

YORKSHIRE WATER PLC

Preliminary Announcement of audited results for the year ended 31 March 1999

HIGHLIGHTS

- 7.8% increase in group profit before tax
- adjusted earnings per share up 6%
- final dividend 15.6p per share
- Yorkshire Water Services operating costs down by more than 3% in real terms
- 24% improvement to £20.9m in underlying PBIT from non-regulated activities
- merger of waste management interests with Waste Recycling Group completed
- York Waterworks plc acquired
- proposed group rebranding
- agreement to acquire Aquarion Company (based in the USA) announced

KEY FIGURES	1999	1998	Increase
Profit before tax (FRS 3)	£221.6m	£205.6m	7.8%
Adjusted earnings per share*	52.7p	49.7p	6.0%
Dividend for the year	22.35p	20.35p	9.8%
Group net debt	£883m	£573m	
Gearing (debt:equity ratio)	55.8%	40.4%	
Interest cover	5.4	7.3	

*1998/99 calculated and 1997/98 restated in accordance with FRS 14

CHAIRMAN'S STATEMENT

The group continues to deliver strong financial results. It is in good shape to take advantage of the opportunities arising from a changing water industry and further develop its non-regulated businesses.

The water services business achieved excellent levels of compliance and a strong financial performance in the year. It is particularly pleasing to report that the most recent OFWAT assessment rated Yorkshire Water Services as the fastest improving of the major water companies in terms of levels of service. During the year YWS was also awarded the prestigious Chartermark for the quality of its customer service.

We continue to work closely with Government, regulators and customers as we reach the final stages of the Periodic Review, which will determine future standards and prices for our customers in Yorkshire for the first five years of the new Millennium.

During the year we acquired the York Waterworks plc and combined our solid and liquid waste businesses with Waste Recycling Group plc which puts us at the forefront of waste industry consolidation. The enlarged Waste Recycling Group is better placed to compete in its sector and, therefore, to provide enhanced returns on our investment in waste management.

We are also delighted to announce today the acquisition of Aquarion Company, a US water company serving parts of Connecticut and Long Island, New York. The transaction is conditional upon approval by Aquarion's shareholders and various US regulatory approvals. We believe Aquarion will provide an excellent regional platform for growth in the USA as part of the group's strategy to expand its interests in related activities.

Operating review – regulated water services

Financial results

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 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.

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. A further £7.4 million was incurred on restructuring costs arising from the change programme designed to secure future service improvements and operating efficiencies. Depreciation increased in the second half year to £44.5 million (first half year £38.8 million) reflecting the pattern of commissioning of new capital schemes during the year.

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 combined with the YWS regulated business results.

Acquisition of the York Waterworks plc

The integration of York Waterworks (YWW) is well underway. The acquisition has ended duplication and will make the provision of water services in York more cost effective. Customers will benefit from more secure supplies as YWW is linked into the regional grid.

The OFWAT Periodic Review

In April 1999, YWS submitted its draft business plan for future standards and prices for the period from 2000 to 2005 to the Director General of Water Services (OFWAT). The draft plan was put together following extensive consultation. The Yorkshire consensus was that customers in the region prefer stable prices with modest increases to pay for specific environmental 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 per cent 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.

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 giving a total investment over the five-year period to March 2000 of 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. The Coastcare programme 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 well advanced on the Humbercare scheme – one of the largest civil engineering projects of its type in Europe. Involving 10km of tunnels under the city, the scheme will end the discharge of raw sewage into the Humber and improve the quality of the estuary.

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 customer's pipes by more than third since 1995 and now saves enough water every day to meet the domestic and industrial demands of a city the size of Leeds.

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.

Operating review – White Rose Environmental

White Rose Environmental continued to trade strongly and to maintain market leadership in the clinical waste market with sales increasing by 10% to £24.6 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 the year following 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.

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 of the combined business increased almost 80% to £18.1 million (1998: £10.2 million) of which the acquisition of the Biochem group of companies in Holland 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 Ltd, acquired in March 1998, was 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 Express, providing a 24-hour testing service, was launched in 1999 and is outperforming expectations.

In Holland, Alcontrol purchased Biochem Laboratorium bv, a major competitor in October 1998. This acquisition increased 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. At the same time Alcontrol also purchased Biochem Food bv, a key player in the Dutch food testing market. 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 direct ownership of Yorkshire Water. 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 WRG, in which the group will retain a significant 46% interest, will be treated as an associated company.

