hedges at 31 March 1999	0.5	(18.0)	(17.5)
of which:			
Gains and losses expected to be recognised during the year ended 31 March 2000			(2.6)
Gains and losses expected to be recognised in later years			(14.9)

22. Provisions for liabilities and charges

	Group		
	Infrastructure renewals expenditure £m	Landfill post-closure costs £m	Total £m
At 1 April 1998	86.1	3.5	89.6
Prior period adjustment (see Note 12)	(86.1)		(86.1)
At 1 April 1998 (as restated)	–	3.5	3.5
Credited in profit and loss account		(0.1)	(0.1)
Transfer of businesses		(3.4)	(3.4)
At 31 March 1999	–	–	–

The full potential deferred tax liability on timing differences, calculated using the liability method at a tax rate of 31% is:

	Group	
	1999 £m	1998 £m
Accelerated capital allowances on non-infrastructure assets	**223**	219
Short-term timing differences	**(23)**	(31)
Unrelieved advance corporation tax	**–**	(42)
	200	146

23. Called up share capital

	1999		1998	
	Number	**Nominal Value £**	Number	Nominal Value £
Authorised				
Ordinary shares of 15 5/9p each	**814,395,257**	**126,683,707**	814,395,257	126,683,707
B shares of 36p each			411,989,706	148,316,294
Allotted, called up and fully paid				
Ordinary shares of 15 5/9p each	**391,173,293**	**60,849,179**	383,329,330	59,629,007
B shares of 36p each			17,058,389	6,141,020

During the year 748,149 ordinary shares of 15 5/9p were issued as a result of the exercise of Sharesave share options.

On 6 August 1998, 7,095,814, fully paid ordinary shares of 15 5/9p were issued to shareholders who elected to receive shares in lieu of cash in respect of the 1997/98 final dividend payable on that date.

Special Resolutions passed at the Annual General Meeting on 29 July 1998 authorised the company to make market purchases, for cancellation, of up to 17,058,389 B shares and to reduce share capital by cancelling all outstanding B shares. During the year the company purchased 1,180,053 B shares at nominal value and on 3 December 1998 all outstanding B shares were cancelled pursuant to the resolutions.

During the year the Employee Share Ownership Trust (ESOT) sold 400,000 ordinary shares of 15 5/9p. The trust is funded by interest-free loans from the company. All administration costs of the trust are written off to the profit and loss account as they accrue. The shares are included as a fixed asset investment in note 13.

23. Called up share capital continued

Options granted and outstanding at 31 March 1999

	Date of grant	Number of shares	Option price	Normal exercise date
Sharesave schemes				
Three year schemes	14 March 1997	510,119	295.0p	May–Oct 2000
	31 December 1997	327,641*	389.0p	Mar–Aug 2001
	6 January 1999	268,605*	457.0p	Mar–Aug 2002
Five year schemes	13 January 1994	49,240	248.0p	Mar–Aug 1999
	28 December 1994	1,161,658	204.0p	Mar–Aug 2000
	9 January 1996	898,678	242.5p	Mar–Aug 2001
	14 March 1997	1,239,748	295.0p	May–Oct 2002
	31 December 1997	739,327*	389.0p	Mar–Aug 2003
	6 January 1999	485,996*	457.0p	Mar–Aug 2004

*Shares under options to be satisfied by the ESOT

	Date of grant	Number of shares	Option price	Normal exercise date
York Waterworks sharesave schemes				
Three year schemes	17 December 1997	902	280.3p	Feb–Jul 2001
	21 December 1998	2,167	249.7p	Feb–Jul 2002
Five year schemes	20 December 1995	1,083	286.5p	Feb–Jul 2001
	18 December 1996	2,701	268.1p	Feb–Jul 2002
	17 December 1997	3,319	280.3p	Feb–Jul 2003
	21 December 1998	3,295	249.7p	Feb–Jul 2004

All options are exercisable over Yorkshire Water plc shares. Where reference is made to York Waterworks, this is to identify the sharesave schemes under which the options over Yorkshire Water plc shares have been granted. The options granted under the York Waterworks sharesave scheme represent 13,467 options granted to participants in the York Waterworks sharesave scheme who had elected on acquisition to be granted options over Yorkshire Water plc shares in place of options previously granted over York Waterworks shares.

