KeldaGroup

Annual report & accounts 2002

Contents

KeldaGroup

Kelda Group overview

KeldaGroup

Yorkshire Water

Yorkshire Water is one of the ten largest water companies in the world, serving more than 4.5 million people and 140,000 businesses.

Performance measures published by Ofwat, the water industry regulator, list the company as one of the UK water industry's leading performers.

The company supplies more than 1.2 billion litres of high quality water to homes and businesses every day. Through the efficient operation of its extensive network of sewers and waste water treatment works it also ensures that the region's domestic and industrial waste is returned safely to the environment.

Its excellent record for environmental compliance has recently won the company recognition outside its traditional operating boundaries, with the award of an £80m partnership deal to build and run new waste water treatment facilities for 450,000 customers in the north of Scotland.

YorkshireWater

Aquarion

The acquisition of Aquarion in January 2000 was Kelda's first venture into the highly fragmented US water industry.

The group's US interests have grown with the acquisition of four water companies from the American Water Works Company in Connecticut, Massachusetts, New York and New Hampshire.

Aquarion is one of the ten largest investor owned water utilities in the US, serving 211,000 homes and businesses - or approximately 677,000 people - in 52 towns and cities.

AQUARION

Loop

Created two years ago to provide managed customer services to Yorkshire Water, Loop has since attracted several external clients and become a profitable part of the Kelda group.

Loop specialises in customer relationship management. It also offers clients a full financial collection service, from billing and payment processing to reminders and in-house debt recovery services.

The past 12 months have seen the company develop first hand experience in a number of sectors including local government and the emergency services.

Loop

KeyLand Developments

KeyLand Developments is responsible for managing, developing and disposing of the group's surplus property assets, either on its own or in partnership with outside organisations.

Key Land

Financial highlights The group's focus on water and waste water is evident in the 2001/02 financial results. Yorkshire Water outperformed its financial targets and in the US, Aquarion realised an exceptional profit of £60m from the sale of land.

Turnover: group and share of associates (£m)

Operating profit: group and share of associates before unallocated costs (£m)

Group profit before taxation and non operating exceptional items (£m)

Adjusted earnings per share (p)

*Not restated to reflect the adoption of FRS 19

Group profit before taxation (£m)

Dividend per share (p)

Chairman's statement I am pleased to report on a year of sound achievement. The financial results, standards of service and quality and overall environmental performance continue to improve, reflecting the benefits of our strategic focus on water and waste water interests.

Financial results:-

- before tax, profit, including exceptionals at £197.1m, increased 26.0% on prior year.
- after adjustment for non operating exceptional items, profit increased 15.8% to £162.7m.
- adjusted earnings per share increased 11.7% to 35.3p per share.
- full year dividend increased 2.8% to 25.5p.

In the UK, Yorkshire Water:-

- continued to make gains in efficiency and service levels.
- further improved drinking water quality and environmental standards, including the delivery of its "CoastCare" programme.
- is on target to fully deliver the AMP3 capital plan.

In the US, Aquarion:-

- improved results from water operations.
- finalised the acquisition of the adjacent American Water Works companies in April 2002, increasing the customer base by 50%.
- completed its land sale which has realised a £60.3m exceptional gain.

Progress on the focus strategy has included:-

- completion of the UK non core business disposal programme with the sale of First Renewables.
- continued strengthening of management at all levels and further reductions in corporate costs.

Financial results

The main drivers of the annual profit growth from continuing operations were a strong performance from Yorkshire Water, increased operating results from water operations in the US and good growth in associated company operating profits from Waste Recycling Group (WRG). The performance of First Renewables in the UK and the Timco timber operations in the US were below expectations. The sale of First Renewables has been completed and the sale of the Timco operations is in progress.

There was an exceptional profit of £60.3m made from the completion of the land sale in the US. This was partly offset by a full provision of £25.9m against the disposal of First Renewables.

Corporate costs continued to reduce on a year to year basis. The balance sheet remains strong, due to the benefits of business disposal proceeds, although borrowing has increased slightly with the significant capital investment programme.

Operational results

The results of Yorkshire Water reflect the full year's impact of the major reductions in operating costs completed early last financial year and a fundamental review of management and operations which included the internal separation of asset and operations management. These actions, allied to continuing improvement in management standards and further investment in operational systems, have delivered further cost efficiencies and service improvements.

There has been good second year outperformance compared to the regulatory determination due to the early implementation of plans and enhanced management performance, which is creditable. Outperformance does not mean, however, that the regulatory settlement was appropriate to the longer term needs of the company and the industry.

In addition to important improvements in service standards Yorkshire Water has also increased compliance on drinking water quality and waste water discharge.

The company has also performed well on capital delivery objectives. These are a different challenge as there is a significant change in contract mix with a much higher proportion of low value schemes compared to the major projects which were typical of the previous capital programme. The "CoastCare" programme, which has raised bathing water quality standards of the principal Yorkshire east coast resorts, has now been largely completed and should help give those areas a major tourist boost.

In the US, Aquarion benefited from a dry summer with increased usage, which helped increase profits in water operations. In addition to a continuing emphasis on quality and service standards, there were two other main areas of management focus. The first related to the finalisation of the land sale, which was satisfactorily completed with the state of Connecticut and The Nature Conservancy, the international conservation organisation. The result was the largest land deal for open space preservation in the history of the company and Connecticut. The second was to expand operations with the acquisition of the American Water Works' operations in Connecticut, Massachusetts, New Hampshire and New York. This achieved regulatory approval in April 2002, in record time, and has increased the US customer base by approximately 50%.

The smaller businesses, KeyLand Developments and Loop Customer Management, had satisfactory years. KeyLand plays an important role in developing surplus property assets on an agreed arms length basis with the regulated Yorkshire Water activity. Loop operates a call centre and customer access unit supporting Yorkshire Water. It has gained a number of third party contracts, which include the National Blood Service, the Wales Tourist Board and the Merseyside Fire and Civil Defence Authority.

The results from First Renewables were below expectations due to delays in the operational development of the Arbre renewable energy plant. The performance of the minority investment in Fibrowatt improved on a year to year basis. The sale of First Renewables (which includes the Arbre plant and the investment in Fibrowatt) has now been completed.

Outlook

The company has contributed to the industry debate with the government and regulator on the conditions necessary to enable it to fulfil its responsibility and obligations to customers and secure essential investment capital on a long term sustainable basis. There has been an important recognition of the performance and contribution that all water companies have made in delivering service, quality and environmental improvements. This needs to influence government and regulatory thinking in the longer run with the objective of increasing the attractiveness of the water sector to capital and equity markets generally.

The establishment of the Glas Cymru structure, and the sales of Wessex and Southern Water utilising some aspects of highly leveraged financing at close to their regulatory asset value, has helped restore some of the shareholder value significantly eroded by the last regulatory settlement. This has combined with what appears to be a greater market recognition of the counter cyclical strengths of water company shares. The public acknowledgement of the performance of water companies by the government and regulator has also given some encouragement to the sector, as has the welcome clarification of the industry competitive situation which has helped reduce longer term uncertainty.

Although regulatory uncertainties still remain, they have been reduced by a more constructive dialogue between the regulator, government and industry. The realisation of an increased need for continuing high levels of investment, partly driven by environmental and quality improvement demanded by European legislation and essential infrastructure replacement, is now more apparent. It should give a more positive emphasis to future price determinations, if this necessary investment is to be financed from equity and debt markets.

Whilst accepting that there are issues outside our control, our objective remains to continue to focus on water and waste water and to drive for further service and quality enhancements on a sustainable basis in both the UK and US. There is the scope for further controlled growth in the US. The significant improvement in water company valuations in the US has helped enhance the value of existing operations.

Management and staff

In parallel with the strategic focus of the company, there has been an ongoing drive on all aspects of management and employee performance. My thanks to all staff who have responded to the challenges needed to improve performance and achieve these results.

Following the management buyout of Foseco led by Jamie Pike, he is to stand down at the annual general meeting. Jamie, who joined the Kelda Board on the same day as myself, has been supportive of the strategy and management of the company, and I would like to thank him, and my fellow directors, for their contribution and support.

John Napier
Executive Chairman

Operating and financial review

Yorkshire Water Substantial investment has led to significant improvement in water quality in the region. The Environment Agency ranks performance on bathing and river water quality as the best in Yorkshire since records began.

Financial and operational performance

Yorkshire Water's regulated turnover increased by 3.3% to £559.8m (2001: £542.1m) following the 3.4% overall increase in charges from 1 April 2001. Operating profit increased by 5.0% to £225.5m (2001: £214.8m), compared to the 5.6% increase reported at the interim stage. A continuing strong performance on cost reduction contributed to the increase in profit. The early implementation of efficiency initiatives is expected to achieve outperformance of £80m against the current determination.

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

Capital investment

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

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

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

Environmental performance

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

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

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

Once again, all waste water treatment works have achieved full compliance with consents.

More details on Yorkshire Water's environmental performance can be found on the Kelda environment and community website:
www.keldagroup.com/environment

01 **Apprentices** Almost a decade after they ended, Yorkshire Water has reintroduced apprenticeship schemes.

In September the company took on 14 apprentices aged between 16 and 19 to work in Leeds, Bradford, Sheffield, Hull, Huddersfield and York. When each individual has successfully completed their training they will be appointed to full-time posts in their chosen area and will also be encouraged to take their studies further.

03 **HumberCare** Yorkshire Water's £200m scheme to modernise Hull's waste water treatment facilities received worldwide publicity in August 2001.

To mark the completion of a new 10km pipeline tunnelled beneath the city's streets and marina, the company recreated a famous scene from the 1960s film, "The Italian Job", in which Mini Coopers laden with gold bullion were driven through the sewers of Turin.

01	02
03	

02 **Land access** Yorkshire Water welcomed the passing of the new Countryside and Rights of Way Act and immediately pledged to use the new legislation to proactively promote greater public access to its 72,000 acre estate.

Despite the region being gripped by foot and mouth disease for most of the year, several new scenic footpaths were opened and extensive improvements made to facilities at many of the company's recreational reservoir sites.

Support was also given to a group of countryside service volunteers from Bradford to develop a range of new and exhilarating walks, taking in large areas of the company's land.

Customer service

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

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

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

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

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

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

Commercial activity

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

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

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

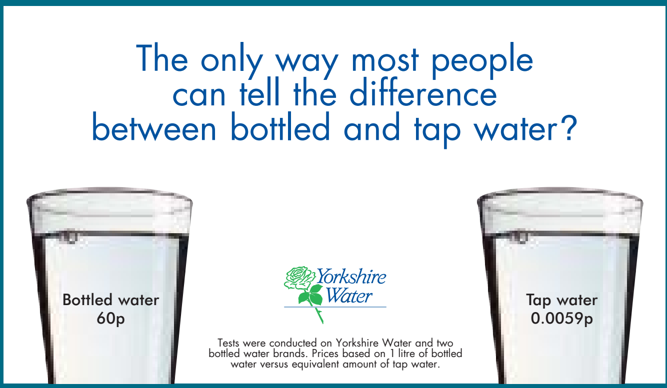
Yorkshire Water, along with Brown and Root and Earth Tech Engineering, is part of a consortium which is bidding for the contract to provide water and waste water services to Ministry of Defence sites in Wales and the south west of England. The consortium has been shortlisted as one of two bidders to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

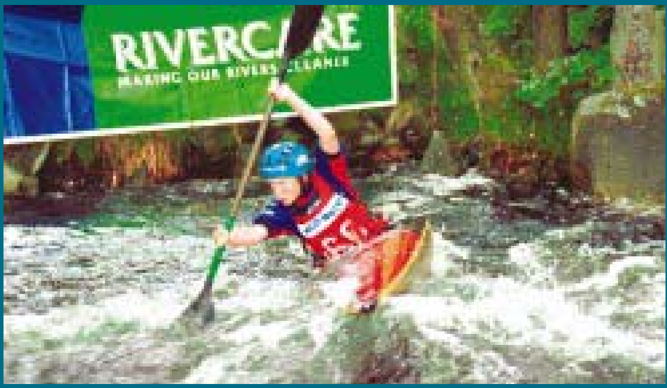
Community involvement

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

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

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





01 **Tap V Cap** Yorkshire Water took to the road in the summer of 2001 to give its customers the chance to take the Tap v Cap challenge.

Customers were able to learn more about their local water supply and the benefits of drinking tap water.

They were also challenged to see if they could tell the difference between tap water and the vastly more expensive bottled varieties sold in shops and supermarkets.

Almost 3,000 customers took part in the initiative, with six out of ten unable to tell the difference between tap and bottled water.

03 **Derek Wild** It's been a memorable year for Yorkshire Water's Manager of Regional Engineering Services, Derek Wild.

In January 2001, Derek was awarded a prestigious Member of the Order of the British Empire medal (MBE) in the Queen's New Year's Honours List for "services to flood relief".

And then in December 2001, Derek again won national recognition when he was named Outstanding Individual of the Year at the prestigious Utility Industry Achievement Awards.

01	02
03	04

02 **Customer communications** A new public information campaign aimed at giving customers a better understanding of their water and waste water services was launched in the summer of 2001.

The 12 week campaign was communicated via advertisements in the regional press and on local independent radio stations, providing detailed information on almost every aspect of the company's performance.

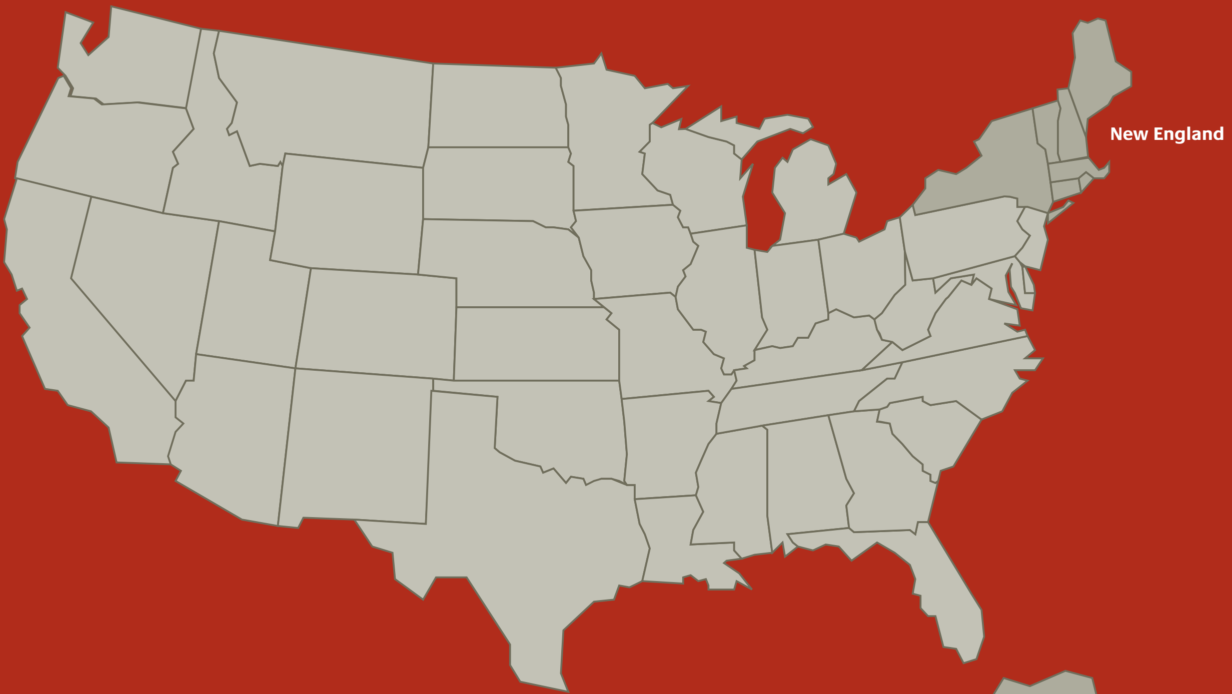
The campaign ended with a major outdoor advertising campaign comparing the cost of tap water with that of more expensive bottled waters.

