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Financial highlights

Turnover

Group turnover (including associates) increased by 13.9% to £782.8m in 1999/00

The regulated UK water services business turnover was £624.0m

Other activities accounted for 20.3% of the group total

Turnover: group and share of associates

	£m
98	664.1
99	687.1
00	782.8

■ Water services ■ Other activities

Operating profit: group and share of associates

	£m*
98	243.3
99	259.0
00	295.5

■ Water services ■ Other activities

* Before corporate costs

Operating profit

Operating profit increased by 12.1% to £284.5m, including the group's share of associates' profits (principally the 46% holding in Waste Recycling Group plc)

Other activities accounted for 8.1% of the group total before corporate costs

Profit before taxation

Profit before taxation increased 0.5% to £222.1m, including exceptional profits on the sale of a business of £2.9m, but after charging restructuring costs of £18.2m in the water services business

Group profit before taxation

	£m
98	205.6
99	221.0
00	222.1

Earnings per share

Adjusted earnings per share excludes exceptional profits and restructuring costs to provide a better indication of the trend in the group's financial performance

Compound growth in adjusted earnings per share over the three year period was 7.2%

Adjusted earnings per share

	p
98	49.7
99	52.6
00	58.0

Dividends per share

A final dividend per share of 16.85p for 1999/00 has been recommended by the board

The year on year increase in the dividend per share is 8.1%

Dividend per share

	p
98	20.35
99	22.35
00	24.15

Chairman's statement

In my first statement as Chairman I am pleased to report that profit before tax and after £18.2m exceptional restructuring costs was £222.1m, just ahead of prior year £221.0m. The exceptional restructuring costs have been provided for the redundancies completed in the first quarter of this calendar year, which were part of an efficiency and cost reduction drive to offset some of the financial implications of the latest price determination which came into effect on 1 April.

The underlying result, pre-exceptional items, gave an adjusted earnings per share increase of 10.3%, a good performance.

There was an improvement from Yorkshire Water Services, which benefited from allowed price increases and continued efforts to reduce costs and improve efficiency. I am particularly pleased to report that on service measures Yorkshire Water Services has achieved OFWAT's top rating on six of the eight key service performance measures and is ranked as one of the most efficient companies in the sector.

There was a good profit contribution from the full year effect of integrating our waste operations into Waste Recycling Group plc and the first contribution in the final quarter from the newly acquired US operation, Aquarion, which performed up to expectations and was earnings enhancing.

The performance of our other non-regulated activities was more variable, with unplanned delays and cost increases at our start-up Arbre renewable energy business. Profit was affected by the write-down of asset values in White Rose Environmental and there was a mixed performance from Alcontrol, our environmental and food testing operation. Whilst it continued to grow strongly, mainly via acquisition, it did have a number of integration and management issues, which have now been satisfactorily dealt with.

The overall underlying performance in the year has enabled us to confirm the final dividend increase of 8%, to give a final dividend of 16.85p per share making a total of 24.15p for the full year, an 8.1% increase over the prior year.

There have been a number of changes to the board since last year's report. Brandon Gough retired from the board at the financial year-

end, having joined the company in 1996 at a very difficult time in its history. Brandon's leadership in rebuilding the company's reputation has been significant. He was supported for some of that period by Kevin Bond, whose resignation from the company was announced in April along with the board's decision to conduct a strategic review of the business. Your board thanks both Brandon and Kevin for their contribution. It is also appreciative of the contribution made by Jonson Cox, who has previously announced he is leaving to join the Railtrack Board. We wish him all success in his new role.

In order to help establish the then proposed mutual body, David Perry resigned from the board in June to take up the position of the founder chairman of that body. The board is particularly appreciative of the contribution made by David since joining the group four years ago. Also, sadly, Phil Cox has recently decided to resign from the board for personal and family reasons. Phil's experience and enthusiasm will be missed.

We have recently made two executive appointments to the board. As indicated in June, John O'Kane has become Group Finance Director. John has considerable experience of finance roles in industry, both in the UK and overseas, and for the last two years has been Finance Director of Yorkshire Water Services. Kevin Whiteman, who has also joined the board, is the Managing Director of Yorkshire Water Services. He has considerable knowledge of the water industry, both from his experience since joining the Kelda Group and from his previous role with the Environment Agency. Kevin and John are welcome additions to your board. James Newman, formerly Group Finance Director, has been appointed Deputy Chief Executive to manage the company's strategic changes and further strengthen the management team.

