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.

	Earnings £m	Weighted average number of shares m	2002 Earnings per share p	Earnings Restated £m	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:

	Earnings £m	Weighted average number of shares m	2002 Earnings per share p	Earnings Restated £m	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**	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 15⅚p 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 2002 £m	Group 2001 £m	Company 2002 £m	Company 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 5/9p each	**814,395,257**	**126,683,707**	814,395,257	126,683,707
Allotted, called up and fully paid				
Ordinary shares of 15 5/9p each	**392,982,517**	**61,130,614**	392,977,605	61,129,850

During the year, 4,912 ordinary shares of 15 5/9p 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	Group 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.