24. Reserves

	Group £m	Company £m
Share premium account		
At 1 April 1998	10.4	10.4
Shares issued relating to scrip dividends	(1.1)	(1.1)
Premium on issue of shares	1.8	1.8
At 31 March 1999	**11.1**	**11.1**
Capital redemption reserve		
At 1 April 1998	142.2	142.2
Transfer from profit and loss account on purchase and cancellation of B shares	0.4	0.4
At 31 March 1999	**142.6**	**142.6**
Special reserve		
At 1 April 1998	–	–
Transfer from profit and loss account on cancellation of B shares	5.7	5.7
At 31 March 1999	**5.7**	**5.7**
Profit and loss account		
At 1 April 1998	1,197.6	570.3
Exchange rate translation changes	0.5	–
Goodwill written back	10.6	–
Transfer from profit and loss account	125.3	6.8
Amount added back in respect of scrip dividend	33.1	33.1
Transfer to capital redemption reserve	(0.4)	(0.4)
Transfer to special reserve	(5.7)	(5.7)
At 31 March 1999	**1,361.0**	**604.1**
Retained in group companies	1,359.0	
Retained in associated companies	2.0	

The amount transferred to the capital redemption reserve and special reserve represents the nominal value of B shares purchased by the company and cancelled.

The amount added back to the profit and loss account represents that part of the 1997/98 final dividend taken as scrip.

The cumulative amount of goodwill written off in respect of the acquisition of existing subsidiaries is £37.3 million.

25. Movement in shareholders' funds

	Group	
	1999 **£m**	1998 £m
Profit for the financial year	**211.0**	42.9
Dividends	**(85.7)**	(76.3)
	125.3	(33.4)
Other recognised gains and losses	**0.5**	1.0
Issue of ordinary shares	**1.8**	2.9
Dividends taken as scrip	**33.1**	37.0
Goodwill (net)	**10.6**	(2.0)
Redemption of B shares	**(6.1)**	(2.7)
Increase in shareholders' funds	**165.2**	2.8
Shareholders' funds at beginning of the year	**1,416.0**	1,413.2
Shareholders' funds at 31 March	**1,581.2**	1,416.0

26. Commitments

	Group		Company	
	1999 **£m**	1998 £m	**1999** **£m**	1998 £m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March	**277.6**	307.2	–	–

In addition Yorkshire Water Services Limited and The York Waterworks Plc have a long-term investment programme which identifies substantial future capital and infrastructure renewals expenditure.

At 31 March 1999 group companies were committed to making the following payments during the next financial year under non-cancellable operating leases expiring as set out below:

	Group			
	Land and buildings 1999 £m	**Other 1999 £m**	Land and buildings 1998 £m	Other 1998 £m
Operating leases which expire:				
Within one year	**–**	**0.7**	0.8	0.9
Between one and five years	**0.2**	**0.3**	0.2	0.9
After five years	**–**	**–**	–	–
	0.2	**1.0**	1.0	1.8

27. Acquisition of subsidiaries

The entire issued ordinary share capital of Biochem Laboratorium BV and Biochem Food BV and 80% of the issued ordinary share capital of DataProfit Automatisering BV (the 'Biochem group') was acquired by Featurepack Limited, a subsidiary of Yorkshire Environmental Solutions Limited, on 31 August 1998. The offer by Yorkshire Water plc for the entire issued share capital of The York Waterworks Plc was declared unconditional on 8 March 1999 and from that date the company has been consolidated as a subsidiary undertaking. Provisional fair value adjustments have been made principally to make accounting policies consistent.