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 results of Yorkshire Windpower, in its last year of benefiting from the Non-Fossil Fuel Obligation (NFFO) purchase price support, were adversely 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 January 1999 Yorkshire Electricity, our JV partner, sold its interest in Yorkshire Windpower to PowerGen.

Work is now progressing on site on the £30 million ARBRE project, with completion of the construction scheduled for winter 1999. When ARBRE comes on line, the total of electricity generated from renewable sources within the group will rise to the equivalent of 35% of the power requirements of YWS.

Operating review – Yorkshire Water Estates

The Yorkshire Water Estates (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).

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 (PFI) 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 was £265.0 million (1998: £241.2 million) before asset write downs and the deduction of corporate and unallocated costs amounting to £6.3 million (1998: £5.2 million). Operating results in the second half-year were in line with expectations other than in YWS where the decline in measured consumption was more pronounced than anticipated at the interim results stage.

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 in Yorkshire Windpower.

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: £31.7 million), of which £35.6 million was attributable to YWS reflecting the continuing water services investment programme. The balance of the group interest charge represents the cost of financing the group's other activities, including the acquisition of 3C Waste and the windfall tax. 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 a further £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 a £8.2 million reversal of the Advance Corporation Tax (ACT) accrued in respect of the 1997/98 final dividend taken as scrip. There was no ACT liability on the payment of the interim dividend for 1998/99 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 the year 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 suffered the full £140.0 million windfall tax. 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 and exceptional profits, the year on year increase was 6.0%. This is in spite of an 11.6 million increase in the weighted average number of shares in issue, principally because of the enhanced scrip dividend schemes in 1998.

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, group capital expenditure totalled £402.9 million (1998: £353.5 million).

The group made two acquisitions during the year, Biochem in the autumn of 1998 and York Waterworks plc in March 1999. Payments on acquisitions of subsidiaries and associated undertakings during the year were £49.6 million. In addition, 3C Waste was purchased at an original cost of £119.9 million in September 1998. 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.

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.

Final dividend

The board is recommending the payment of a final dividend of 15.6p per share. With the interim dividend paid on 6 April 1999, this gives a total dividend for the year of 22.35p per share, an increase of 9.8%. The cost of the final dividend for the year will be £59.7 million, which is being funded by an equivalent dividend to be paid by the regulated water services business.

Post balance sheet event

On 12 April 1999, 3C Waste was sold to Waste Recycling Group plc for £113.9 million, being the original purchase cost of £119.9 million less the £6.0 million option fee previously received as part of the merger agreement.

The company today (1 June 1999) announced that it has 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.

Future prospects and strategy

The future prospects for the water services businesses are heavily dependent on the eventual outcome of the 1999 Periodic Review of prices. The YWS change programme designed to improve standards of service, compliance and value anticipates a challenging outcome and will ensure that the company is well positioned to meet it.

The Group strategy going forward will be to expand our interests in related activities and through acquisitions, using the core skills and talents within the group to manage and develop other businesses to enhance earnings for our shareholders.

We intend to continue to acquire laboratory businesses in the United Kingdom and other parts of Europe to exploit our sampling and analytical expertise. We also intend to strengthen the UK customer base of White Rose Environmental by further expanding Healthcare Services and develop the potential of our sustainable energy business which has attracted national and international acclaim for its pioneering work on biomass technology.

The expertise in these businesses, coupled with the wealth of experience in our water utilities, gives us considerable opportunity and strength to look at utility and environmental service business acquisitions in Europe and elsewhere in the world if we believe they are in the best interests of our shareholders. We will explore and develop these opportunities in the coming year.

A new name for the group

We are a growing group with interests in the UK, Europe and North America. We want all our stakeholders to understand the changing dynamics in the business and the breadth of our activity over and above our regional water services companies. We will, therefore, be seeking permission from shareholders to rename the group at the Annual General Meeting in August. The name we propose is the Kelda Group, with the water services company continuing to be known as Yorkshire Water.