Strategic Review

The Strategic Review has helped to focus management further on the continuing improvement of the water business.

Strategic Review

The major challenge facing the company is how to deal with the long run impact of the price determination which set revenue levels and investment requirements until the year 2005. The effect for the financial year which began on 1 April 2000, is a price reduction of some 14.5%, equivalent to approximately £80m in turnover. As the consequences of the price determination have been well publicised, it has clearly been a major factor in the average reduction in the share price of water companies by over 40% in the last calendar year.

On 11 April 2000 your board announced a wide-ranging review of the company's strategy and group structure to address this challenge. The conclusions of the review were, in summary:

- 1** Kelda will focus on its water and waste management operations with a planned disposal of its renewable energy and other environmental services businesses in the UK and Europe.
- 2** To create a community owned corporation (Registered Community Asset Mutual, or RCAM), to acquire the shares and assets of Yorkshire Water Services for a total consideration close to the regulated asset value, with the net proceeds after debt being made available to shareholders.
- 3** To ensure that the RCAM had a sound financial basis, with an improved credit rating that would bring long-term benefits to customers and safeguard the existing price determination, and to offer absolute continuity of prices and services to customers.

4 That, as well as meeting the demanding criteria above, the proposals would also require the approval of the regulator and some form of community endorsement.

5 To reduce the corporate and overhead structures of the company.

The review drew upon the considerable strength and depth of management within the company. The board has been very encouraged by the professionalism of the management approach and the enthusiasm with which all levels of employees and management endorsed these recommendations.

Following initial validation of the criteria necessary to establish the RCAM on a sound financial basis and commencement of the regulatory approval process, including agreement to extend a detailed customer consultation process up to December, OFWAT published its views on the proposed RCAM element of the proposals on 25 July. Your board's view was that the regulator's detailed concerns, when taken together, could not be addressed by amendments to the current proposals. Accordingly, they were withdrawn with the intention of seeking, in due time, a way forward that is acceptable to the Director General of Water Services and others.

We continue to believe that there are significant benefits and advantages to customers, shareholders and the community from a separation of asset ownership from operations and the development of structures which attract large amounts of capital at the lowest cost, which is vital to the continued improvement and development of services to customers in the longer run.

The key recommendations from our review, that Kelda should focus on its water and waste interests, with planned disposals of other businesses in the UK and Europe and reduce its corporate and overhead structures, remain in place and are being actively progressed. The detailed internal work carried out on the strategic review has helped to focus management further on the continuing improvement of the water business, which remains our overriding purpose.



John Napier
Executive Chairman



Operating and financial review

Operating review: Yorkshire Water

Operating results

Regulated turnover increased by 5.9% in Yorkshire Water Services to £614.4m (1999: £580.1m) following an overall increase in tariffs of 6.2% from 1 April 1999. York Waterworks contributed an additional £9.6m (1999: £0.6m) in its first full year as part of the Kelda Group. In 1999/00, one third of the regulated turnover was from metered customers. Income from new customers helped to offset the loss of income arising from the continuing decline in consumption by the traditional measured customer base and the effect of an additional 21,000 domestic meter options. At 31 March 2000 over 340,000 domestic customers were metered.

Regulated operating costs reduced by more than 5% in real terms despite additional operating costs arising from the completion of capital schemes. The savings arose primarily from the Change Programme efficiency initiatives, including a reduction in employees from 2,891 at the start of the financial year to 2,730 at 31 March 2000. The challenge set by the Final Determination has led to the need to accelerate planned cost reductions and exceptional restructuring costs of £18.2m, representing the additional cost of redundancies arising, were incurred.

Operating profit after exceptional restructuring costs increased by 8.3% to £271.5m (1999: £250.5m) resulting in an improvement in the operating margin to 43.5% compared to 43.1% in 1999.

Operating performance

In 1999/00 the company achieved a top ranking in six out of the eight OFWAT key levels of service indicators.