	York Waterworks	Biochem group		
	Pre-acquisition book value £m	Pre-acquisition book value £m	Fair value adjustments £m	Total £m
Tangible fixed assets	21.8	3.7		3.7
Current assets	3.5	2.0	(0.2)	1.8
Creditors due within one year	(4.5)	(0.8)		(0.8)
Creditors due after one year	(5.2)			
Net assets acquired	15.6	4.9	(0.2)	4.7
Goodwill acquired	19.6			11.0
Consideration	35.2			15.7
Less: cash acquired	0.6			0.1
loan notes issued	6.7			–
Net cash consideration including costs	27.9			15.6

In the year to 31 March 1998 York Waterworks plc made a post-tax profit of £2.7 million and from that date to the date of acquisition a post-tax profit of £2.3 million. In the year to 31 December 1997 the Biochem group made a post-tax profit of £0.3 million and from that date to the date of acquisition a post-tax profit of £0.25 million.

Goodwill arising on the acquisitions is being amortised over 20 years.

In Holland the business of CBB Laboratory was acquired on 1 July 1998 which gave rise to goodwill of £0.2 million which is being amortised over five years.

28. Contingent liabilities

The parent company has guaranteed certain subsidiary undertakings' borrowings of £734.6 million (1998: £695.5 million).

The contract for the purchase of 3C Waste Limited from Cheshire County Council provided for Yorkshire Water plc to assume various obligations and in particular the historic environmental liabilities of the business acquired. The maximum aggregate liability of Yorkshire Water plc (subject to certain qualifications under the sale and purchase agreement) is £50 million. This liability reduces (again subject to qualifications contained in the sale and purchase agreement) by £7 million as each of the five specified sites are certified complete by the Environment Agency.

Under the sale and purchase arrangements for the sale of 3C Waste Limited to Waste Recycling Group plc (WRG), WRG agreed to use reasonable endeavours to procure a substitute guarantor for the guarantee given by Yorkshire Water plc and to procure the release of Yorkshire Water plc. WRG provided an indemnity to Yorkshire Water plc pending such release.

In addition, at the time of completion of the WRG merger, an indemnity was given to WRG by Yorkshire Environmental Solutions Limited, backed by a Yorkshire Water plc guarantee, in respect of a landfill site managed by 3C Waste Limited and known as the Rhondda site. The indemnity is unlimited in amount and the time limit for bringing claims is 7 years from 26 January 1999, except for personal injury claims where the limit is 15 years. The matters covered under this indemnity are any losses arising out of:

(a) non-compliance with an Environment Agency notice served in May 1998;
(b) any claims by individuals for personal injury, harm to health, nuisance etc;
(c) liability for negligent performance of the contract between 3C Waste Limited and Rhondda Waste Disposal Limited.

29. Pensions

The group operates two defined benefit final pay pension schemes, the Yorkshire Water Pension Plan (YWPP) and the Water Mirror Image Pension Scheme (WMIS). At present, most employees are members of one or other of these schemes, but the group also operates a number of smaller defined benefit and defined contribution schemes and a group personal pension plan.

The pension cost under the accounting standard SSAP24 for YWPP and WMIS has been assessed in accordance with the advice of William M Mercer Limited, using the projected unit method for YWPP and the attained age method for WMIS. For this purpose, the actuarial assumptions adopted are based upon investment growth of 6.5% per annum, pay growth of 5% per annum and increases to pensions in payment and deferred pensions of 3% per annum. The actuarial value of the assets was taken as 82% of the market value as at 31 March 1998.

The last actuarial valuations for YWPP and WMIS were carried out as at 31 March 1998 with the market values being £481.7 million and £44.5 million respectively. Using the assumptions adopted for the Statement of Standard Accounting Practice No 24 'Accounting for Pension Costs', the actuarial value of assets represented 109% for YWPP and 122% for WMIS of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension costs under SSAP24, the surpluses in YWPP and WMIS are spread over the future working lifetime of the employees.

The group also operates a series of individual unfunded retirement benefit arrangements. The cost of these arrangements is included in the total pension cost on a basis consistent with SSAP24 and the assumptions used for YWPP. A provision for unfunded benefits of £0.3 million (1998: £0.2 million) has been accrued.

The total pension charge for the year was £7.7 million (1998: £7.9 million).