For further information please contact:

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James Newman, Group Finance Director

At Financial Dynamics (from 10.00am 1 June 1999)

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YORKSHIRE WATER PLC

Group Profit and Loss Account

Six months to 30 Sept 1998 £m		1999 £m	1998 £m
340.4	TURNOVER (Note 4)	671.4	635.4
135.3	GROUP OPERATING PROFIT (Note 4)	253.8	236.0
1.3	Share of operating profit of associated undertakings	0.6	2.1
1.3	Profit on sale of associated undertakings (Note 5)	11.5	-
0.4	Investment income (Note 3)	2.5	-
138.3	PROFIT BEFORE INTEREST AND TAXATION	268.4	238.1
(20.3)	Net interest payable	(46.8)	(32.5)
118.0	PROFIT BEFORE TAXATION	221.6	205.6
(2.3)	Taxation (Note 6)	(10.1)	(22.1)
-	Windfall tax	-	(140.0)
115.7	PROFIT AFTER TAXATION	211.5	43.5
(0.4)	Equity minority interests	(0.5)	(0.6)
115.3	PROFIT FOR THE YEAR	211.0	42.9
(25.8)	Interim dividend	(25.8)	(22.7)
	Final dividend	(59.7)	(53.2)
(0.1)	Non-equity dividends (Note 9)	(0.2)	(0.4)
89.4	TRANSFERRED TO (FROM) RESERVES	125.3	(33.4)
30.2p	EARNINGS PER ORDINARY SHARE (Note 7)	55.6p	11.6p*
29.8p	ADJUSTED EARNINGS PER ORDINARY SHARE (Note 7)	52.7p	49.7p*
30.0p	DILUTED EARNINGS PER ORDINARY SHARE (Note 7)	55.2p	11.5p
6.75p	DIVIDENDS PER ORDINARY SHARE	22.35p	20.35p

*restated for revised FRS 14 treatment of scrip dividend share issues

YORKSHIRE WATER PLC

Summarised Group Balance Sheet

At 30 Sept 1998 £m		At 31 March 1999 £m	At 31 March 1998 £m
2,458.1	FIXED ASSETS (Note 1)	2,671.8	2,366.7
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	CURRENT ASSETS		
119.9	Investment held for resale (Note 3)	113.9	-
1.8	Stocks	2.0	2.1
141.1	Debtors	137.6	126.1
272.2	Cash and short-term deposits	108.7	146.0
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535.0		362.2	274.2
(420.7)	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	(377.8)	(381.2)
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114.3	NET CURRENT (LIABILITIES) ASSETS	(15.6)	(107.0)
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2,572.4	TOTAL ASSETS LESS CURRENT LIABILITIES	2,656.2	2,259.7
(1,030.1)	CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	(1,074.9)	(838.7)
(3.6)	PROVISIONS FOR LIABILITIES AND CHARGES (Note 1)	-	(3.5)
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1,538.7	NET ASSETS	1,581.3	1,417.5
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1,537.0	SHAREHOLDERS' FUNDS	1,581.2	1,416.0
1.7	EQUITY MINORITY INTERESTS	0.1	1.5
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1,538.7	CAPITAL EMPLOYED	1,581.3	1,417.5
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YORKSHIRE WATER PLC

Summarised Group Cash Flow Statement

Six months to
30 Sept 1998

£m		1999 £m	1998 £m
209.5	CASH FLOW FROM OPERATING ACTIVITIES (Note 10)	358.3	351.6
1.4	DIVIDENDS RECEIVED FROM ASSOCIATED UNDERTAKINGS	1.8	-
(19.7)	RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(24.5)	(25.5)
(1.9)	TAXATION	(86.1)	(96.9)
(164.7)	CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(373.7)	(330.8)
(119.9)	PURCHASE OF CURRENT ASSET INVESTMENT (Note 3)	(113.9)	-
1.7	ACQUISITIONS AND DISPOSALS	(44.3)	(1.2)
(20.0)	EQUITY DIVIDENDS PAID	(20.0)	(34.6)
(111.5)	MANAGEMENT OF LIQUID RESOURCES	42.8	48.1
245.6	FINANCING	258.8	118.9
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20.5	(DECREASE) INCREASE IN CASH IN THE PERIOD	(0.8)	29.6

YORKSHIRE WATER PLC

Movement in Group Net Debt

Six months to
30 Sept 1998

£m		1999 £m	1998 £m
20.5	(DECREASE) INCREASE IN CASH IN THE PERIOD	(0.8)	29.6
(50.2)	(INCREASE) DECREASE IN SHORT-TERM DEBT	(36.9)	54.0
(192.5)	(INCREASE) IN LONG-TERM DEBT	(223.1)	(180.3)
111.5	(DECREASE) INCREASE IN LIQUID RESOURCES	(42.8)	(48.1)
(2.2)	OTHER MOVEMENTS	(5.9)	1.6
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(112.9)	MOVEMENT IN NET DEBT IN THE PERIOD	(309.5)	(143.2)
(573.3)	NET DEBT AT THE BEGINNING OF THE PERIOD	(573.3)	(430.1)
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(686.2)	NET DEBT AT THE END OF THE PERIOD	(882.8)	(573.3)

YORKSHIRE WATER PLC

Notes to the preliminary results

1. The preliminary announcement has been prepared on the basis of the accounting policies disclosed in the group's Annual Report and Accounts for the year ended 31 March 1998 except as explained below.