Further improvements have been made to the very high levels of service achieved in recent years. As a result of focused investment and improved operational practices the number of properties at risk of inadequate water pressure has been reduced by two thirds over the last year. Overall compliance with drinking water quality standards has never been better, reaching 99.9% in 1999 (1998: 99.8%).

Customers have consistently identified the flooding of properties from sewers as of primary importance. The number of customers with repeat sewerage problems has been significantly reduced and our response to urgent calls from these customers has improved dramatically. Reductions in sewer flooding are a high priority for Yorkshire Water, and this is reflected in the company's investment plans. In 1999/00, the number

of properties affected by sewer flooding (other causes) reduced to 428 (1998/99: 473).

As a result of improved working practices, 100.0% (1998/99: 99.6%) of billing enquiries were answered within 5 days and 96.2% of telephone enquiries were answered within 30 seconds. The level of complaints has remained stable at the previous low levels. However, performance in dealing with these complaints has improved and now 99.9% are dealt with within 10 days. OFWAT has introduced a measure known as the 'Assessed Service Score' which seeks to evaluate a basket of services including opening hours, payment methods, debt recovery practices and performance guarantees. The results from OFWAT showed Yorkshire Water as the joint best performer in the industry.

The development of long-term system replacements, known as the Integrated Customer Environment, will further enhance future customer service. These systems will be implemented by September 2000 and, linked with leading edge work planning and workforce scheduling, will enable the business to make commitments to customers and track their delivery against our own internal service standards. Integrated Business Systems, covering accounting, capital projects, materials management, human resources and sundry billing were implemented in the business with effect from 1 April 2000.

During the year, internet capabilities have been developed through the company's website at www.yorkshirewater.co.uk to deliver a range of services extending the ways in which customers are able to contact the company. Yorkshire Water is the first water utility to offer secure methods of bill payment and direct debit initiation through the internet. Other aspects have been developed to meet the needs of different customer and stakeholder groups, including special needs, schools and the environment. Customer feedback has been excellent and investment in this media will continue to ensure that customers' service expectations are delivered.

The company's comprehensive programme of work over the last three years to ensure Year 2000 compliance of its equipment and systems, including assessment of key customers and suppliers, ensured that customers' water supplies were safeguarded and that service was uninterrupted over the millennium period. Our action plans were used as an example of best practice by Action 2000 and the National Audit Office and were awarded 'Blue' status as a result of an independent assessment carried out by OFWAT.

Investment in the environment

Capital investment by Yorkshire Water Services in 1999/00, the final year of the current investment period, was £452.4m (1999: £382.8m), which means that a total of £1,781m has been invested over the five year period to March 2000.

Under the company's Rivercare programme, work has continued to improve the quality of discharges from our major waste water treatment plants with schemes being completed at Knostrop (Leeds), Mitchell Laithes (Dewsbury), Caldervale and Sandall (Wakefield), Halifax, North Bierley and Spenborough (Cleckheaton). This will further improve the quality of the rivers Aire and Calder.

The Coastcare programme has progressed well during the year with the first major scheme nearing completion at Bridlington, to be followed by the schemes at Scarborough, Filey and Whitby later this year, all in advance of their target completion dates.

The first major improvement to the untreated discharges to the Humber estuary was made with the completion of the waste water treatment plant at Goole. Work has progressed on the Humbercare scheme and, despite the problems associated with a collapse in one section of the tunnel, the project is on target to end the discharge of raw sewage from Hull into the Humber estuary before the regulatory compliance date of December 2000.

The programme of improvements to combined sewer overflows within the current five year period has been completed. Major schemes have been completed this year within the Sheaf Valley (to benefit the River Sheaf), at Ovenden and Illingworth (the Calder), at Slaithwaite and Marsden (the Colne) and Harrogate (the Nidd).

During the year the company has received a number of awards recognising Yorkshire Water's contribution to the environment. These include the National 1999 Engineering Council Environment Award for Engineers for the Irton and Cayton Protection of Sourcworks scheme, together with three awards from the Institution of Civil Engineers, for the Settle and Ingleton, High Street Staithes, and Irton and Cayton schemes.