04 **RiverCare** In November 2001, an Environment Agency report revealed that Yorkshire's rivers are now the cleanest since records began.

The improvements seen in rivers such as the Don, Calder and Aire were largely as a result of Yorkshire Water's ongoing programme of work to upgrade its extensive network of sewers and inland waste water treatment works.

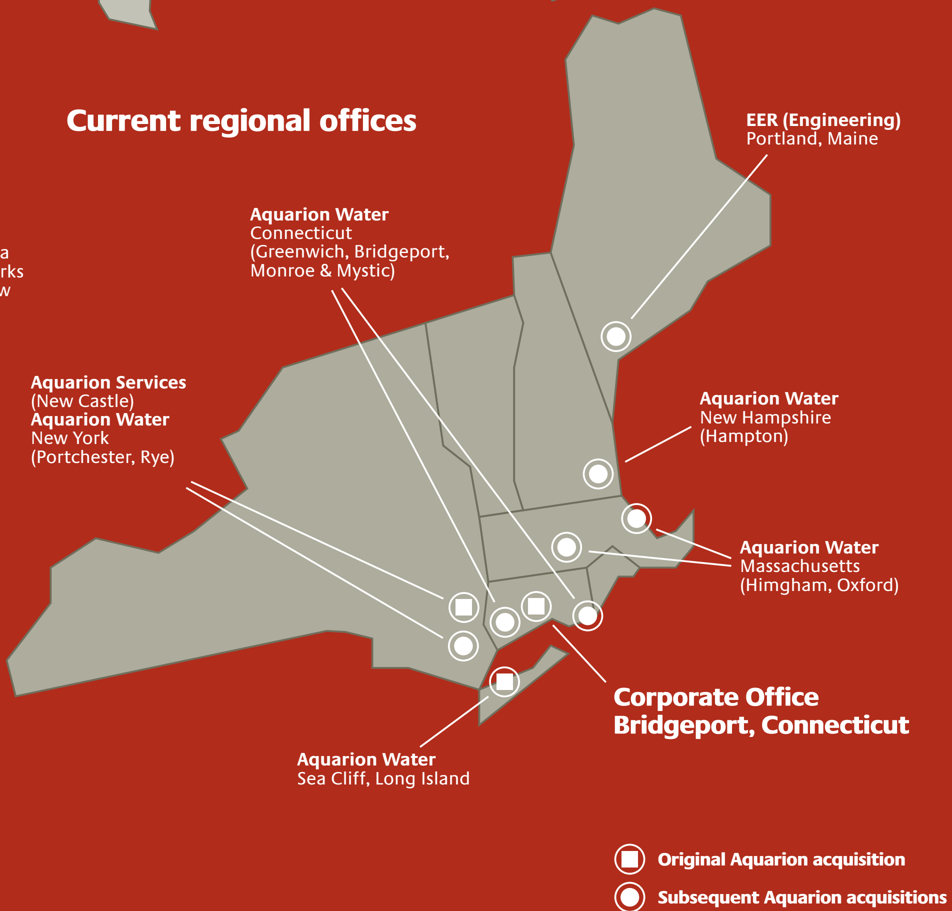
In response to the report, the company announced plans to build on its recent success and abandon or upgrade a further 1,000 sewer overflows by the end of 2005. This will greatly reduce the future risk of sewage finding its way into the region's rivers and watercourses.

Aquarion's regional presence in the US



Current regional offices

US Operations Since Kelda acquired Aquarion in January 2000, the group's US operations have grown by approximately 50%. In April 2002, Kelda acquired four subsidiaries of American Water Works in Connecticut, Massachusetts, New York and New Hampshire. The purchase added some 64,000 accounts - the equivalent of 177,000 residents in 17 towns - to Aquarion's customer base.



Operating and financial review

Aquarion The company continued to expand its US water operations during the year, and realised an exceptional profit of £60m from the sale of land.

Operating results

Turnover in Aquarion benefited from a dry summer and increased 5.1% to £81.7m (2001: £77.7m). Following an increase at the interim stage of 8.3%, the full year result was affected by a £1.8m write down in the carrying value of the assets of the US timber business with underlying operating profit higher at £28.1m (2001: £27.1m).

The company continued to expand its US water operations during the year. In April 2002 Aquarion acquired the New England operations of the American Water Works Company for $120m in cash and the assumption of $104m in debt. The transaction adds some 64,000 customer accounts, or 177,000 residents of Connecticut, Massachusetts, New Hampshire and New York, to Aquarion's existing customer base of about 147,000 customer accounts or 500,000 residents of Connecticut and New York. Utility operations in each state have been renamed Aquarion Water Company. This transaction increases Aquarion's water utility business by about 50%.

In March 2002 Aquarion completed the sale of rights and title to approximately 15,300 acres of land it owns in Connecticut to the state and the international conservation organisation, The Nature Conservancy. The transaction is the largest land deal for open space preservation in company and Connecticut history. The proceeds will be reinvested in Aquarion's water utility infrastructure. The sale realised an exceptional profit before tax of £60.3m.

Customer service

Aquarion has continued to maintain and enhance its water delivery and customer service. Employees have introduced several initiatives to increase revenue and efficiency and to improve customer communication and emergency response. Most recently, an Aquarion team received a Connecticut state innovation award for converting chlorine gas to sodium hypochlorite for disinfection at an Aquarion water treatment works.

Aquarion services

Aquarion strengthened the foundation for continued growth in its non regulated water sector. A new division was formed, Aquarion Services Company, to combine and leverage the many services the company offers to North Eastern US municipal water and waste water system operations. Among those services are operating management services, environmental engineering and an innovative customer service line protection plan.

Community involvement

Aquarion's community relations, environmental and educational programmes continued to flourish during the year. Many employees mentor students and volunteer to assist environmental organisations, educational and charitable associations on Aquarion's behalf. As a result of its education and mentoring programmes, Aquarion received the prestigious Governor's Prevention Partnership Award for its outstanding contribution to mentoring in Connecticut as well as recognition of its business/education initiatives. Aquarion is also widely recognised in the communities it serves as a responsible environmental steward.

Operating and financial review

Other operations KeyLand's expansion through selected joint ventures continues, while Loop has also grown by attracting several new clients.

KeyLand Developments

Turnover from continuing activities was ahead of last year at £10.1m (2001: £8.3m), with operating profit more than 50% ahead, at £3.6m (2001: £2.3m). This was despite a general easing of demand and delays in the planning process.

KeyLand's development through selected joint ventures continues to provide a solid platform for expansion. KeyLandmark is a joint venture with Landmark and GMI and the first building, Ailsa House, was completed in January 2002. Whitehall Landing is a joint venture with S Harrison Developments to develop a site for 148 new homes in Whitby. KeyLand Gregory, a joint venture with Gregory Properties is primarily an office development at Centurion Park in York.

KeyLand's other major development at Mid Point continues to attract significant interest.

Prospects for 2002 are encouraging with a number of major brownfield housing development sites due to come to the market.

Loop

From the established base of its successful contract with Yorkshire Water, the past year has been a time of real growth for the business. New clients have enabled the company to develop first hand experience in a number of public sector segments from local government to the emergency services.

Loop continues to provide services under the contract secured last year with the National Blood Service, for which Loop operates an outbound calling service reminding donors of their appointments. Working with the Wales Tourist Board, Loop will be handling up to 200,000 calls a year, ranging from answering customer enquiries about events and activities throughout Wales, to booking holiday accommodation.

Work for Merseyside Fire and Civil Defence Authority started in March 2002 contacting over 500,000 households in Merseyside to offer a free home fire safety check. Loop has also secured a contract with Lewisham Borough Council to provide the contact centre services required for a pilot project matching house hunters to council properties, and with DIY giant B&Q to operate a threefold service relating to the company's range of power tools.

Loop received recognition for its role in Yorkshire Water's outstanding customer service record. The company has won a number of awards, which highlight its innovative and reliable service, including Investor in People and ISO9001. In 2001 Loop was also runner up in the European Customer Service Awards and the National Customer Service Awards.

Waste Recycling Group

The group holds a major shareholding in Waste Recycling Group plc (WRG). In the group's accounts, 46% of WRG's results for the year ended 31 December 2001 are shown as a share of associates' results. The group's share of turnover was £129.3m (2001: £80.6m) and share of operating profit £18.5m (2001: £15.0m) after goodwill amortisation of £3.3m (2001: £3.3m).

01 **KeyLandmark** A joint venture with Landmark and GMI. A 1.75 hectare site at Turnberry Park, located at Junction 27 of the M62, creating a high class office environment. The first building, Ailsa House, a 2,490 sq.m. three storey office, was completed to time and cost in January 2002. Currently 50% has been let to the Compass Catering Group, with strong interest being shown in the remainder. An application for detailed planning permission for the next phase is shortly to be submitted with the total development providing 8,360 sq. m. on completion.

03 **Recruitment** Loop employs more than 600 people at its sites in Bradford and Bangor. Staff benefit from a number of innovative working patterns from home-working to an annual hours scheme which enables Loop to answer the fluctuating and seasonal needs of its clients whilst staff are assured of a regular salary. 2001 saw the recruitment of Loop's first graduate trainees.

01	02
03	04

02 **New contracts** The three year contract with the Wales Tourist Board (WTB), means Loop will be employing around 25 local people at their new multi-media, web-enabled site based in Bangor, North Wales. Staff will be responsible for providing support services to tourism businesses, managing their information in WTB's new online VisitWales database.

04 **Whitehall Landing** A joint venture with S Harrison Developments. This development of 1.75 hectares of the former Whitehall Shipyard in Whitby, will provide 148 much needed new homes. Great care has been taken to ensure the development is sympathetic to the character and local heritage of the town. Supported by the planning authority, the scheme will give a boost to the local economy.

Operating and financial review

Financial review The group's key financial ratios are sound. Interest cover improved to 2.6 times and balance sheet gearing was unchanged with the benefit of the US land sale receipts.

Group operating profit

Turnover from the group's continuing operations increased 4.2% to £658.2m (2001: £631.9m). Following the completion of the group's disposal programme, operating profit from the continuing operations increased 8.1% to £250.0m (2001: £231.3m) of which 46% (2001: 47%) accrued in the second half year. The group's share of associates' operating profit added £20.3m (2001: £16.5m), the increase reflecting WRG's results following their acquisition of the Hanson waste management interests in January 2001. The overall group operating profit (including share of associates) increased 11.1% to £265.3m (2001: £238.9m after exceptional costs of £11.8m).

The group's activities and associates other than the UK regulated water business accounted for nearly 17% (2001: 15%) of the group operating profit before unallocated costs. Unallocated costs, which include corporate and business development costs, reduced substantially to £5.2m (2001: £7.9m). Strategy review costs of £5.8m were also incurred in the prior year.

Group profit before taxation

Two non operating exceptional items have made a significant impact on the group's 2001/02 results. In the US, the major land sale realised a profit before tax of £60.3m. The disposal of the renewable energy business resulted in a loss on disposal of £25.9m. The exceptional profit of £15.9m in the prior year arose from previous non core business disposals.

In 2001/02, the group benefited from the previous year's business disposals and lower interest rates. The group's interest charge (excluding share of associates) reduced to £93.5m (2001: £95.2m) of which £64.1m (2001: £56.9m) relates to the Yorkshire Water UK regulated business. The share of associates' interest increased to £9.3m (2001: £3.6m) as a consequence of the debt funded acquisitions by WRG. The key interest cover ratio (expressed as the ratio between operating profit and interest costs) improved to 2.6 (2001: 2.4).

Headline group profit before taxation was £197.1m (2001: £156.4m). Before the non operating exceptional items, profit before taxation increased 15.8% to £162.7m (2001: £140.5m).

Taxation

The overall group tax charge was £45.8m (2001: £35.6m). This includes deferred tax of £14.8m (2001: £12.0m) following the introduction of FRS 19 and £19.0m in respect of the US land sale. The underlying effective tax rate on the group's activities (calculated as the current tax charge as a percentage of profit before tax and non operating exceptional items) was 7.4% (2001: 14.2%). An increase in the allowable tax deductions because of the nature of the work now being undertaken in Yorkshire Water's investment programme is largely responsible for the reduction. This increase in tax allowances is not fully offset by deferred tax because of the adoption of discounting as permitted by FRS 19. The effective tax rate will continue to be sensitive to both the scale and nature of the Yorkshire Water capital investment programme.

Earnings per share and dividends

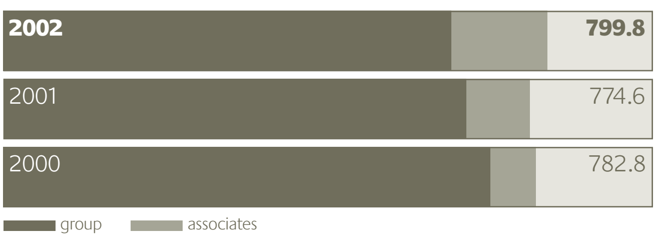
The FRS 3 earnings per share increase of 24.0% is distorted by the inclusion of exceptional items. Earnings per share, adjusted to exclude non operating exceptional items and the exceptional operating costs in the prior year increased 11.7% to 35.3p (2001: 31.6p).

The board is recommending a final dividend of 17.8p (2001: 17.3p) per share. With the interim dividend of 7.7p (2001: 7.5p), this represents an increase of 2.8% in the total dividend for the year to 25.5p (2001: 24.8p).