The results of the group's associated companies have been presented in accordance with the requirements of FRS 9 (Associates and Joint Ventures) and FRS 10 (Goodwill and Intangible Assets). 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 has not affected the group's reported profits for the year. The provision for infrastructure renewals expenditure accumulated since 1988/89 (£86.1 million at 31/3/98) has been allocated to infrastructure assets and the comparative balance sheet figures have been restated accordingly.

Earnings per share and diluted earnings per share have been stated in accordance with FRS 14 (Earnings per share).

2. This announcement was approved by the board of directors on 1 June 1999.
3. Investment income comprises the dividends receivable from 3C Waste Limited, an investment held for resale, which was sold on 12 April 1999.
4. The segmental analysis of group turnover and business operating profit is as follows:

	TURNOVER		BUSINESS OPERATING PROFIT	
	1999 £m	1998 £m	1999 £m	1998 £m
Water services	580.7	546.1	249.3	226.4
Environmental	84.8	79.7	10.2	7.2
Property	4.1	8.7	3.5	6.8
Other activities	1.8	0.9	2.0	0.8
			265.0	241.2
Exceptional costs (FRS 11)			(4.9)	-
Unallocated costs			(6.3)	(5.2)
Group total	671.4	635.4	253.8	236.0

5. Exceptional items comprise the profit on the sale of the group's engineering business, Babcock Water Engineering Limited, and the disposal of a joint venture property investment.
6. The taxation charge for the year comprises the following:

	1999	1998
	£m	£m
Corporation tax charge	20.1	12.0
Prior year refund	(3.0)	-
Advance corporation tax	(8.2)	9.8
Other	1.2	0.3
	<u>10.1</u>	<u>22.1</u>

7. The weighted average number of shares used in the calculation of earnings per share is 379,335,879 (1998: 367,677,754) and of diluted earnings per share is 381,530,425 (1998: 370,031,007).

Adjusted earnings per share is calculated excluding the exceptional items and, in 1997/98, the windfall tax.

Diluted earnings per share adjusts basic earnings per share for the potential effect of the exercise, at their option price, of all outstanding share options under the group's sharesave schemes.

8. The proposed final dividend of 15.6p per share, if approved at the Annual General Meeting on 3 August, will be paid on 1 October to shareholders on the register on 6 September 1999.
9. Non-equity dividends paid on the B shares up to their date of cancellation were: to 3 June 1998 0.5123142p per share, to 3 September 1998 0.50625p per share and to 3 December 1998 0.5123142p per share.
10. The reconciliation of operating profit to net cash inflow from operating activities is as follows:

	1999	1998
	£m	£m
Group 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)
Loss on the 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)
(Decrease) increase in creditors	(18.8)	8.0
Net cash inflow from operating activities	358.3	351.6

11. No statement of Total Recognised Gains and Losses has been included in the preliminary announcement because there are no material unrealised gains or losses for the year ended 31 March 1999.
12. The financial information set out in this preliminary announcement is an abridged version of the full accounts and does not constitute statutory accounts. This information is derived from the statutory accounts for the years ended 31 March 1998 and 31 March 1999 upon which unqualified audit reports have been given. No statement has been made by the auditors under Section 237(2) or (3) of the Companies Act 1985 in respect of either of these sets of accounts. The accounts for the year ended 31 March 1998 have been filed with the Registrar of Companies. The full statutory accounts for the year ended 31 March 1999 will be available in early July.

**Auditors' report on the preliminary announcement to the directors of
Yorkshire Water plc**

We have concluded our audit of the statutory accounts of Yorkshire Water plc for the year ended 31 March 1999 and signed our auditors' report thereon. We have also reviewed the above preliminary announcement in respect of the same accounting period and report that is consistent with those statutory accounts.

**Ernst & Young, Registered Auditor
1 June 1999**

ENDS