The company has met all the outputs required by OFWAT within the five year period to March 2000. Against the Mains Quality Undertaking of 1,770km, a total length of water mains of 1,818km has been rehabilitated. All the Drinking Water

Inspectorate Undertakings for the five year period have been completed.

Leakage reduction remains an integral part of the company's long-term water supply strategy. For the past three years the company has met and surpassed the mandatory leakage targets set by OFWAT. Total leakage from the Yorkshire Water network and customers' pipes in 1999/00 was 308 Ml/d (1998/99: 333Ml/d) compared with the OFWAT target of 329 Ml/d.

The OFWAT Periodic Review

The Director General of Water Services announced the Final Determination of price limits for the five years, 2000 to 2005, on 25 November 1999. During the period leading up to the Determination, significant customer research was carried out to ensure that OFWAT was aware of customer priorities and expectations when reviewing the pricing structure. Yorkshire Water was recognised as being amongst the most efficient of the water companies. As a result customers will benefit through significant price reductions whilst still receiving excellent levels of service.

The price limits set for Yorkshire Water and York Waterworks are shown in the table above. In addition, York Waterworks' customers will benefit from an additional 15% reduction in prices in 2004/05, to reflect the expected efficiencies arising from its acquisition by Yorkshire Water.

The price reductions required in 2000/01, combined with broadly stable prices in the following years up to 2004/05, are extremely challenging but, on balance, the boards of Yorkshire Water Services and York Waterworks decided to accept the outcome. However, an extensive drinking water and environmental improvement programme will have to be delivered and at the same time prices reduced significantly. This has wide ranging implications for Yorkshire Water and means that operating costs will have to be reduced significantly. As a result, the existing Change Programme, which was already delivering efficiencies, was accelerated. Plans to reduce manpower levels by around 500 over a twelve-month period were announced in early December 1999. Despite these challenges the company is committed to maintaining and, where possible, improving upon the very high levels of service that it has already achieved.

Yorkshire Water published its Monitoring Plan on 31 March 2000. The Plan informs customers of the outcome of the 1999 Periodic Review. In addition to advising on price limits, the Plan includes the key objectives that Yorkshire Water expects to

Price limits (before inflation)

	2000/01 %	2001/02 %	2002/03 %	2003/04 %	2004/05 %
Yorkshire Water (water and sewerage services)	-14.5	0	0	0	+1.0
York Waterworks (water service only)	-9.0	-1.0	0	0	0

deliver for the period 2000 to 2005 on drinking water, environmental quality and levels of service.

York Waterworks

The investment in York Waterworks made by the Kelda Group in 1998/99 was transferred to Yorkshire Water during the year. The company has worked to integrate fully the two water businesses in order to deliver a seamless service to customers and make available to them enhanced service standards and guarantees. This has been completed successfully and customers can now look forward to these benefits coupled with future price reductions. The two companies will have operated under a single licence with effect from 1 April 2000.

During 1999/00 York Waterworks continued to maintain, and in some cases improve, its very high levels of service and compliance record.

Business environment

In response to the changing business environment, the company is developing initiatives to generate new income. Opportunities are being evaluated for developing new products and services which improve the range of services offered to customers whilst adding value to the company.

Under the new Competition Act, which came into force on 1 March 2000, companies were required to publish a Network Access Code, setting out principles to facilitate the operation of common carriage. Yorkshire Water has taken a leading role in the industry and has been represented on national steering groups.

In May 2000 Kelda Group, along with the BICC Group and Earth Tech Engineering, signed a contract with the North of Scotland Water Authority for an £80m Private Finance Initiative scheme to provide new waste water treatment plants and other facilities in Scotland.

The consortium, which will operate under the name 'Aberdeen Environmental Services Limited', will finance, design, build and operate new waste water treatment plants

capable of servicing 450,000 customers in Aberdeen, Stonehaven, Peterhead and Fraserburgh.

Yorkshire Water will operate the new waste water treatment plants under a 30 year contract through a dedicated operating company, 'Grampian Waste Water Services Limited', following completion of construction which is likely to be in Autumn 2001.