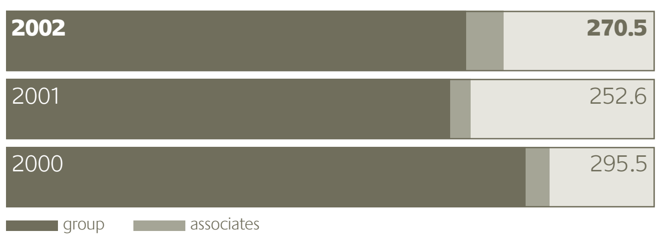
Cash flow

Cash flow from operating activities (principally the UK and US water businesses) was £387.8m (2001: £375.3m restated). The Yorkshire Water regulated investment programme and Aquarion's capital expenditure absorbed most of this cash inflow. Net interest payments on the group's debt were £83.7m (2001: £81.3m) and the group's total capital expenditure

Turnover: group and share of associates (£m)



Operating profit: group and share of associates before unallocated costs (£m)



on fixed assets was £323.6m (2001: £325.1m). The net receipts from the US land sale were £57.2m. Dividend payments during the year were £96.3m (2001: £93.6m).

Group balance sheet

Group net debt at 31 March 2002 was £1,436.5m (2001: £1,395.1m) after the receipts from the US land sale. The Yorkshire Water UK regulated business accounted for £1,042.0m (2001: £960.7m) of the group total. Balance sheet gearing (expressed as the relationship between net debt and net debt plus shareholders' funds) was unchanged at 46%.

Post balance sheet event

On 25 April 2002, the company announced the completion of the acquisition, by its US subsidiary Aquarion, of five American Water Works subsidiaries in Connecticut, Massachusetts, New Hampshire and New York. The consideration was $120m plus the assumption of $104m of debt.

Accounting policies

The group accounts have been prepared in accordance with the accounting policies described in note 1 to the accounts. In accordance with FRS 18 'Accounting Policies', the directors have reviewed the group's accounting policies and consider them to be the most appropriate to the group's operations.

FRS 19 'Deferred Tax' was implemented during the year resulting in the creation of a significant provision for deferred tax at 31 March 2002 of £149.9m (2001: £138.1m). The prior year comparative figures have been restated accordingly. FRS 19 generally requires full provision to be made for deferred tax arising from timing differences between the recognition of gains and losses in the accounts and their recognition in the tax computation. As permitted by FRS 19, a policy of discounting has been adopted. The implementation of the new standard will have no effect on the group's cash or borrowing position.

Aquarion prepares accounts in accordance with Generally Accepted Accounting Principles in the US (US GAAP). Where material, adjustments are made to the results of the US operations to align US GAAP with the group's accounting policies.

Pensions

The first disclosures in accordance with the phased implementation requirements of FRS 17 'Retirement Benefits' have been made in the group's accounts for the year ended 31 March 2002. FRS 17 will change fundamentally the calculation and reporting of the cost of retirement benefits. It does not directly affect the funding position of the group's pension schemes or, therefore, the group's cash or borrowing position. The Kelda group's pension liabilities are carefully managed and the new disclosures confirm that position.

Treasury policy

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. Note 20 to the accounts shows details of the financial instruments held by the group for these purposes.

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 instruments with institutions rated at least A1 or P1 by Standard & Poor's and Moody's.

Shareholder value

The company's mid market share price at the close of business on 28 March 2002, the last trading day before the end of the financial year, was 389.5p (2001: 349.0p). The yield on the company's shares at that date, based on the recommended final dividend, was 6.5% (2001: 7.1%).

Going concern

After making enquiries, the directors have a reasonable expectation 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.

John O'Kane
Group Finance Director

Group profit before taxation and non operating exceptional items (£m)

Adjusted earnings per share (p)

*Not restated to reflect the adoption of FRS 19

Board of directors

01	03	05	07
02	04	06	08

01 John Napier (59)[BD]
Executive Chairman
Joined the Board in June 1999. Appointed Chairman on 1 April 2000. Chairman of Yorkshire Water Services Limited and a non executive director of Waste Recycling Group plc. He has formerly held posts as Chairman of Booker plc, Deputy Chairman of Amey plc, Group Managing Director of Hays plc and non executive director of Yule Catto & Co. plc.

02 James Newman (52) FCA, MCT
Deputy Chief Executive
Appointed to the Board in January 1998. Formerly Group Finance Director of Berisford Group plc, Watmoughs (Holdings) PLC and BRIDON plc. Currently a non executive director of Waste Recycling Group plc.

03 Kevin Whiteman (45)[D] BSc, CEng, MIME
Managing Director of Yorkshire Water Services Limited
Appointed to the Board in September 2000. Joined Yorkshire Water Services Limited in 1997 as Business Director, Waste Water. Formerly Chief Executive and Accounting Officer of the National Rivers Authority and Regional Director of the Environment Agency. Previously held senior positions with British Coal.

Denotes
[A] Member of the Audit Committee
[B] Member of the Nominations Committee
[C] Member of the Remuneration Committee
[D] Member of the Environment and Community Committee

04 John O'Kane (43) FCA
Group Finance Director
Appointed to the Board in September 2000. Joined Yorkshire Water Services Limited and appointed as Finance Director in 1998. Formerly held senior finance posts in Samsung Electronics and ICI.

05 Ken Jackson (62)[AB]
Non Executive Director
Joined the company in October 2000. Deputy Chairman and Chief Executive of Carbo plc. Formerly a non executive director of Nightfreight plc, Motorworld Group plc and Ring plc (Chairman).

06 Jamie Pike (46)[ABC] MBA, MI MechE, CEng
Non Executive Director
Joined the company in June 1999. Chief Executive of the Foseco Group. Formerly Executive Director of Burmah Castrol plc.

07 Derek Roberts (59)[ABC] FCII, FCIB, CIMgt
Non Executive Director
Joined the company in September 1996. Non executive director of Yorkshire Water Services Limited, Chairman of Kelda Group Pension Trustees Limited. Formerly Chairman of Yorkshire Building Society, and a non executive director of BWD Securities plc.

08 David Salkeld (46)[BC] BSc (Econ), DipPM
Non Executive Director
Joined the company in October 2000. Chief Executive of Arla Foods plc. Formerly held senior posts in Grand Metropolitan plc and Northern Dairies.

Directors' report

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

Result and dividends

The profit attributable to shareholders for the year was £151.4m. After dividends totalling £98.3m, £53.1m was transferred to the reserves.

The directors recommend a final dividend of 17.8p per share to be paid on 1 October 2002, to those shareholders on the register at the close of business on 30 August 2002. An interim dividend of 7.7p per share was paid on 1 March 2002.

The total dividend for the year will amount to 25.5p per share (2001: 24.8p).

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. Yorkshire Water Services Limited (Yorkshire Water), the group's regulated utility business in the UK, is responsible for both water and waste water services. Aquarion Company, the group's US subsidiary, provides water services in the states of Connecticut, New York, Massachussets and New Hampshire. The group's other businesses are KeyLand Developments Limited, a property development company, and Loop Customer Management Limited which provides managed customer services. In addition, the group holds 46% of the issued share capital of Waste Recycling Group plc, a leading waste management company.

Acquisitions and disposals

Details of the disposal by Aquarion of certain rights and title to approximately 15,300 acres of land, and details of the acquisition since 31 March 2002 by Aquarion of the New England operations of the American Water Works Company are given on page 11.

The sale of First Renewables Limited to Energy Power Resources Limited has been completed. Details of the transaction are included at note 25 to the accounts on page 50.

Directors

The directors are: John Napier, Executive Chairman; James Newman, Deputy Chief Executive; John O'Kane, Group Finance Director; Kevin Whiteman, Managing Director, Yorkshire Water; Ken Jackson, Jamie Pike, Derek Roberts and David Salkeld, non executive directors. Jamie Pike has given notice of his intention to resign as a director with effect from the close of the forthcoming annual general meeting.

In accordance with article 105, John Napier and Kevin Whiteman will retire at the forthcoming annual general meeting and will offer themselves for re-election, which is recommended by the board in accordance with article 109. Mr Napier's appointment in an executive capacity was interim in nature and he has no service agreement with the company. Mr Whiteman has a service agreement with the company.

The terms of the director's service agreements appear in the remuneration report on page 24. Additional information relating to directors who served during the year, including remuneration and interests in the company's shares is contained on pages 21 to 24. The details of directors' interests in the company's shares form part of this report.

Employees and employment policies

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

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

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

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

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

Kelda group continues to be committed to high levels of training and employee development through a wide range of in-house and accredited programmes. Employees are encouraged to seek out the information, development and training needed to carry out their role to its full potential and to share learning, expertise and information with colleagues. The company recognises team and individual achievements via 'Business Excellence' events and presentations.

Directors' report

Health and safety

The company is committed to achieving high health and safety standards throughout its businesses. The management of health and safety issues operates in the context of the policy adopted by the board and the system of internal control. The company has put in place a number of safety policies and procedures, and provides such information, instruction, training and supervision as is appropriate. In addition, the company provides occupational health, safety and welfare advisory services.

Health and safety goals are set annually in relation to numbers of accidents, working time lost as a result of accidents, training delivery, internal safety audits and the health surveillance programme. These are monitored and reported monthly to senior managers and directors. The use of stretching goals, the effective provision of training and advice, and the continued emphasis by all parties on the importance of health and safety matters has resulted in significant reductions in reportable accidents, all accidents, and working days lost. By the nature of accidents, there can be no guarantee that they will never occur. The measures taken by the company are intended to place emphasis on prevention and continuing vigilance.

During the year, twenty three senior managers were awarded the Institute of Occupational Safety and Health accredited Safety for Senior Executives Certificate. Yorkshire Water was audited by the British Safety Council and awarded four stars for its safety management system. The company consults with all employees via area and functional health and safety forum groups and subsidiary company safety committees. Local safety issues are discussed and resolved within these groups. The groups have representation on the company Health and Safety Group, which meets quarterly.

Environment and community

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

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

The company contributes actively to the communities which it serves. This includes active encouragement of employee participation in community based schemes, as well as direct financial support. Further details are set out on pages 8 and 11.

The internal control processes described on page 20 take account of social, environmental and ethical risks. In addition, the board receives information as part of the normal reporting process to identify and assess such significant risks where they are relevant to the nature of the company's business.

Charitable and political contributions

Charitable contributions totalling £0.6m (2001: £0.4m) were made during the year. No political contributions were made.

Research and development

During the year £3.3m (2001: £3.8m) was committed to research and development including £2.3m (2001: £2.8m) on fixed assets.

Purchase of own shares

At the forthcoming annual general meeting, the company will be seeking authority to purchase up to 10% of its ordinary shares. Authority was previously granted at the annual general meeting in 2001 in respect of 10% of the company's issued ordinary share capital but expires at the close of the forthcoming meeting.

Auditors

A resolution to reappoint Ernst & Young LLP as the company's auditors and to authorise the directors to determine their remuneration will be proposed at the forthcoming annual general meeting. The auditors are required to provide assurance as to their own application of best practice to ensure objectivity and independence. It is generally considered that the auditors are best placed to undertake due diligence work in relation to acquisitions and disposals, and to provide advice on taxation. Other consultancy services are awarded by competitive process. The performance of the auditors is monitored on an ongoing basis and the audit committee considers annually whether a reappointment is appropriate. The auditors provide reports directly to the audit committee.

Payment terms to suppliers

The company's normal terms are to make payment in accordance with suppliers' terms of trade or within 30 days from the receipt of services or invoices subject to satisfactory performance by the supplier. Kelda Group plc is a holding company and, at 31 March 2002, had no trade creditors outstanding. The payment terms of individual operating subsidiaries are disclosed in their accounts.

Major shareholdings

As at 29 May 2002 the company had been notified of the following interests amounting to 3% or more of the company's issued ordinary share capital:

M & G Investment Management Ltd 5.09%
Barclays PLC 3.02%

Annual general meeting

The notice convening the company's 2002 annual general meeting at the Barbican Centre, York on 25 July 2002 at 11am is set out in a separate document issued to shareholders.

By order of the board
Philip Hudson
Group Company Secretary
30 May 2002

Registered office:
Western House
Halifax Road
Bradford
BD6 2SZ

Registered in England
No. 2366627

Corporate governance

Corporate governance

The company is committed to high standards of corporate governance throughout the group and the board is accountable to the company's shareholders for maintaining those standards. This statement describes how the Code provisions identified in the Combined Code are applied by the company.

The board considers that the company has complied throughout the accounting period with the Code provisions set out in Section 1 of the Combined Code.

The board of directors

The company is led by a board of directors which maintains control over the company's activities. Biographies of the current board members appear on page 16 of this report. These indicate the high level and range of experience which they possess.

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

Appropriate briefing and training is available to directors on, and subsequent to, their appointment. There is an agreed procedure for directors to take independent professional advice at the company's expense. Directors have direct access to the group company secretary who is responsible for ensuring that board procedures are followed. The directors receive full and timely access to all relevant information.

The board includes four executive directors and four non executive directors. All of the non executive directors are considered by the board to be independent. Derek Roberts is the senior independent director. On 10 April 2000, John Napier agreed to accept an interim appointment as executive chairman, combining the roles of chairman and chief executive. The interim appointment is kept under review and the directors consider that it is in the best interests of the company to maintain it.

Potential appointments of both executive and non executive directors to the board are considered by the nominations committee, a majority of the members of which are non executive directors. The recommendations of the nominations 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 notice of the annual general meeting contains a proposal to adopt new articles of association of the company, including a new article 105 to require each director to be subject to re-election at intervals of no more than three years. This will reflect more accurately the requirement of the Combined Code, which the company has previously complied with in practice.

The board has delegated certain authority to the following committees. Each committee has formal terms of reference. The membership of each of the committees is shown on page 16.

Executive committee

Comprising all the executive directors, it has delegated authority to supervise the executive and operational management of the company.

Audit committee

Comprising of three non executive directors, it reviews the group's system of internal control, accounting policies and financial and other reporting procedures. It makes recommendations to the board relating to the appointment of the external auditors and agrees the nature and scope of the audit. Jamie Pike is chairman of the audit committee.

Remuneration committee

Comprising of three non executive directors, it recommends to the board the remuneration policies for the executive directors and senior management and determines remuneration packages for those executives. The executive chairman has been invited to attend meetings of the committee to discuss the performance of the other executive directors and makes proposals as necessary. No director is involved in discussion or voting in relation to their own remuneration. David Salkeld is chairman of the remuneration committee.

Nominations committee

Comprising all of the non executive directors and the executive chairman, it makes recommendations to the board on the appointment of directors. Derek Roberts is chairman of the nominations committee.