30. Employees

	Group 1999 Number	1998 Number
Average number of people employed:		
Water services	**3,008**	3,208
Other activities	**1,201**	1,125
	4,209	4,333

	£m	£m
Total employment costs:		
Wages and salaries	**92.2**	94.8
Social security contributions	**8.1**	7.6
Other pension costs (see note 29)	**7.7**	7.9
	108.0	110.3

31. Related parties

During the year group companies extended finance to the associated companies, White Rose Development Enterprises Limited, White Rose (Leeds) Limited, WRE Services Limited and Yorkshire Windpower Limited on a proportionate basis with other shareholders. These loans are included in investments analysed in note 13 and at the end of the year the amounts outstanding were:

	1999 £m	1998 £m
White Rose Development Enterprises Limited	**4.7**	0.6
White Rose (Leeds) Limited	**4.4**	5.9
WRE Services Limited	**1.9**	1.2
Yorkshire Windpower Limited	**–**	1.4

The loans to White Rose Development Enterprises Limited and White Rose (Leeds) Limited are interest-free but all other loans carry market rates of interest. Total interest received was £0.2 million.

Transactions in the year between subsidiary and associated undertakings principally relate to engineering services, with an invoice value of £11.2 million (1998: £38.4 million), provided by Babcock Water Engineering Limited up to the date of its sale on 1 December 1998.

Group companies

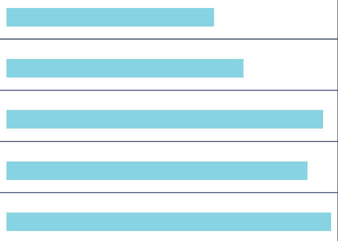
Principal subsidiary undertakings	Country of incorporation	Equity shares in issue	Proportion of equity share capital held
Water and sewerage services			
Yorkshire Water Services Limited*	Great Britain		100%
The York Waterworks Plc*	Great Britain		100%
Environmental services			
Yorkshire Environmental Solutions Limited*	Great Britain		100%
Alcontrol BV	Netherlands		100%
Biochem Laboratorium BV	Netherlands		100%
Property services and other activities			
Yorkshire Water Estates Limited*	Great Britain		100%
Yorkshire Water Investment Properties Limited	Great Britain		100%
Yorkshire Water Projects Limited*	Great Britain		100%
Arbre Energy Limited	Great Britain		85%
First Renewables Limited	Great Britain		100%
Holding and finance companies			
Ridings Insurance Company Limited*	Isle of Man		100%
Featurepack Limited	Great Britain		100%
YW (Holdings) BV	Netherlands		100%
Principal associated undertakings			
Environmental Services:			
Waste Recycling Group plc	Great Britain	86.6 million	46%
WRE Services Limited	Great Britain	1,000	50%
Property Development and Investment:			
White Rose Development Enterprises Limited	Great Britain	250,000 'A'	Nil
		250,000 'B'	100%
White Rose (Leeds) Limited	Great Britain	250,000 'A'	Nil
		250,000 'B'	100%
Renewable Energy Supply:			
Yorkshire Windpower Limited	Great Britain	100	50%

*Shares held by parent company

The companies above which are incorporated in Great Britain are registered in England and Wales