Operating review: Aquarion

Operating results

The acquisition of Aquarion Company, a water services company based in Connecticut, USA, was completed on 7 January 2000. Turnover for the period to 31 March 2000 was £17.0m, although the seasonal nature of consumption by the company's measured customers makes this unrepresentative of the likely annual turnover. Operating profit for the post acquisition period was £6.1m. No amortisation of the £164.3m goodwill arising on acquisition has been charged against the operating results because the company holds franchise rights in perpetuity and in the opinion of the directors the goodwill has an indefinite life.

Operating performance

Aquarion's operating performance continued to improve during the period under Kelda's ownership. The volume of customer billing complaints has decreased dramatically compared with the previous year when complaints increased following implementation of a new customer service system. Telephone call response rates also improved radically over the January to March 2000 period. An expanded leak detection program resulted in a reduction in the proportion of 'non-revenue' water to under 15% in the year to 31 March 2000. Severe weather in the North East USA in January and February 2000 resulted in a significant year on year increase in the number of mains bursts, but numbers began to return to normal levels in March.

A number of initiatives are underway to further improve Aquarion's service performance and efficiency including opportunities for exploiting the knowledge and technology available within the Kelda Group. At the same time the search for infill acquisitions has continued and Aquarion has become the focal point for Kelda's wider ambitions in the US water market.

Operating review: Alcontrol

Operating results

Alcontrol continued to strengthen its position in the European environmental and food testing markets during 1999/00 and is now operating more than 20 laboratories in the UK, Holland and Sweden. Total turnover outside the group was £32.7m (1999: £18.1m), of which acquisitions in the UK and Sweden contributed £9.9m. Operating profit was held back by rationalisation costs of £1.8m and an increase in goodwill amortisation to £1.0m (1999: £0.3m).

Operating performance: United Kingdom

Geochem Group Ltd, an environmental laboratory based in Chester, was acquired in September 1999. Geochem offers nationwide soil and groundwater testing to the environmental industry and is the market leader in this segment in the UK.

The testing of food is a fast growing business for Alcontrol, which now operates four food laboratories in the UK. The food laboratory in Spalding, operating since the beginning of 1999, is performing exceptionally well, and plans are in place to set up a similar laboratory in Scotland.

Alcontrol recently won the contract to provide cryptosporidium testing to Yorkshire Water for a period of three years.

Operating performance: Holland

Alcontrol consolidated its strong position in Holland after the acquisition of Biochem in the previous year. This acquisition boosted Alcontrol's share of the Dutch environmental testing market to around 35%. Both laboratories were integrated into a single site state-of-the-art laboratory in Rotterdam.

New Dutch legislation for the testing of building materials resulted in a rapidly expanding new testing market. A purpose built laboratory for this testing is under construction in Rotterdam.

After several years of strong price competition in the environmental market more focus is now on quality improvement and comparability of test results in the Dutch environmental market.

Operating performance: Sweden

Alcontrol formally acquired the laboratories of KMLab in December 1999 and Svelab in January 2000. KMLab and Svelab merged from 1 April 2000 and operate in Sweden as Alcontrol Laboratories. Following the merger process, which resulted in substantial rationalisation costs, the Swedish business now operates from 14 sites across Sweden. The combined business has a market share of the environmental and food testing market of around 35%.

Operating review: White Rose Environmental

Operating results

In the course of the financial year White Rose Environmental (WRE) increased turnover to £25.4m (1999: £24.6m). Operating profit was behind target, mainly due to exceptional costs

incurred in ensuring incinerators were Year 2000 compliant and larger than anticipated rates demands related to previous years. The implementation of the component depreciation provisions of FRS 15 'Tangible Fixed Assets' also had a negative impact on the year's results.

WRE Services, the joint venture company with de Facultatieve Groep of the Netherlands, dealing with culled animal carcasses arising from the Government's over thirty month scheme designed to increase consumer confidence in British Beef, had a particularly strong performance.

Operating performance

During the year WRE planned and executed its largest ever relocation of waste to accommodate the closure of its Goodmayes plant in London and the major rehabilitation of its Sidcup plant in Kent. Completion of these works without interruption to customer service required above target performance from the remaining plants. This was delivered without diminution of the company's strong track record in environmental compliance.