Environment and community committee

Comprising of two executive directors, it recommends to the board appropriate environmental policies and procedures. It is responsible for the publication of the environment and community report which is available on the internet at www.keldagroup.com/environment

Directors' remuneration

Full details of directors' remuneration and a statement of the company's remuneration policy is set out in the remuneration report appearing on pages 21 to 24.

Communication with stakeholders

The company places a great deal of importance on communication with its stakeholders. Shareholders have direct access to the company via the investor relations section of its website at www.keldagroup.com and its free shareholder information telephone service. The company responds promptly to enquiries 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. The chairmen of the audit, remuneration and nominations committees will be available to answer questions at the annual general meeting.

Corporate governance

Internal control
The board is responsible for the group's system of internal control and for reviewing its effectiveness. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the group and this has been in place for the year under review and up to the date of approval of the annual report and accounts. Strategic, financial, commercial, operational, and social, environmental and ethical risks fall within the scope of this process. The process is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, not absolute, assurance against material misstatement or loss. During the financial year, material joint ventures have been dealt with as part of the group for the purposes of applying the guidance. Associates have not been dealt with as part of the group for this purpose. However, Waste Recycling Group plc has its own process for compliance with the Code provisions.

The group's risk management process aims to be comprehensive, systematic and continuous, and based on constant monitoring of business risk. The key features of the process include the following:

- The main risks facing the group are identified and recorded in a risk register together with the control mechanisms applicable to each risk.

- There is clear allocation of management responsibility for risk identification, analysis and control.

- The audit committee generally meets four times each year and reviews the effectiveness of the systems which are in place and reports to the board.

- A risk management forum has been established with formal terms of reference comprising of senior management from key disciplines and operating companies. It advises and assists operational managing directors and the board in the implementation of the risk management process and monitors risk on behalf of the board. It reports to the audit committee.

- Business units are required to report annually on principal business risks and the operation of control mechanisms.

- The group Audit and Business Services department provides objective assurance and advice on risk management and control, and monitors the risk management process.

- Comprehensive and well defined control policies are formally set out in the company's Policies and Procedures Manual.

The board confirms that it has reviewed the effectiveness of the system of internal control. It has received the reports of the audit committee and has conducted a formal annual review covering all controls including financial, operational and compliance controls and risk management, in accordance with the Internal Control: Guidance for Directors on the Combined Code issued in September 1999.

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 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

Bonuses are assessed against demanding performance targets and maximum bonus for the year (40% of basic pay) requires a range of Ofwat measures, financial targets and corporate and personal objectives to be fully satisfied. Bonuses are not pensionable.

Long term incentive plan

Under the plan, executive directors and other senior executives may receive, at the discretion of the remuneration committee, a conditional award of Kelda Group plc 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 (i.e. share price movements and reinvested dividends) during the three year period, relative to a comparator group of companies. The comparator group of companies includes both major water and waste water companies and other companies in the FTSE 250. 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 remuneration 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 are pensionable.

The conditional awards made to directors during the year are shown in the table on page 24.

Remuneration report

Directors' emoluments

	Salary/fees £000	Annual bonus £000	Benefits in kind £000	**Total emoluments 2002 £000**	Total emoluments 2001 £000
Executive directors					
J A Napier	250	83	4	**337**	250
J H Newman	180	63	24	**267**	238
J P O'Kane	144	49	13	**206**	106
K I Whiteman	154	53	14	**221**	115
K Bond (resigned 10.04.00)	–	–	–	**–**	339
Non executive directors					
K Jackson	21	–	–	**21**	11
J R P Pike	26	–	–	**26**	26
D F Roberts	47	–	1	**48**	49
D J Salkeld	26	–	6	**32**	12
P R Cox (resigned 16.08.00)	–	–	–	**–**	11
D G Perry (resigned 14.06.00)	–	–	–	**–**	26
	848	248	62	**1,158**	1,183

The executive directors participated in a profit related pay scheme which is open to all UK employees who have been employed by the group for a minimum period of permanent employment. In 2001/02 this scheme paid £350 (2001: £342) to each qualified participant and this is included in the salaries shown in the table above. The prior year emoluments for K Bond include a termination payment of £264,000.

The annual bonuses referred to above are performance related and are fully described in the narrative section of this report.

Pensions

The main features of the Kelda Group 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 for service up to 20 years;
(iii) four times pensionable pay for death in service;
(iv) spouse's pension on death

The Kelda Group Pension Plan is fully funded and subject to Inland Revenue limits. The company makes accounting provision for other unfunded liabilities arising from contractual commitments to directors, because of the earnings 'cap'.

	Increase in accrued pension (excluding inflation) during year £000	Transfer value of increase in accrued pension (excluding inflation) during year £000	**Total accrued pension 2002 £000**	Total accrued pension 2001 £000
J H Newman	7	72	**25**	18
J P O'Kane	7	51	**15**	8
K I Whiteman	7	54	**18**	11

Transfer values are shown after deduction of directors' contributions to the pension fund and include the unfunded element. James Newman also received an augmentation of pension benefits in 2001 equal to a one-off contribution of £50,000 made to a money purchase scheme in consideration of a salary sacrifice of the same amount. 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 as at 31 March 2002 and at the beginning of the year are set out below:

	At 31 March 2002	At 1 April 2001
Executive directors		
J A Napier	**30,000**	30,000
J H Newman	**12,862**	7,622
J P O'Kane	**1,071**	–
K I Whiteman	**1,936**	–
Non executive directors		
K Jackson	**–**	–
J R P Pike	**1,004**	1,004
D F Roberts	**1,973**	1,973
D J Salkeld	**–**	–

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 7,581,123 ordinary shares of the company held by an employee share ownership trust (ESOT) and 125,394 ordinary shares held by a qualifying employee share ownership trust (QUEST). All employees (including executive directors) are potential beneficiaries of the trusts, the purposes of which are to provide shares to satisfy options under the company's save-as-you-earn share option scheme and, in the case of the ESOT, 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 either 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 2002 and 29 May 2002.

Directors' share options

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

	At 1 April 2001	Granted during year	Exercised/ lapsed during year	**At 31 March 2002**	Exercise price (p)	Date options exercisable	Date options expire
J H Newman	4,036	–	–	**4,036**	240.0	01.03.03	31.08.03
J P O'Kane	3,229	–	–	**3,229**	240.0	01.03.03	31.08.03

The market price of the shares subject to these options at 31 March 2002 was 389.5p (2001: 349.0p) and has ranged from 329.0p to 398.0p during the year. The aggregate gain on the exercise of share options during the year was £nil (2001: £2,231).

Remuneration report

Long term incentive plan
Interests of the directors in the plan are:

	At 1 April 2001	Granted during year	Vested during year	Lapsed during year	**At 31 March 2002**	Earliest vesting date
J H Newman	10,438	–	(8,734)	(1,704)	**–**	
	13,134	–	–	–	**13,134**	29.06.02
	19,101	–	–	–	**19,101**	21.09.03
	–	18,379	–	–	**18,379**	07.06.04
J P O'Kane	2,117	–	(1,785)	(332)	**–**	
	4,853	–	–	–	**4,853**	29.06.02
	14,045	–	–	–	**14,045**	21.09.03
	–	13,784	–	–	**13,784**	07.06.04
K I Whiteman	3,858	–	(3,228)	(630)	**–**	
	4,947	–	–	–	**4,947**	29.06.02
	15,169	–	–	–	**15,169**	21.09.03
	–	14,805	–	–	**14,805**	07.06.04

The market price of the shares on 29 May 2002 was 405.0p. The aggregate value of shares vested during the year was £50,674 (2001: £9,446).

Service agreements
All executive directors, other than John Napier, have service agreements which are terminable by the company on twelve months' notice. John Napier's appointment in an executive capacity is interim in nature and he does not have a service agreement with the company.

Fees payable to the company
Waste Recycling Group plc (WRG) paid fees of £12,500 per annum each in respect of John Napier and James Newman for their services as non executive directors of WRG during the year. Such fees were received by the company and not the individuals.

Non executive directors
The fees for non executive directors are determined by the board. Non executive directors receive a fee of £21,000 per annum and £5,000 per annum for chairing a board committee. Derek Roberts also received fees of £16,000 in his capacity as a non executive director of Yorkshire Water Services Limited and £5,000 as chairman of Kelda Group Pension Trustees Limited.

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

Directors' responsibilities

Statement of directors' responsibilities

The directors are required by the Companies Act 1985 to prepare accounts which give a true and fair view of the state of affairs of the company and of the group as at the end of the financial year and of the profit or loss of the group for the financial year.

In preparing the accounts of the company and of the group, the directors confirm that they have:
(i) selected and consistently applied appropriate accounting policies;
(ii) made reasonable and prudent estimates and judgements, where appropriate;
(iii) followed applicable accounting standards;
(iv) prepared the accounts on a going concern basis.

The directors are responsible for ensuring that the company and its subsidiary undertakings keep accounting records which disclose, with reasonable accuracy, the financial position of the company and the group and which enable them to ensure that the accounts comply with the Companies Act 1985. They also have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of both the company and the group and to prevent and detect fraud and other irregularities.

The above statement, which should be read in conjunction with the statement of the auditors' responsibilities, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the accounts.

Report of the auditors

Independent auditors' report to the shareholders of Kelda Group plc

We have audited the group's accounts for the year ended 31 March 2002 which comprise the Group Profit and Loss Account, Group Balance Sheet, Company Balance Sheet, Group Cash Flow Statement, Statement of Group Total Recognised Gains and Losses, and the related notes 1 to 30. These accounts have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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 1985. 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 information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises the Directors' Report, Chairman's Statement, Operating and Financial Review, Corporate Governance Statement and Five Year Financial Summary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 2002 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 LLP, Registered Auditor, Leeds
30 May 2002

Group profit and loss account

Year ended 31 March 2002

	Note	2002 £m	2001 Restated £m
Turnover: group and share of associates	2	**799.8**	774.6
Share of associates' turnover		**(141.0)**	(93.4)
Group turnover		**658.8**	681.2
Continuing operations		**658.2**	631.9
Discontinued operations		**0.6**	49.3
Operating costs	3	**(413.8)**	(447.0)
Exceptional operating costs	3	**–**	(6.2)
Group operating profit		**245.0**	228.0
Continuing operations		**250.0**	231.3
Discontinued operations		**(5.0)**	(3.3)
Share of associates' operating profit		**20.3**	16.5
Exceptional impairment of investment in associated undertaking		**–**	(5.6)
Operating profit: group and share of associates	2	**265.3**	238.9
Net exceptional profit on sale of land (US)	4	**60.3**	–
Net exceptional (loss) profit on disposal of operations	5	**(25.9)**	15.9
Profit on ordinary activities before interest		**299.7**	254.8
Income from investments		**0.2**	0.4
Net interest payable			
– group	6	**(93.5)**	(95.2)
– associates		**(9.3)**	(3.6)
Profit on ordinary activities before taxation		**197.1**	156.4
Taxation on profit on ordinary activities	7	**(45.8)**	(35.6)
Profit on ordinary activities after taxation		**151.3**	120.8
Equity minority interests		**0.1**	1.0
Profit attributable to shareholders		**151.4**	121.8
Dividends	9	**(98.3)**	(95.4)
Retained profit for the financial year		**53.1**	26.4
Basic earnings per share	10	**39.3p**	31.7p
Adjusted earnings per share	10	**35.3p**	31.6p
Diluted earnings per share	10	**39.2p**	31.6p

Statement of group total recognised gains and losses

Year ended 31 March 2002

	2002 £m	2001 Restated £m
Profit attributable to shareholders	**151.4**	121.8
Exchange adjustments	**(1.5)**	14.6
Total recognised gains and losses relating to the year	**149.9**	136.4
Prior year adjustment	**(138.1)**	–
Total gains and losses recognised since last annual report	**11.8**	136.4

Balance sheets

At 31 March 2002

		Group		Company	
		2002	2001 Restated	**2002**	2001 Restated
	Note	**£m**	£m	**£m**	£m
Fixed assets					
Intangible assets	11	**184.9**	186.0	**–**	–
Tangible assets	12	**3,332.2**	3,192.5	**–**	0.1
Investments in group undertakings	13			**1,515.4**	1,532.7
Investments in associated undertakings	13	**119.6**	112.7	**105.8**	105.8
Other investments	13	**25.2**	26.4	**25.5**	26.4
		3,661.9	3,517.6	**1,646.7**	1,665.0
Current assets					
Stocks	14	**3.1**	4.4	**–**	–
Debtors	15	**214.8**	194.7	**141.4**	150.5
Cash and short term deposits		**195.5**	146.5	**68.0**	93.2
		413.4	345.6	**209.4**	243.7
Creditors: amounts falling due within one year					
Short term borrowings	16	**(36.9)**	(24.9)	**(6.4)**	(3.1)
Other creditors	17	**(373.9)**	(323.0)	**(147.0)**	(241.0)
		(410.8)	(347.9)	**(153.4)**	(244.1)
Net current assets (liabilities)		**2.6**	(2.3)	**56.0**	(0.4)
Total assets less current liabilities		**3,664.5**	3,515.3	**1,702.7**	1,664.6
Creditors: amounts falling due after more than one year					
Long term borrowings	18	**(1,595.1)**	(1,516.7)	**(858.7)**	(762.0)
Other creditors	17	**(225.2)**	(219.7)	**(1.8)**	(1.0)
Provisions for liabilities and charges	19	**(153.7)**	(140.5)	**(1.0)**	(0.7)
Net assets		**1,690.5**	1,638.4	**841.2**	900.9
Capital and reserves					
Called up share capital	21	**61.1**	61.1	**61.1**	61.1
Share premium account	22	**16.7**	16.7	**16.7**	16.7
Capital redemption reserve	22	**142.6**	142.6	**142.6**	142.6
Profit and loss account	22	**1,470.1**	1,418.5	**620.8**	680.5
Equity shareholders' funds	23	**1,690.5**	1,638.9	**841.2**	900.9
Equity minority interests		**–**	(0.5)		
Capital employed		**1,690.5**	1,638.4	**841.2**	900.9

Approved by the board of directors on 30 May 2002 and signed on their behalf by:

John Napier, Executive Chairman

John O'Kane, Group Finance Director

Group cash flow statement

Year ended 31 March 2002

	2002 £m	2001 Restated £m
Net cash inflow from operating activities	**387.8**	375.3
Dividends received from associated undertakings	**2.7**	5.2
Returns on investments and servicing of finance		
Interest received	**9.1**	9.8
Interest paid	**(73.0)**	(67.9)
Interest element of finance lease rental payments	**(19.8)**	(23.2)
Net cash outflow from returns on investments and servicing of finance	**(83.7)**	(81.3)
Taxation	**(15.1)**	(12.7)
Capital expenditure and financial investment		
Purchase of tangible fixed assets (excluding assets financed by leases)	**(323.6)**	(325.1)
Capital grants and contributions	**32.8**	54.0
Proceeds from sale of tangible fixed assets	**0.5**	2.6
Proceeds from sale of land (US)	**57.2**	–
Loans to associates	**(3.3)**	(1.9)
Repayments by associates	**–**	1.0
Net cash outflow for capital expenditure and financial investment	**(236.4)**	(269.4)
Acquisitions and disposals		
Purchase of subsidiaries and associated undertakings	**(1.3)**	(7.1)
Net cash balances of subsidiary undertakings purchased	**–**	0.4
(Costs) proceeds arising from sales of operations	**(0.6)**	108.9
Net cash sold with operations	**–**	(0.7)
Net cash (outflow) inflow for acquisitions and disposals	**(1.9)**	101.5
Equity dividends paid	**(96.3)**	(93.6)
Net cash inflow (outflow) from management of liquid resources	**9.0**	(134.7)
Financing		
Proceeds from transfer of QUEST ordinary shares to option holders	**0.6**	3.1
Increase (decrease) in short term borrowings	**12.5**	(20.2)
Increase in long term borrowings	**84.5**	134.8
Capital element of finance lease rental payments	**(5.7)**	(7.2)
Net cash inflow from financing	**91.9**	110.5
Increase in cash in the year	**58.0**	0.8

Notes to the group cash flow statement

Year ended 31 March 2002

Reconciliation of operating profit to net cash inflow from operating activities	2002 £m	2001 Restated £m
Group operating profit	**245.0**	228.0
Depreciation	**142.4**	138.7
Goodwill amortisation	**1.1**	1.8
Release of grants and contributions	**(3.4)**	(3.4)
Profit on sale of fixed assets and other adjustments	**(2.5)**	(2.0)
Decrease in stocks	**0.9**	0.2
(Increase) decrease in debtors	**(1.2)**	8.1
Increase in creditors	**5.5**	3.9
Net cash inflow from operating activities	**387.8**	375.3

Reconciliation of increase in cash to movement in net debt	2002 £m	2001 £m
Increase in cash in the year	**58.0**	0.8
Cash (inflow) outflow from (decrease) increase in liquid resources	**(9.0)**	134.7
Cash inflow from increase in debt and lease financing	**(91.3)**	(107.4)
Change in net debt resulting from cash flows	**(42.3)**	28.1
Net loans and finance leases acquired with subsidiary undertakings	**–**	(0.2)
Exchange and other non cash adjustments	**0.9**	(10.2)
Movement in net debt in the year	**(41.4)**	17.7
Opening net debt	**(1,395.1)**	(1,412.8)
Closing net debt	**(1,436.5)**	(1,395.1)

Analysis of movement in net debt	At 1 April 2001 £m	Cash flow £m	Disposals £m	Currency translation £m	At 31 March 2002 £m
Cash	4.6	58.0	–	–	**62.6**
Short term deposits	130.2	(6.3)	–	–	**123.9**
Commercial paper	11.7	(2.7)	–	–	**9.0**
	146.5	49.0	–	–	**195.5**
Debt due within one year	(20.9)	(12.5)	0.7	–	**(32.7)**
Finance leases due within one year	(4.0)	(0.2)	–	–	**(4.2)**
	(24.9)	(12.7)	0.7	–	**(36.9)**
Debt due after one year	(1,033.8)	(84.5)	–	0.2	**(1,118.1)**
Finance leases due after one year	(482.9)	5.9	–	–	**(477.0)**
	(1,516.7)	(78.6)	–	0.2	**(1,595.1)**
Net debt	(1,395.1)	(42.3)	0.7	0.2	**(1,436.5)**

Notes to the accounts

Year ended 31 March 2002

1 Accounting policies

Basis of accounting

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

The group has adopted FRS 18 'Accounting Policies' and FRS 19 'Deferred Tax' and made the transitional pension disclosures from FRS 17 'Retirement Benefits' for the first time in these accounts. FRS 18 deals with accounting policies and its adoption did not have an impact on the group's accounts. The prior year comparative figures for the group cash flow statement and other creditors have been restated for certain minor accounting reclassifications.

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

Change in accounting policy

FRS 19 'Deferred Tax' has been adopted in the current year and resulted in a prior year adjustment as disclosed in the statement of group total recognised gains and losses. The effect on the profit and loss account is to increase the taxation charge for the group by £14.8m (2001: £12.0m). The balance sheet effect is to increase provisions by £149.9m (2001: £138.1m). The comparative amounts have been restated to comply with the new standard.

Basis of consolidation

The accounts of the group include the results of the company, its subsidiaries and associates. The results of undertakings acquired or disposed of during the year are included in the group profit and loss account from the date of acquisition or up to the date of disposal.

Foreign currencies

In the accounts of the group's companies, individual transactions denominated in foreign currencies are translated into local currency at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the exchange rates ruling at the balance sheet date, or if appropriate, at the forward exchange rate. Profits and losses on both individual foreign currency transactions during the year and monetary assets and liabilities are dealt with in the profit and loss account.

On consolidation, the profit and loss accounts of overseas subsidiaries are translated at the average exchange rates for the year and the balance sheets at the exchange rates at the balance sheet date. The exchange differences arising as a result of translating profit and loss accounts at average rates and restating opening net assets at closing rates are taken to reserves. Exchange differences on foreign currency borrowings used to finance the group's equity investments in its foreign subsidiaries are taken to reserves only to the extent of the exchange differences arising on net investments in foreign subsidiaries.

Goodwill arising on the acquisition of an overseas subsidiary is calculated using exchange rates applicable at the date of acquisition and is not subsequently re-translated at the balance sheet date.

Turnover

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

Pensions

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the period benefiting from the employees' services.

Research and development expenditure

Research and development expenditure is written off in the profit and loss account in the year in which it is incurred. Expenditure on fixed assets relating to research and development projects is written off over the expected useful life of those assets.

Taxation

The taxation charge in the profit and loss account is based on the profit for the year as adjusted for disallowable and non taxable items using current rates and takes into account tax deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

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

provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets,

1 Accounting policies continued

provision is made for the tax that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable,

deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Intangible assets

Goodwill is the excess of the fair value of the consideration paid for a business or an associate over the fair value of the identifiable assets and liabilities acquired. Goodwill is capitalised and amortised on a straight line basis over its useful economic life, which normally will not exceed 20 years. Impairment tests on the carrying value of goodwill are undertaken at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

A useful economic life in excess of 20 years, or an indefinite life, is assigned to goodwill if the directors are satisfied that its durability can be demonstrated and that it is capable of continued measurement. Goodwill with a useful economic life in excess of 20 years, or an indefinite life, is reviewed for impairment at each financial year end.

Prior to 1 April 1998, the group's policy was to charge the cost of goodwill directly to reserves in the year of acquisition. Goodwill originally charged against reserves remains eliminated against reserves, but would be charged to the profit and loss account on the disposal of the business to which it relates.

Tangible fixed assets and depreciation

Infrastructure assets In the UK regulated water services business, infrastructure assets comprise a network of systems being mains and sewers, impounding and pumped raw water storage reservoirs, dams and sea outfalls.

Expenditure on infrastructure assets to increase capacity or enhance the network and to maintain the operating capability of the network in accordance with defined standards of service is treated as a fixed asset addition and included at cost after deducting grants and contributions.

The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network based on an independently certified asset management plan.

Infrastructure assets in the US water services business are accounted for as for other tangible fixed assets.

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

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

Useful economic lives are principally as follows:

Buildings	25 - 60 years
Fixed plant	5 - 40 years
Vehicles, mobile plant and computers	3 - 10 years

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

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

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Leased assets

Assets which are financed by leasing agreements that transfer substantially all the risks and rewards of ownership to the lessee (finance leases) are capitalised in tangible fixed assets and the corresponding capital cost is shown as an obligation to the lessor in borrowings. Depreciation is generally charged to the profit and loss account over the shorter of the estimated useful life and the term of the lease. If the operational life of an asset is longer than the lease term, and the agreement allows an extension to that term, the asset may be depreciated over its operational life. The capital element of lease payments reduces the obligation to the lessor and the interest element is charged to the profit and loss account over the term of the lease in proportion to the capital amount outstanding.

All other leases are operating leases and the rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

Notes to the accounts

1 Accounting policies continued

Grants and contributions

Grants and contributions in respect of tangible fixed assets, other than in respect of infrastructure assets as described below, 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, which requires tangible fixed assets to be shown at cost and hence grants and contributions as deferred income. The presentation is adopted because infrastructure assets do not have determinable finite lives and, therefore, such grants and contributions would remain as liabilities in perpetuity. The directors consider that the 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.

Investments

Investments in associated undertakings in the group accounts are accounted for using the equity method of accounting where the directors consider that the group exercises significant influence over the associate. Significant influence is generally presumed to exist where the group's effective ownership is 20% or more. The consolidated profit and loss account includes the group's share of the operating results, interest, pre-taxation results and taxation of the associates for the relevant reporting period. The consolidated balance sheet includes the group's share of the net assets of the associates at the balance sheet date, including any goodwill on acquisition less any provision for impairment in value.

Other fixed asset investments are stated at cost less provision for impairment in value.

Kelda Group plc shares held in an employee share ownership trust (ESOT) and a qualifying employee share ownership trust (QUEST) are carried at cost as other fixed asset investments, less any provision for impairment in accordance with UITF 17.

Current asset investments are stated at the lower of cost and net realisable value.

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.

Provisions

Provision is made in accordance with FRS 12 for self insured claims incurred but not reported, and other known liabilities which exist at the balance sheet date.

Financial instruments

Debt instruments Debt instruments are included in borrowings at the net proceeds received after the deduction of issue costs and any discount on issue. Discounts and issue costs are charged to the profit and loss account over the term of the debt at a constant rate on the balance sheet carrying amount. Realised gains and losses that occur from the early termination of debt instruments are taken to profit and loss account in that period.

Forward exchange contracts Forward exchange contracts are used to hedge foreign exchange exposures arising on forecast payments and receipts in foreign currencies. Foreign currency assets and liabilities outstanding at the balance sheet date are re-translated at the forward exchange rate in appropriate cases.

Interest rate swaps Interest rate swaps are used to hedge the group's exposure to fluctuations in interest rates on its borrowings. The amounts payable or receivable in respect of interest rate swaps are accounted for on an accruals basis through adjustments to the interest expense of the corresponding liability.

Currency swaps Currency swaps are used to hedge exposures on foreign currency borrowings and foreign currency assets arising from fluctuations in exchange rates. Borrowings hedged through currency swaps are shown in the group's balance sheet re-translated at the swap exchange rate.

The group uses hedge accounting in respect of its interest rate swaps only where the financial instrument does not exceed the underlying debt, the interest characteristics of the debt are altered and the contractual maturities do not exceed the maturities of the debt. Hedge accounting is used in respect of currency swaps only where they relate to an existing asset, liability or firm commitment, and move inversely in relation to the foreign currency cash flows of the group's activities.

2 Segmental information

	Turnover		Operating profit		Operating assets	
	2002	2001	**2002**	2001	**2002**	2001 Restated
	£m	£m	**£m**	£m	**£m**	£m
Business analysis						
Water services						
– UK regulated	**559.8**	542.1	**225.5**	214.8	**2,666.9**	2,536.4
– US operations	**81.7**	77.7	**26.3**	27.1	**364.7**	392.6
Waste Recycling Group plc (associate)	**129.3**	80.6	**18.5**	15.0	**114.0**	109.7
Other activities						
– group	**16.7**	12.1	**3.4**	3.1	**19.2**	6.3
– associates	**1.1**	–	**0.4**	–	**5.6**	1.0
Discontinued operations						
– group	**0.6**	49.3	**(5.0)**	(3.3)	**–**	25.7
– associates	**10.6**	12.8	**1.4**	(4.1)	**–**	2.0
	799.8	774.6	**270.5**	252.6	**3,170.4**	3,073.7
Corporate and business development costs			**(5.2)**	(7.9)		
Strategic review costs			**–**	(5.8)		
Total: group and share of associates	**799.8**	774.6	**265.3**	238.9	**3,170.4**	3,073.7
Other investments					**25.2**	26.4
Dividend creditor					**(68.6)**	(66.6)
Net debt					**(1,436.5)**	(1,395.1)
Net assets					**1,690.5**	1,638.4
Geographical analysis						
United Kingdom	**706.9**	634.8	**242.6**	219.2	**2,805.7**	2,653.4
North America	**81.7**	77.7	**26.3**	27.1	**364.7**	392.6
Discontinued operations	**11.2**	62.1	**(3.6)**	(7.4)	**–**	27.7
Total: group and share of associates	**799.8**	774.6	**265.3**	238.9	**3,170.4**	3,073.7

Trading between geographical and business segments is not material. There is no material difference between turnover by origin and by destination. The group's associated undertakings are based in the UK.

The group's share of associates' operating profit is shown after goodwill amortisation.

The weighted average exchange rates used in the translation of profit and loss accounts were £1=$1.43 (2001: $1.48). Exchange rates used to translate assets and liabilities at the balance sheet date were £1=$1.42 (2001: $1.42).

Notes to the accounts

3 Operating costs

	Continuing operations £m	**Discontinued operations £m**	**2002 Total £m**	Continuing operations £m	Discontinued operations £m	2001 Total £m
Own work capitalised	**(24.1)**	**(0.1)**	**(24.2)**	(23.3)	–	(23.3)
Raw materials and consumables	**27.0**	**0.7**	**27.7**	25.2	7.7	32.9
Other external charges	**174.9**	**3.5**	**178.4**	184.3	13.6	197.9
Staff costs (see note 28)	**93.2**	**1.4**	**94.6**	90.6	21.1	111.7
Depreciation of tangible fixed assets:						
On owned assets – UK infrastructure	**32.2**	**–**	**32.2**	29.5	–	29.5
– other assets	**95.3**	**0.1**	**95.4**	88.5	5.1	93.6
On assets held under finance leases – UK infrastructure	**1.3**	**–**	**1.3**	1.3	–	1.3
– other assets	**13.5**	**–**	**13.5**	14.3	–	14.3
Operating lease rentals – plant and equipment	**1.4**	**–**	**1.4**	1.6	–	1.6
– other	**0.4**	**–**	**0.4**	0.2	–	0.2
Amortisation of grants and contributions	**(3.4)**	**–**	**(3.4)**	(3.4)	–	(3.4)
Amortisation of goodwill on subsidiary undertakings	**1.1**	**–**	**1.1**	1.0	0.8	1.8
Research and development	**1.0**	**–**	**1.0**	1.0	–	1.0
Other operating income	**(5.6)**	**–**	**(5.6)**	(10.2)	(1.9)	(12.1)
	408.2	**5.6**	**413.8**	400.6	46.4	447.0
Exceptional operating costs						
Provision for impairment	**–**	**–**	**–**	–	6.2	6.2

The provision for impairment of £6.2m was incurred in 2001 and relates to the group's renewable energy interests.