Five year financial summary

Profit before tax £m



	£m
95	142
96	162
97	216
98	206
99	**222**

Dividend per share and cover

	p	Times
95	13.80	2.4
96	15.50	2.3
97	18.50	2.7
98	20.35	0.6
99	**22.35**	**2.5**

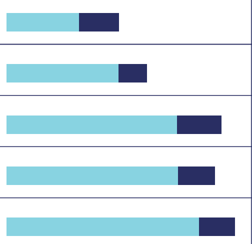
Dividend per share ■ Dividend cover

Net debt and interest cover

	£m	Times
95	143	10.0
96	167	8.8
97	430	12.3
98	573	7.3
99	**883**	**5.4**

Net Debt ■ Interest cover

Regulated investment



	£m	£m
95	121	67
96	188	47
97	286	74
98	288	62
99	**323**	**60**

Capital investment ■ Infrastructure renewals

		1999	1998	1997	1996	1995
Turnover	£m	**671.4**	635.4	622.8	579.6	549.3
Water services	£m	**580.7**	546.1	542.9	521.5	495.3
Other activities	£m	**90.7**	89.3	79.9	58.1	54.0
Operating profit						
(before corporate office costs)	£m	**265.0**	241.2	242.7	178.8	156.1
Water services	£m	**249.3**	226.4	232.0	170.5	151.2
Other activities	£m	**15.7**	14.8	10.7	8.3	4.9
Profit before taxation	£m	**221.6**	205.6	215.8	162.2	142.0
Earnings per share	p	**55.6**	11.6	46.2	36.0	32.8
Adjusted earnings per share	p	**52.7**	49.7	47.2	46.0	43.8
Dividends per share – interim	p	**6.75**	6.15	5.10	4.55	4.15
– final	p	**15.60**	14.20	13.40	10.95	9.65

The calculation of adjusted earnings per share for 1999 and 1998 is detailed in note 10. Earlier years were adjusted for exceptional items in those years.

Earnings per share figures for all years have been calculated, and adjusted where necessary, in accordance with the FRS 14 treatment of scrip dividends.

All dividends per share and earnings per share figures prior to 1997 have been adjusted by a factor of 2 to reflect the share split element of the capital reorganisation on 28 February 1997.

		1999	1998	1997	1996	1995
Assets employed						
Fixed assets	£m	**2,671.8**	2,366.7	2,118.1	1,866.3	1,720.7
Net current liabilities, long-term creditors and provisions	£m	**(207.7)**	(375.9)	(273.6)	(276.9)	(228.0)
	£m	**2,464.1**	1,990.8	1,844.5	1,589.4	1,492.7
Financed by						
Shareholders' funds	£m	**1,581.2**	1,416.0	1,413.2	1,421.5	1,348.6
Minority interests	£m	**0.1**	1.5	1.2	1.2	0.8
Net debt	£m	**882.8**	573.3	430.1	166.7	143.3
	£m	**2,464.1**	1,990.8	1,844.5	1,589.4	1,492.7
Regulated investment programme						
Capital expenditure	£m	**322.7**	287.9	286.4	188.4	121.2
Infrastructure renewals	£m	**60.1**	62.2	74.1	46.5	67.4
	£m	**382.8**	350.1	360.5	234.9	188.6
Employees (average number)						
Water services	No.	**3,008**	3,208	3,176	3,263	3,651
Other activities	No.	**1,201**	1,125	1,118	1,055	989
	No.	**4,209**	4,333	4,294	4,318	4,640

Regulatory accounts

The regulatory accounting information of Yorkshire Water Services Limited for the year ended 31 March 1999, published in accordance with Condition F of the Instrument of Appointment, can be obtained, free of charge, by writing to Publicity Department, Yorkshire Water Services, Buttershaw Complex, Western Way, Halifax Road, Bradford BD6 2LZ.

General information

Financial calendar

	Final dividend for 1998 / 99	Interim dividend for 1999 / 2000 (Provisional dates)
Announcement of results	1 June 1999	end November 1999
Annual general meeting	3 August 1999	
Ex-dividend date	31 August 1999	
Record date	6 September 1999	
Dividend payment date	1 October 1999	end February 2000

Payment of dividends to mandated accounts
Shareholders who do not currently have their dividends paid directly to a bank or building society account and who wish to do so should complete a mandate form obtainable from the Registrars. Tax vouchers are sent to the shareholder's registered address under this arrangement unless requested otherwise.

Annual Review on cassette tape
For the benefit of blind and partially sighted shareholders the text of the Annual Review 1999 is available on a free audio cassette tape from the Shareholder Information Office. Anyone knowing a shareholder who could benefit from this service is asked to draw it to their attention.

Enhanced interim scrip dividend paid on 6 August 1998
Each new share received by individual shareholders under the Enhanced Interim Scrip Dividend Alternative will be treated for income tax purposes as giving rise to gross income on which lower rate tax (20%) has been paid. The amount per new ordinary share received, for income tax purposes, to be entered on your tax return is:

Cash dividend equivalent 467.7p   Notional income tax 116.9p   Gross income 584.6p

Note: for Capital Gains Tax purposes the acquisition value was 510.55p

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