Growth in the specialist nursing and residential homes waste sector has been strong and competitors are now emulating WRE's service offering. Prospects in this market sector remain encouraging and sales activity is highly focused in key geographical regions. The first purpose built vehicle in the Confidential Waste fleet has now been delivered and there appears to be a strong growth potential in this sector.

Operating review: First Renewables

Operating results

Management and development costs of £1.0m were incurred during the year. The First Renewables (FRL) share of turnover and operating profit from its Yorkshire Windpower joint venture was £0.6m (1999: £2.2m) and £0.7m (1999: £0.6m loss), respectively. The investment in Fibrowatt described below did not have a material effect on the results for the year.

Operating performance

The windpower joint venture with PowerGen, which has reached the end of its NFFO subsidy, continued to trade profitably based upon the market price for electricity which includes a small premium for 'green sources'. This premium reflects the modest existing level of retail market acceptance for increased costs of environmental sustainability. It is likely that this will improve as the full effect of the New Electricity Trading Arrangements come into force next year.

Project ARBRE has achieved mixed success within the year due to delay in commissioning the power plant. ARBRE Energy Ltd terminated the turnkey construction contract for the project in March and has taken over the process of final completion and commissioning of the plant. The plant is expected to start producing power within the first half of 2000/01.

ARBRE Farming has had good results in the management of the fuel supply chain using both short rotation coppice and forestry residue. It is starting to see good take-up from the agricultural community and is beginning to develop economies of scale for the establishment of short rotation coppice. This is particularly important for any replication of this technology on a larger scale and with the announcement of extended support from MAFF there are opportunities for further economies.

In February FRL acquired a 31% stake in Fibro Holdings Ltd. With three operating renewable energy power stations in the UK and other projects under development Fibrowatt is Europe's largest biomass power generator.

Operating review: KeyLand Developments

Operating results

In 1999/00, turnover was £11.7m (1999: £4.9m) including share of associates' turnover. KeyLand's contribution to group operating profits increased to £6.1m (1999: £4.3m) reflecting the increasing sale and development activity the company is now engaged in. There was also a strong trading performance from the White Rose Centre.

Operating performance

During the year KeyLand made significant progress in implementing a strategy designed to create sustainable and profitable growth. The company changed its name from Yorkshire Water Estates to KeyLand Developments and began to raise its own market profile. This is being achieved by ensuring that KeyLand's market presence in the region is known, through forming working relationships with other prominent regional property companies and property specialists and by actively pursuing development in its own name.

The core activity of the business remains the development of brownfield sites and urban land regeneration. Activity during the year has therefore centred on the identification of surplus and non-operational Yorkshire Water land assets. However, for future sustainable profitability, the identification of third party

sites for development has become an important process. A significant project at Mid-Point, on the Leeds/Bradford boundary, commenced in January 2000. This 19 acre mixed business and leisure development site includes a 40,000 sq. ft. call centre for the group's customer services management company, which is due for completion at the end of July. Other major projects are in the pipeline.

Operating review: Waste Recycling Group plc

The group holds a 46% shareholding in Waste Recycling Group plc (WRG) as a result of the merger of its Global solid and liquid waste businesses with WRG in January 1999 and the subsequent sale of 3C Waste Limited to WRG in April 1999.

The group's share of the results of WRG for the period 1 January 1999 to 31 December 1999 has been incorporated into the results of the Kelda Group for the period ended 31 March 2000. The group's share of turnover was £62.9m and the share of operating profit £10.5m, after goodwill amortisation of £3.0m. This represents the amortisation over 20 years of £66.6m goodwill within the WRG investment cost in the accounts of the Kelda Group.

Year on year comparisons are complicated by the nature of the merger transaction, but the Global business contributed £40.1m and £6.9m to group turnover and operating profit respectively in 1999. In addition, income from the 3C Waste investment in 1999 was £2.5m.

Operating and financial review

Financial review

Group turnover

The group's total reported turnover including share of associates increased by 13.9% to £782.8m (1999: £687.1m). The regulated Yorkshire Water businesses accounted for £624.0m (1999: £580.7m), including a full year's results for York Waterworks which contributed £9.6m (1999: £0.6m).