Auditors' remuneration	**2002 £m**	2001 £m
Statutory audit fees and expenses	**0.3**	0.3
Assurance work	**0.4**	0.5
Other services	**–**	0.6
	0.7	1.4

4 Net exceptional profit on sale of land (US)

	2002 £m	2001 £m
Profit on sale of land (US)	**60.3**	–
Taxation	**19.0**	–

The group announced the completion of a $90m land sale to the state of Connecticut and the international conservation organisation, The Nature Conservancy on 29 March 2002.

5 Net exceptional (loss) profit on disposal of operations

	Profit (loss) before goodwill £m	Goodwill £m	2002 Profit (loss) £m	Profit (loss) before goodwill £m	Goodwill £m	2001 Profit (loss) £m
First Renewables	**(25.9)**	**–**	**(25.9)**	–	–	–
Alcontrol	**–**	**–**	**–**	43.3	(35.7)	7.6
White Rose Environmental	**–**	**–**	**–**	(9.5)	(5.9)	(15.4)
Property associates	**–**	**–**	**–**	23.7	–	23.7
Net exceptional (loss) profit on disposal of operations	**(25.9)**	**–**	**(25.9)**	57.5	(41.6)	15.9
Taxation			**–**			3.6

The disposal of the group's renewable energy business resulted in an exceptional loss on disposal of £25.9m. During 2000/01 the group disposed of its interests in Alcontrol (analytical laboratories), White Rose Environmental (clinical waste management), and its property associates; White Rose (Leeds) Limited and White Rose Development Enterprises Limited.

6 Net interest payable

	2002 £m	2001 £m
Interest payable on:		
Bank loans and overdrafts	**14.1**	14.8
Other loans	**12.7**	9.0
6.625% bond	**12.2**	9.5
6.875% guaranteed bonds 2010	**13.7**	13.7
5.25% Eurobond 2006	**23.8**	28.0
Amortisation of issue costs in respect of bonds	**0.8**	0.5
Finance leases	**24.9**	30.6
Total interest payable	**102.2**	106.1
Interest receivable	**(8.7)**	(10.9)
Net interest payable	**93.5**	95.2

Notes to the accounts

7 Taxation on profit on ordinary activities

	2002 £m	2001 Restated £m
Current tax		
UK corporation tax at 30% (2001: 30%)	2.3	19.0
Double tax relief	–	(4.5)
Foreign tax	24.1	3.1
Adjustments in respect of prior years:		
UK corporation tax	(0.1)	(0.2)
Total current tax	26.3	17.4
Deferred tax		
Charge for timing differences arising and reversing in the year	39.5	35.1
Adjustments in respect of prior years	(4.8)	–
Increase in discount	(23.2)	(23.1)
Adjustment to discount in respect of prior years	3.3	–
Total deferred tax (see note 19)	14.8	12.0
Share of associates' tax	4.7	6.2
Total tax on profit on ordinary activities	45.8	35.6

The differences between the total current tax charge shown above and the amount calculated by applying the national rates of corporation tax (UK 30%, US 39%) to the profit on ordinary activities before tax is as follows:

	2002 £m	2001 £m
Profit on ordinary activities before tax	197.1	156.4
Less: share of associates' profit before tax	11.0	7.3
Group profit on ordinary activities before tax	186.1	149.1
Tax on group profit on ordinary activities at standard national tax rates	63.7	45.4
Effects of:		
Expenses not deductible for tax purposes	0.1	7.9
Capital allowances in excess of depreciation	(39.5)	(35.1)
Utilisation of tax losses	(0.4)	(0.6)
Disallowable loss on disposal of operations	7.7	–
Tax benefits arising on US land sale	(5.2)	–
Adjustments to tax charge in respect of previous periods	(0.1)	(0.2)
Group current tax charge for period	26.3	17.4

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

capital investment for the UK water services business is expected to remain at similar levels and the group expects to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year,

the US tax rates are higher than those in the UK, primarily because the profits earned in the US are taxed at a rate of 39%, and US profits are exceptionally high in 2001/02 due to the land sale,

changes in the medium and long term interest rates used to discount deferred tax assets and liabilities will affect the amount of deferred tax charged in the profit and loss account.

8 Profit attributable to parent company

The profit of the parent company, after taking account of dividends from subsidiary undertakings, was £38.6m (2001: £201.0m restated for FRS 19). Advantage has been taken of the exemption available under Section 230 of the Companies Act 1985 not to present a profit and loss account for the company alone. The parent company profit and loss account was approved by the board on 30 May 2002.

9 Dividends

	2002 £m	2001 £m
Equity – ordinary		
Interim paid: 7.7p (2001: 7.5p) per share	**29.7**	28.8
Final proposed: 17.8p (2001: 17.3p) per share	**68.6**	66.6
	98.3	95.4

Dividends amounting to £2.0m (2001: £2.0m) in respect of the company's shares held by the ESOT and the QUEST (see note 21), have been waived and are therefore excluded from the aggregate of dividends paid and proposed.

10 Earnings per share

Basic earnings per share (EPS) is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. The ordinary shares held in the ESOT and the QUEST are excluded from the weighted average number of ordinary shares for this purpose.

For diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The group has only one category of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the company's ordinary shares during the year.

	2002 Earnings £m	2002 Weighted average number of shares m	2002 Earnings per share p	2001 Earnings Restated £m	2001 Weighted average number of shares m	2001 Earnings per share Restated p
Basic EPS	**151.4**	**385.2**	**39.3**	121.8	384.4	31.7
Effect of dilutive share options		**1.1**	**(0.1)**		0.9	(0.1)
Diluted EPS	**151.4**	**386.3**	**39.2**	121.8	385.3	31.6

Adjusted EPS is considered by the directors to give a better and more consistent indication of the group's underlying performance, and is calculated as follows:

	2002 Earnings £m	2002 Weighted average number of shares m	2002 Earnings per share p	2001 Earnings Restated £m	2001 Weighted average number of shares m	2001 Earnings per share Restated p
Basic EPS	**151.4**	**385.2**	**39.3**	121.8	384.4	31.7
Net exceptional profit on sale of land (US)	**(41.3)**		**(10.7)**	–		–
Net exceptional loss (profit) on disposal of operations	**25.9**		**6.7**	(12.3)		(3.2)
Exceptional operating costs	**–**		**–**	6.2		1.6
Exceptional impairment of investment in associated undertaking	**–**		**–**	5.6		1.5
Adjusted EPS	**136.0**	**385.2**	**35.3**	121.3	384.4	31.6

Notes to the accounts

11 Intangible assets

Goodwill	Group £m
Cost	
At 1 April 2001	188.0
Additions	0.3
Disposals (see note 25)	(0.3)
At 31 March 2002	**188.0**
Aggregate amortisation	
At 1 April 2001	2.0
Charge for the year	1.1
At 31 March 2002	**3.1**
Net book amount at 31 March 2002	**184.9**
Net book amount at 31 March 2001	186.0

The goodwill arising on the acquisition of Aquarion Company, which amounted to £164.3m has, in the opinion of the directors, an indefinite life and therefore is not being amortised. The company operates in the stable US market of clean water supply in which barriers to entry are high due to significant infrastructure requirements. In addition, Aquarion has the rights to operate in its current territory in perpetuity. Consequently, the goodwill is demonstrated to be 'durable' and, since it is not the group's intention to merge the business with its existing businesses, is capable of 'continued measurement' as defined by FRS 10 'Goodwill and Intangible Assets'. In accordance with FRS 10 an impairment review was carried out at 31 March 2002, which showed that the carrying value of the goodwill was not more than its recoverable amount. This accounting treatment is a departure from the requirements of Paragraph 21 of Schedule 4 to the Companies Act 1985 and is adopted in order to present a true and fair view of the group's results. If the goodwill had been amortised over 20 years, the amortisation charge for the period ended 31 March 2002 would have been £8.2m and the net book amount of goodwill at 31 March 2002 would have been £145.8m (2001: £154.0m). Goodwill in respect of the group's other acquisitions since 1 April 1998 has been assigned a useful economic life of 20 years. Additions to goodwill of £0.3m are in respect of an adjustment to the provisional fair values on the acquisition of The Village Water Company and Environmental Engineering and Remediation reflected in the group's accounts for the year ended 31 March 2001.

12 Tangible fixed 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 2001	1,173.1	1,566.4	1,419.9	406.9	4,566.3	0.4
Exchange adjustments	(0.1)	–	(2.7)	–	(2.8)	–
Additions	16.2	26.6	51.5	261.1	355.4	–
Transfers on commissioning	79.2	101.6	127.1	(307.9)	–	–
Disposals	(6.9)	–	(7.9)	(0.8)	(15.6)	–
Disposal of operations	–	–	(0.3)	(39.7)	(40.0)	–
Grants and contributions	–	–	–	(26.4)	(26.4)	–
At 31 March 2002	**1,261.5**	**1,694.6**	**1,587.6**	**293.2**	**4,836.9**	**0.4**
Depreciation						
At 1 April 2001	334.9	614.1	424.8		1,373.8	0.3
Exchange adjustments	–	–	(2.5)		(2.5)	–
Disposals	(0.4)	–	(8.4)		(8.8)	–
Disposal of operations	–	–	(0.2)		(0.2)	–
Charge for the year	22.0	33.5	86.9		142.4	0.1
At 31 March 2002	**356.5**	**647.6**	**500.6**		**1,504.7**	**0.4**
Net book amount at 31 March 2002	**905.0**	**1,047.0**	**1,087.0**	**293.2**	**3,332.2**	**–**
Net book amount at 31 March 2001	838.2	952.3	995.1	406.9	3,192.5	0.1

12 Tangible fixed assets continued

The assets of the parent company comprise plant and equipment.

Grants and contributions received relating to infrastructure assets are deducted from the cost of tangible fixed assets. The group's accounting policy in respect of grants and contributions is a departure from the Companies Act 1985 requirements and is adopted, as explained in note 1, in order to show a true and fair view of the investment in infrastructure assets. As a consequence, the net book amount of tangible fixed assets is £224.2m lower than it would have been had this treatment not been adopted.

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	283.2	32.5	525.9	–
Depreciation	(16.8)	(6.0)	(83.9)	–	(106.7)	–
Net book amount at 31 March 2002	**134.0**	**53.4**	**199.3**	**32.5**	**419.2**	**–**
Net book amount at 31 March 2001	136.6	54.7	210.3	32.5	434.1	–

The net book amount of land and buildings comprises:	Group 2002 £m	Group 2001 £m
Freeholds	**903.9**	837.0
Long leaseholds	**0.3**	0.3
Short leaseholds	**0.8**	0.9
	905.0	838.2

13 Investments

Group	Goodwill £m	Share of net assets in associated undertakings £m	Loans to associated undertakings £m	Provision for impairment £m	Total investments in associated undertakings £m	Other investments £m
Cost and share of post acquisition retained profits						
At 1 April 2001	72.2	51.5	1.2	–	124.9	26.4
Acquisitions	–	1.3	–	–	1.3	–
Disposals	–	(5.6)	(1.2)	–	(6.8)	(1.2)
Share of retained profits for the year	–	6.8	–	–	6.8	–
Movement in the year	–	–	3.3	–	3.3	–
At 31 March 2002	**72.2**	**54.0**	**3.3**	**–**	**129.5**	**25.2**
Aggregate amortisation						
At 1 April 2001	6.6	–	–	5.6	12.2	–
Disposals	–	–	–	(5.6)	(5.6)	–
Charge for the year	3.3	–	–	–	3.3	–
At 31 March 2002	**9.9**	**–**	**–**	**–**	**9.9**	**–**
Net book amount at 31 March 2002	**62.3**	**54.0**	**3.3**	**–**	**119.6**	**25.2**
Net book amount at 31 March 2001	65.6	51.5	1.2	(5.6)	112.7	26.4

The group's share of retained profits for the year in respect of Waste Recycling Group plc (WRG) is based on the published financial statements of WRG for the year ended 31 December 2001. Goodwill arising on the group's interest in WRG, totalling £66.6m, is being amortised on a straight line basis over 20 years.

Notes to the accounts

13 Investments continued

Company	Shares in group undertakings £m	Loans to group undertakings £m	Total investments in group undertakings £m	Investments in associated undertakings £m	Other investments £m
Cost					
At 1 April 2001	944.7	588.0	1,532.7	105.8	26.4
Disposals	(9.7)	–	(9.7)	–	(0.9)
Movement in the year	(2.8)	(4.8)	(7.6)	–	–
At 31 March 2002	**932.2**	**583.2**	**1,515.4**	**105.8**	**25.5**

Other investments are stated at cost and consist primarily of 7,706,517 ordinary shares of the company with a nominal value of 15 5/9p which are held in the ESOT and the QUEST, explained in note 21. The market value of the shares held by the ESOT and the QUEST at 31 March 2002 was £30.0m (net book value £25.5m). The market value of the shares held by the ESOT and the QUEST on 29 May 2002 was £31.2m.

Details of principal subsidiary and associated undertakings are set out on page 54.

14 Stocks

	Group 2002 £m	Group 2001 £m
Raw materials and consumables	**3.0**	4.3
Work in progress	**0.1**	0.1
	3.1	4.4

15 Debtors

	Group		Company	
	2002 £m	2001 £m	**2002 £m**	2001 Restated £m
Trade debtors	**54.9**	63.1	**–**	–
Amounts owed by subsidiary undertakings			**104.0**	119.9
Amounts owed by associated undertakings	**2.0**	1.6	**1.7**	1.5
Prepayments and accrued income	**109.7**	102.1	**18.3**	18.4
Other debtors:				
Receivable within one year	**44.5**	24.7	**13.7**	7.4
Receivable after more than one year	**3.7**	3.2	**3.7**	3.3
	214.8	194.7	**141.4**	150.5

16 Short term borrowings

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Bank loans	**27.4**	16.8	**1.1**	0.3
Other unsecured loans	**5.3**	4.1	**5.3**	2.8
Finance leases	**4.2**	4.0	**–**	–
	36.9	24.9	**6.4**	3.1

Short term borrowings are denominated in a number of currencies and bear interest at normal commercial rates appropriate to the country in which the borrowing is made.

17 Other creditors

	Group 2002 £m	Group 2001 Restated £m	Company 2002 £m	Company 2001 £m
Amounts falling due within one year:				
Trade creditors	**55.6**	56.7	**–**	–
Capital creditors	**94.8**	60.0	**–**	–
Amounts owed to subsidiary undertakings			**26.9**	125.2
Deferred grants and contributions on depreciated fixed assets	**3.8**	10.9	**–**	–
Taxation	**42.7**	27.6	**–**	–
Social security and payroll deductions	**2.4**	2.1	**–**	–
Receipts in advance	**31.2**	31.7	**–**	–
Other creditors	**74.8**	67.4	**51.5**	49.2
Proposed dividends	**68.6**	66.6	**68.6**	66.6
	373.9	323.0	**147.0**	241.0
Amounts falling due after more than one year:				
Capital creditors	**–**	0.1	**–**	–
Deferred grants and contributions on depreciated fixed assets	**144.2**	143.1	**–**	–
Other creditors	**81.0**	76.5	**1.8**	1.0
	225.2	219.7	**1.8**	1.0

Notes to the accounts

18 Long term borrowings

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Bank loans	**178.4**	190.9	**9.8**	9.9
6.625% bond 2031	**243.2**	146.6	**243.2**	146.6
6.875% guaranteed bonds 2010	**198.8**	198.7	**198.8**	198.7
5.25% Eurobond 2006	**406.1**	406.0	**406.1**	406.0
Other loans	**91.6**	91.6	**0.8**	0.8
Finance leases	**477.0**	482.9	**–**	–
	1,595.1	1,516.7	**858.7**	762.0
Long term borrowings are repayable as follows:				
In more than one year but not more than two years	**38.6**	18.2	**10.6**	–
In more than two years but not more than five years	**485.3**	95.5	**406.1**	10.7
After more than five years	**1,071.2**	1,403.0	**442.0**	751.3
	1,595.1	1,516.7	**858.7**	762.0

Borrowings repayable by instalments after more than five years include £448.7m (2001: £456.4m) in respect of finance leases which have expiry dates ranging from 2018 to 2033 and carry interest rates based on 12 month LIBOR (London Inter-Bank Offered Rate). Long term borrowings are denominated in a number of currencies and bear interest at normal commercial rates appropriate to the country in which the borrowing is made. During the year the 6.625% bond 2031 was increased by a 'tap' issue of £93.4m on the same terms. The group also entered into interest rate swaps for notional principal amounts totalling £265m and $150m, maturing at various dates to March 2003. £115m of the interest rate swaps receives interest at a rate of 12 month LIBOR and pays interest at an average rate of 5.2%. The remaining £150m receives interest at 6 month LIBOR and pays interest at an average rate of 4.7%. The $150m swap receives interest at 6 month LIBOR and pays interest at an average rate of 3.1%.

19 Provisions for liabilities and charges

	Deferred tax £m	Other £m	Group total £m	Company total £m
At 1 April 2001 (Restated)	138.1	2.4	140.5	0.7
Additions during the year	14.8	2.2	17.0	0.8
Disposal of operations	(3.0)	–	(3.0)	–
Utilised in year	–	(0.8)	(0.8)	(0.5)
At 31 March 2002	**149.9**	**3.8**	**153.7**	**1.0**

Other provisions are principally in respect of self insurance and vacant properties. Provisions in the parent company are other provisions.

	Group 2002 £m
Deferred tax	
At 1 April 2001 (Restated)	**138.1**
Deferred tax charged to the profit and loss account	**14.8**
Disposal of operations	**(3.0)**
At 31 March 2002	**149.9**

19 Provisions for liabilities and charges continued

Deferred tax is provided as follows:

	Group 2002 £m	Group 2001 Restated £m
Accelerated capital allowances	**482.5**	460.0
Short term timing differences	**(3.8)**	(13.0)
Undiscounted provision for deferred tax	**478.7**	447.0
Discount	**(328.8)**	(308.9)
Discounted provision for deferred tax	**149.9**	138.1

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

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries. As the earnings are continually reinvested by the group, no tax is expected to be payable in the foreseeable future.

20 Financial instruments

Treasury policy is described in the financial review on page 15. The disclosures below exclude short term debtors and creditors which are primarily of a trading nature and expected to be settled within normal commercial terms.

(a) Interest rate risk profile of financial liabilities

The interest rate risk profile of the group's financial liabilities at 31 March, after taking account of the interest rate and currency swaps used to manage the interest and currency profile, was as follows:

	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Gross debt £m	Financial liabilities on which no interest is paid £m	Total £m
Sterling	454.7	933.5	1,388.2	81.0	1,469.2
US dollars	134.5	86.0	220.5	–	220.5
Euros	16.3	7.0	23.3	–	23.3
At 31 March 2002	**605.5**	**1,026.5**	**1,632.0**	**81.0**	**1,713.0**
Sterling	467.6	848.6	1,316.2	76.6	1,392.8
Dutch guilders	2.8	7.0	9.8	–	9.8
US dollars	116.5	85.4	201.9	–	201.9
Euros	13.7	–	13.7	–	13.7
At 31 March 2001	600.6	941.0	1,541.6	76.6	1,618.2

Financial liabilities on which no interest is charged comprise capital creditors and other creditors falling due after more than one year.

Euro liabilities at 31 March 2002 include the conversion of existing Dutch guilder instruments from the previous year.

Notes to the accounts

20 Financial instruments continued

Floating rate Sterling, US dollar and Euro debt bears interest at rates based on sterling LIBOR (London Inter-Bank Offered Rate), US dollar LIBOR and EURIBOR (European Inter-Bank Offered Rate), respectively.

The group uses interest rate swaps to fix a proportion of its floating rate sterling debt.

The weighted average interest rates and periods for borrowings in each of the group's principal currencies is as follows:

	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average period until maturity Years
Sterling	6.7	14	3.6
Euros	7.1	1	–
US dollars	6.4	27	–
Weighted average at 31 March 2002	**6.7**	**14**	**3.6**
Sterling	6.8	13	3.9
Dutch guilders	7.1	2	–
US dollars	6.4	28	–
Weighted average at 31 March 2001	6.8	14	3.9

(b) Interest rate risk profile of financial assets

The interest rate risk profile of the financial assets of the group at 31 March was as follows:

	Cash at bank and in hand £m	**Short term deposits £m**	**2002 Total £m**	Cash at bank and in hand £m	Short term deposits £m	2001 Total £m
Sterling	**1.1**	**120.9**	**122.0**	3.8	141.9	145.7
Euros	**–**	**0.2**	**0.2**	–	–	–
US dollars	**61.5**	**11.8**	**73.3**	0.8	–	0.8
At 31 March	**62.6**	**132.9**	**195.5**	4.6	141.9	146.5

Surplus cash is invested in short term instruments at rates based on LIBOR and US dollar LIBOR with institutions rated at least A1 or P1 by Standard & Poor's and Moody's.

20 Financial instruments continued

(c) Maturity of financial liabilities

The maturity profile of the carrying amount of the group's financial liabilities at 31 March was as follows:

	Debt £m	Finance leases £m	Gross debt £m	Other financial liabilities £m	Total £m
In one year, or less, or on demand	32.7	4.2	36.9	–	36.9
In more than one year but not more than two years	10.5	–	10.5	17.3	27.8
In more than two years but not more than five years	430.4	0.3	430.7	47.0	477.7
After more than five years	680.0	476.7	1,156.7	16.7	1,173.4
	1,153.6	481.2	1,634.8	81.0	1,715.8
Unamortised issue costs	(2.8)		(2.8)		(2.8)
At 31 March 2002	**1,150.8**	**481.2**	**1,632.0**	**81.0**	**1,713.0**
In one year, or less, or on demand	20.9	4.0	24.9	–	24.9
In more than one year but not more than two years	–	–	–	13.1	13.1
In more than two years but not more than five years	40.7	0.5	41.2	40.9	82.1
After more than five years	999.6	482.4	1,482.0	22.6	1,504.6
	1,061.2	486.9	1,548.1	76.6	1,624.7
Unamortised issue costs	(6.5)		(6.5)		(6.5)
At 31 March 2001	1,054.7	486.9	1,541.6	76.6	1,618.2

(d) Borrowing facilities

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

	2002 £m	2001 £m
Expiring in one year or less	**–**	97.2
Expiring in more than one year but not more than two years	**100.0**	–
Expiring in more than two years	**69.5**	–
	169.5	97.2

Notes to the accounts

20 Financial instruments continued

(e) Fair values of financial assets and financial liabilities

The following table provides a comparison by category of the book values and the fair values of the group's financial assets and liabilities at 31 March:

	2002 Book value £m	2002 Fair value £m	2001 Book value £m	2001 Fair value £m
Primary financial instruments financing the group's operations				
Short term borrowings	**(36.9)**	**(37.7)**	(24.9)	(25.6)
Long term borrowings	**(1,566.2)**	**(1,577.7)**	(1,493.6)	(1,529.9)
Cash and short term deposits	**195.5**	**195.5**	146.5	146.5
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps	**–**	**(9.7)**	–	(10.1)
Interest rate caps and collars	**–**	**–**	–	(0.1)
Currency swaps	**(28.9)**	**(28.9)**	(23.1)	(23.1)
Net debt	**(1,436.5)**	**(1,458.5)**	(1,395.1)	(1,442.3)
Other financial liabilities	**(81.0)**	**(81.0)**	(76.6)	(76.6)
Total	**(1,517.5)**	**(1,539.5)**	(1,471.7)	(1,518.9)

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.

(f) Currency exposures

The group may borrow in appropriate foreign currencies in order to mitigate the effects of the currency exposures arising from its net investments overseas. The group's residual investments in Holland were financed by Dutch guilder or Euro borrowings in order to fully hedge against the impact of movements in the guilder and Euro/sterling exchange rates on the translation of net assets denominated in Dutch guilders. The proceeds from the Euro 625m bond issue in July 1999, used to fund the acquisition of Aquarion Company, were also predominantly swapped into sterling. The foreign exchange exposure on the translation into sterling of the net assets of Aquarion, denominated in US dollars is principally hedged by a US dollar currency swap taken on in March 2001.

Gains and losses arising on net investments overseas and the financial instruments used to hedge the currency exposures are recognised in the statement of total recognised gains and losses.

There are no currency exposures on short term debtors and creditors or monetary assets and liabilities giving rise to a profit and loss account charge.

20 Financial instruments continued

(g) Hedges

The group's policy is to hedge interest rate risk within approved board policies and guidelines.

Interest rate swaps, interest rate caps and collars and forward rate agreements are used to manage interest rate exposure under a policy that requires between 80% and 85% of Yorkshire Water Services Limited's net debt and 60% and 85% of Kelda Group plc's net debt to be held at fixed rates. At the financial year end the proportions were 90% and 69% respectively. The proportion of Yorkshire Water Services Limited's net debt held at fixed rates is above the target range at the year end, but is anticipated to fall to within this range during the year ending 31 March 2003.

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 2001	8.1	(18.3)	(10.2)
Gains and losses arising in previous years recognised during the year	(1.1)	6.1	5.0
Gains and losses arising in the year that were not recognised	(0.4)	(4.1)	(4.5)
At 31 March 2002	**6.6**	**(16.3)**	**(9.7)**
of which:			
Gains and losses expected to be recognised during the year ending 31 March 2003	1.8	(3.5)	(1.7)
Gains and losses expected to be recognised in later years	4.8	(12.8)	(8.0)

	Gains £m	Losses £m	Total net gains (losses) £m
Unrecognised gains and losses on hedges			
At 1 April 2000	2.0	(12.5)	(10.5)
Gains and losses arising in previous years recognised during the year	0.7	(0.3)	0.4
Gains and losses arising in the year that were not recognised	5.4	(5.5)	(0.1)
At 31 March 2001	8.1	(18.3)	(10.2)
of which:			
Gains and losses expected to be recognised during the year ended 31 March 2002	1.7	(4.1)	(2.4)
Gains and losses expected to be recognised in later years	6.4	(14.2)	(7.8)

The table excludes the fair value of a currency swap maturing in 2006 amounting to £28.9m (2001: £23.1m) which is recognised in the book value of long term borrowings at 31 March 2002.

(h) Financial instruments held for trading purposes

The group does not trade in financial instruments.

Notes to the accounts

21 Called up share capital

	2002 Number	**2002 Nominal value**	2001 Number	2001 Nominal value
Authorised				
Ordinary shares of $15\frac{5}{9}$p each	**814,395,257**	**126,683,707**	814,395,257	126,683,707
Allotted, called up and fully paid				
Ordinary shares of $15\frac{5}{9}$p each	**392,982,517**	**61,130,614**	392,977,605	61,129,850

During the year, 4,912 ordinary shares of $15\frac{5}{9}$p were issued directly to employees exercising Sharesave options.

The group has both an ESOT and a QUEST, which are trusts used to administer the issue of shares to employees and directors under the company's "Sharesave" save-as-you-earn share option scheme and, in the case of the ESOT, the Long Term Incentive Plan. The QUEST, like the ESOT, is a trust funded by interest free loans from the company. All the administration costs of the trusts are written off to the profit and loss account as they accrue. The shares held by the trusts are included as fixed assets investments in note 13.

Options granted and outstanding at 31 March 2002	Date of grant	**2002 Number of shares**	2001 Number of shares	Option price	Normal exercise date
Sharesave schemes					
Three year schemes	21 December 1998	**309**	1,547	249.7p	Feb-Jul 2002
	6 January 1999	**49,279** *	60,959 *	457.0p	Mar-Aug 2002
	7 January 2000	**896,709** **	1,079,282 **	240.0p	Mar-Aug 2003
	5 January 2001	**394,015** **	442,213 **	299.0p	Mar-Aug 2004
	4 January 2002	**410,541** **	–	275.0p	Mar-Aug 2005
Five year schemes	18 December 1996	**–**	2,187	268.1p	Feb-Jul 2002
	14 March 1997	**676,579** **	758,177 **	295.0p	May-Oct 2002
	17 December 1997	**491**	1,105	280.3p	Feb-Jul 2003
	31 December 1997	**243,287** *	282,635 *	389.0p	Mar-Aug 2003
	21 December 1998	**2,079**	3,295	249.7p	Feb-Jul 2004
	6 January 1999	**91,877** *	118,595 *	457.0p	Mar-Aug 2004
	7 January 2000	**942,052** **	1,052,278 **	240.0p	Mar-Aug 2005
	5 January 2001	**246,079** **	272,932 **	299.0p	Mar-Aug 2006
	4 January 2002	**340,748** **	–	275.0p	Mar-Aug 2007

* Shares under options to be satisfied by the ESOT
** Shares under options to be satisfied by the QUEST

22 Reserves

	Group £m	Company £m
Share premium account		
At 1 April 2001 and 31 March 2002	**16.7**	**16.7**
Capital redemption reserve		
At 1 April 2001 and 31 March 2002	**142.6**	**142.6**
Profit and loss account		
At 1 April 2001	1,556.6	680.2
Prior year adjustment resulting from the implementation of FRS 19	(138.1)	0.3
Balance at 1 April as restated	1,418.5	680.5
Exchange rate translation change	(1.5)	–
Transfer from the profit and loss account	53.1	(59.7)
At 31 March 2002	**1,470.1**	**620.8**

The cumulative amount of goodwill written off against reserves is £14.1m (2001: £14.1m).

23 Reconciliation of group movements in equity shareholders' funds

	2002 £m	2001 £m
Profit attributable to shareholders (2001 restated for prior year FRS 19 adjustment of £12.0m)	**151.4**	121.8
Dividends	**(98.3)**	(95.4)
	53.1	26.4
Other recognised gains and losses relating to the year	**(1.5)**	16.1
New share capital issued	**–**	1.3
Net movement in goodwill	**–**	23.2
Net increase in equity shareholders' funds	**51.6**	67.0
Opening equity shareholders' funds (2001 restated for prior year FRS 19 adjustment of £126.1m)	**1,638.9**	1,571.9
Closing equity shareholders' funds	**1,690.5**	1,638.9

24 Commitments

	Group		Company	
	2002 £m	2001 £m	**2002 £m**	2001 £m
Contracts placed at 31 March	**239.1**	389.8	**–**	–

In addition, the UK regulated water services business has a long term investment programme which identifies substantial future expenditure commitments in the period to 31 March 2005.

Notes to the accounts

24 Commitments continued

At 31 March, 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			
	2002 Land and buildings £m	**2002 Other £m**	2001 Land and buildings £m	2001 Other £m
Operating leases which expire:				
Within one year	**–**	**0.5**	–	0.4
Between two and five years	**0.3**	**0.9**	0.3	0.7
	0.3	**1.4**	0.3	1.1

25 Disposals

Operations disposed of were First Renewables Limited and its subsidiaries Arbre Energy Limited and Arbre Farming Limited, together with the associate interests in Yorkshire Windpower Limited and Fibro Holdings Limited.

The effect of the disposals on the group's cash and net debt can be analysed as follows:

	£m
Intangible fixed assets	0.3
Tangible fixed assets	39.8
Investments in associated undertakings	1.2
Stocks	0.4
Debtors	0.5
Creditors	(12.8)
Short term borrowings	(0.7)
Deferred tax	(3.0)
Minority interest	1.2
Net assets	26.9
Loss on disposal	(25.9)
Consideration	**1.0**
Deferred consideration	3.5
Transaction costs paid in the year	(0.6)
Transaction costs accrued	(1.9)
Consideration	**1.0**

First Renewables contributed £0.2m to net operating cash flows, and paid £8.4m in respect of the purchase of tangible fixed assets in the period prior to disposal.

26 Contingent liabilities

The parent company has guaranteed certain subsidiary undertakings' borrowings of £661.1m (2001: £680.1m).

At the time of completion of the WRG merger, an indemnity was given to WRG by Yorkshire Environmental Solutions Limited, backed by a Kelda Group plc guarantee, in respect of a landfill site managed by 3C Waste Limited and known as the Rhonda site. The indemnity is unlimited in amount and the time limit for bringing claims is seven 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 Rhonda Waste Disposal Limited.

27 Pensions

UK Pension Scheme

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

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

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

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

An accrual for unfunded benefits of £1.6m (2001: £1.0m) has been included in the group's accounts.

Notes to the accounts

27 Pensions continued

US Pension Schemes

Aquarion and certain of its subsidiaries in the US also operate non contributory defined benefit retirement plans and provide healthcare benefits for substantially all retired employees. Post retirement healthcare benefits are not provided to employees appointed after 1 July 1996.

The latest valuations of the US schemes were carried out at 31 December 2001. The market value of assets of the principal retirement plan for employees of Aquarion was $53.5m and exceeded the benefit obligations at that date by $19.6m. The benefit obligation of the post retirement healthcare plan exceeded the market value of assets by $13.0m. The Aquarion pension asset was recorded at fair value on acquisition and full provision for the post retirement healthcare benefit obligations has been made in the group's accounts at 31 March 2002.

The group's total pension charge for the year was £8.2m (2001: £9.8m).

The additional disclosures required by FRS 17 are set out below. A qualified independent actuary has updated the most recent valuations of the principal schemes to 31 March 2002. In calculating the liabilities at 31 March 2002, the following financial assumptions have been used:

Major assumptions	UK %	US %
Inflation	2.8	–
Rate of increase in salaries	4.3	5.0
Rate of increase to pensions in payment and deferred pensions	2.8	–
Discount rate for scheme liabilities	6.0	7.3

The Aquarion retirement plan does not guarantee to increase pensions in payment and there is no pre-funding of pensions increases. Discretionary increases have been awarded in the past on an ad hoc basis.

The market values of the assets and the FRS 17 value of liabilities of the principal defined benefit plans at 31 March 2002, together with the expected long term rate of returns were as follows:

	UK		US	
	Market value £m	Expected long term rate of return %	Market value $m	Expected long term rate of return %
Market value of assets				
Equities	431.8	6.75	30.1	8.0
Bonds	81.9	5.70	16.0	7.3
Other	26.5	5.25	7.2	6.0
	540.2		53.3	
Present value of scheme liabilities	(515.0)		(35.7)	
Pension asset before deferred tax	25.2		17.6	
Deferred tax	(7.6)		(7.0)	
Net pension asset	17.6		10.6	

28 Employees

	Group 2002 Number	2001 Number
Average number of people employed		
Water services		
– UK regulated	**2,103**	2,108
– US operations	**411**	396
Other activities	**650**	1,542
	3,164	4,046

	£m	£m
Total employment costs		
Wages and salaries	**79.9**	92.6
Social security contributions	**6.5**	9.3
Other pension costs (see note 27)	**8.2**	9.8
	94.6	111.7

The emoluments, share options and LTIP interests of the directors are described in the remuneration report on pages 21 to 24.

29 Related parties

During the year, group companies extended finance to Aberdeen Environmental Services (Holdings) Limited, and in the previous year to Fibro Holdings Limited on a proportionate basis with other principal shareholders. These loans are included in investments analysed in note 13.

	2002 £m	2001 £m
Aberdeen Environmental Services (Holdings) Limited	**3.3**	–
Fibro Holdings Limited	**–**	1.2

The loans carry market rates of interest. Total interest received on loans to associated undertakings was £0.1m (2001: £0.1m). There were no loans outstanding at 31 March 2002 between the group and Waste Recycling Group plc.

There were no other material transactions between the group and its associated undertakings during the year.

30 Post balance sheet event

On 25 April 2002 the Aquarion Company acquired the business and assets of Connecticut-American Water Company, Massachusetts-American Water Company, New York-American Water Company, and Hampton Water Company. In addition Massachusetts Capital Resource Company, which owns and leases certain assets to Massachusetts-American Water Company has also been acquired. The consideration was $120m in cash and the assumption of debt of $104m, which has been funded from Kelda's existing cash resources and debt. The four water companies supply water to 64,000 customers and a population of 177,000, in the US states of Connecticut, Massachusetts, New York and New Hampshire.

Group companies

Principal subsidiary companies	Country of incorporation	Class of shares in issue	Proportion of class of share held
Water services			
Yorkshire Water Services Limited*	England & Wales	Ordinary	100%
Aquarion Company	US	Ordinary	100%
BHC Company	US	Ordinary	100%
Grampian Wastewater Services Limited	Scotland	Ordinary	100%
Yorkshire Water Projects Limited*	England & Wales	Ordinary	100%
Other activities			
KeyLand Developments Limited*	England & Wales	Ordinary	100%
KeyLand Investment Properties Limited	England & Wales	Ordinary	100%
Loop Customer Management Limited*	England & Wales	Ordinary	100%
Holding companies			
Featurepack Limited*	England & Wales	Ordinary	100%
Kelda Group Inc	US	Ordinary	100%
YW (Holdings) BV	Netherlands	Ordinary	100%

Principal associated undertakings	Country of incorporation	Class of shares in issue	Proportion of class of share held
Waste Recycling Group plc*	England & Wales	Ordinary	46%
Aberdeen Environmental Services (Holdings) Limited	Scotland	Ordinary ‘A’	Nil
	Scotland	Ordinary ‘B’	100%
	Scotland	Ordinary ‘C’	Nil

* Shares held by parent company

Five year financial summary

		2002	2001	2000	1999	1998
Turnover: group and share of associates	£m	**799.8**	774.6	782.8	687.1	664.1
Water services						
- UK regulated	£m	**559.8**	542.1	624.0	580.7	546.1
- US operations	£m	**81.7**	77.7	17.0	–	–
Other activities	£m	**17.3**	61.4	75.2	90.7	89.3
Associates	£m	**141.0**	93.4	66.6	15.7	28.7
Operating profit: group and share of associates	£m	**270.5**	252.6	295.5	259.0	243.3
(before unallocated costs)						
Water services						
- UK regulated	£m	**225.5**	214.8	271.5	250.5	226.4
- US operations	£m	**26.3**	27.1	6.1	–	–
Other activities	£m	**(1.6)**	(0.2)	5.1	7.9	14.8
Associates	£m	**20.3**	10.9	12.8	0.6	2.1
Profit before taxation	£m	**197.1**	156.4	222.1	221.0	205.6
Earnings per share	p	**39.3**	31.7	54.4	55.4	11.6
Adjusted earnings per share	p	**35.3**	31.6	58.0	52.6	49.7
Dividend per share – interim	p	**7.70**	7.50	7.30	6.75	6.15
– final	p	**17.80**	17.30	16.85	15.60	14.20

		2002	2001	2000	1999	1998
Assets employed						
Fixed assets	£m	**3,661.9**	3,517.6	3,437.1	2,667.0	2,366.7
Net current liabilities, long term creditors and provisions	£m	**(534.9)**	(484.1)	(326.2)	(207.7)	(375.9)
	£m	**3,127.0**	3,033.5	3,110.9	2,459.3	1,990.8
Financed by						
Shareholders' funds	£m	**1,690.5**	1,638.9	1,698.0	1,576.4	1,416.0
Minority interests	£m	**–**	(0.5)	0.1	0.1	1.5
Net debt	£m	**1,436.5**	1,395.1	1,412.8	882.8	573.3
	£m	**3,127.0**	3,033.5	3,110.9	2,459.3	1,990.8

The figures for 2001 have been restated to reflect the adoption of deferred tax in accordance with FRS 19. Figures prior to 2001 have not been restated.

		2002	2001	2000	1999	1998
Yorkshire Water regulated investment programme						
Capital expenditure	£m	**270.2**	226.8	381.9	322.7	287.9
Infrastructure renewals	£m	**54.5**	38.7	70.5	60.1	62.2
	£m	**324.7**	265.5	452.4	382.8	350.1
Employees (average number)						
Water services						
- UK regulated	No.	**2,103**	2,108	2,884	3,008	3,208
- US operations	No.	**411**	396	99	–	–
Other activities	No.	**650**	1,542	1,330	1,201	1,125
Group total	No.	**3,164**	4,046	4,313	4,209	4,333

Regulatory accounts
The regulatory accounting information of Yorkshire Water Services Limited for the year ended 31 March 2002, published in accordance with Condition F of the Instrument of Appointment, can be obtained, free of charge, by writing to the Company Secretary, Western House, Halifax Road, Bradford BD6 2SZ.

General information

Financial calendar

Announcement of results	30 May 2002
Annual general meeting	25 July 2002
Ex dividend date	28 August 2002
Record date	30 August 2002
Final dividend payment date	1 October 2002

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 registrar. Tax vouchers are sent to the shareholder's registered address under this arrangement unless requested otherwise.

Annual Report on cassette tape/disk
For the benefit of blind and partially sighted shareholders the text of the Annual report 2002 is available on audio cassette tape and disk, free of charge from the shareholder information office. Anyone knowing a shareholder who could benefit from this service is asked to draw it to their attention.

Analysis of ordinary shareholders at 31 March 2002 by size of account and category

	Number of holders	Number of shares held	% of total shares
1 – 100	4,985	123,135	0.03
101 – 1,000	31,570	15,413,831	3.92
1,001 – 10,000	16,493	34,042,996	8.66
10,001 – 100,000	634	20,948,736	5.33
100,001 – 1,000,000	257	80,411,837	20.47
1,000,001+	71	242,041,982	61.59
	54,010	392,982,517	100.00

	Number of holders	Number of shares held	% of total shares
Individuals	50,485	49,727,509	12.66
Nominee company	3,229	327,779,026	83.41
Insurance company	7	4,688,467	1.19
Pension fund	96	8,261,047	2.10
Other corporate body	193	2,526,468	0.64
	54,010	392,982,517	100.00

Share price information
The latest Kelda Group plc share price is available at www.keldagroup.com, Ceefax, Teletext and also on the FT CityLine, telephone 0906 003 5492 (calls charged at 60p per minute).

Information on gifting your shares
To transfer your shares to another member of your family as a gift, please ask the company's registrar for a gift transfer form. The completed transfer form and relevant share certificate(s) should be returned to the registrar to record the change in ownership.

The company supports a scheme whereby shareholders with small holdings of shares, whose value makes them uneconomic to sell, can donate them to Wateraid. Details can be obtained from the shareholder information office. Further information about Wateraid is available at www.wateraid.org.uk

Secretary and registered office
Philip Hudson
Kelda Group plc
Western House
Halifax Road
Bradford BD6 2SZ
Telephone: 01274 600 111

Registrar
Northern Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA
Telephone: 01484 600 900
Fax: 01484 600 911
www.northernregistrars.co.uk

Auditors
Ernst & Young LLP
PO Box 61
Cloth Hall Court
14 King Street
Leeds LS1 2JN

Principal bankers
National Westminster Bank plc
City Office
Park Row
Leeds LS1 2QS

Financial advisers
Greenhill & Co
Regent Gate
56-58 Conduit Street
London W1R 9FD

Joint stockbrokers
UBS Warburg
1 Finsbury Avenue
London EC2M 2PP

Cazenove & Co. Ltd
12 Tokenhouse Yard
London EC2R 7AN

Shareholder information office
Freephone: 0800 919 303

Website addresses
www.keldagroup.com
www.yorkshirewater.com
www.aquarion.com

Water supply and general enquiries
Customer helpline: 0845 1 24 24 24

Billing enquiries
Customer helpline: 0845 1 24 24 20

Designed and produced by BRAHM Design, Leeds
Printed by Polestar Corporate Print Limited, Bradford

Printed on 100% Elemental Chlorine Free (ECF) wood pulp.
Only from replanted sources.
Totally recyclable and biodegradable.

Kelda Group plc
Western House, Halifax Road, Bradford BD6 2SZ
www.keldagroup.com