Turnover from the group's other non-regulated businesses increased to £128.4m (1999: £94.5m) including the £62.9m contribution from Waste Recycling Group. The acquisition of Aquarion added £17.0m to group turnover in the three month period following completion and acquisitions by Alcontrol added £9.9m. Turnover from discontinued activities was £3.5m (1999: £11.9m). Overall, turnover from the group's other businesses including share of associates was £158.8m (1999: £106.4m) representing 20.3% (1999: 15.5%) of the group total.

Group operating profit

The group's total reported operating profit including share of associates increased by 12.1% to £284.5m (1999: £253.8m), stated after exceptional restructuring costs of £18.2m and goodwill amortisation of £4.9m (1999: £0.3m). The regulated Yorkshire Water businesses accounted for £271.5m (1999: £250.5m).

Operating profit from the group's other non-regulated businesses was £19.2m (1999: £8.3m) including an encouraging £10.5m net contribution from WRG after the merger of the Global businesses in January 1999. The acquisition of Aquarion in the US and laboratories in the UK and Sweden by Alcontrol added a further £5.7m to group operating profit. York Gas made an operating loss of £0.9m prior to disposal.

Overall, operating profit from the group's other businesses including share of associates was £24.0m (1999: £8.5m) representing 8.1% (1999: 3.3%) of the group total.

Group profit before taxation

The sale of York Gas, acquired in March 1998 with York Waterworks, resulted in an exceptional profit of £2.9m when it was sold in October 1999 to Independent Energy Holdings plc. In the prior year, the sale of interests in associates resulted in an exceptional profit of £11.5m.

The total group interest charge increased to £65.3m (1999: £46.8m). The interest charge for the regulated Yorkshire Water businesses increased to £42.5m (1999: £35.6m) because

of the continuing water services investment programme. The rest of the group interest charge reflects the cost of financing the £140m windfall tax and the additional costs of financing the Aquarion and Alcontrol acquisitions for part of the year.

Group profit before taxation after charging £18.2m exceptional restructuring costs increased to £222.1m (1999: £221.0m).

Taxation

The group's charge for taxation was increased to £13.6m (1999: £10.1m). However, the constituent elements have changed significantly from the previous year following the abolition of Advance Corporation Tax (ACT) as set out in Note 8 to the financial statements.

The group's negligible UK tax liability is due principally to the availability of capital allowances as a result of the Yorkshire Water investment programme.

The group's share of associates' taxation, principally WRG, accounts for £4.2m (1999: £0.8m) of the group total. Following the acquisition of Aquarion, overseas taxation increased to £1.2m (1999: £0.4m).

The group has no unrecovered surplus ACT.

Earnings per share

Profit for the financial year of £208.4m (1999: £210.4m) represents earnings per share of 54.4p (1999: 55.4p), a decrease of 1.8%. However, the directors are of the view that adjusting exceptional profits from the sale of businesses and, in 1999/00, exceptional restructuring costs arising from the conclusion of the 1999 Periodic Review provides a better indication of the group's financial performance. Earnings per share adjusted for these items was 58.0p (1999: 52.6p), an increase of 10.3%.

Dividends

An interim dividend of 7.3p per share was paid on 1 March 2000. The board is recommending the payment of a final cash dividend of 16.85p (1999: 15.6p) per share, an increase of 8.0% as indicated at the time of the interim results announcement. The total dividend for the year of 24.15p (1999: 22.35p) per share represents an increase of 8.1%. The cost of the ordinary dividend payments will be £92.8m (1999: £85.5m), which has been financed by equivalent dividend payments from Yorkshire Water.

Accounting policies

The group accounts have been prepared in accordance with the accounting policies described in Note 1 to the financial statements.

The full implementation of FRS 15 for the 1999/00 financial year has required the reassessment of the depreciable lives of the individual components of certain assets. The effect on the group's profit for the financial year was immaterial but a prior year adjustment of £4.8m has been made in accordance with the transitional provisions of the standard.

Aquarion prepares accounts in accordance with Generally Accepted Accounting Principles in the USA (US GAAP). Where material, adjustments have been made to the Aquarion completion balance sheet and post acquisition results to align US GAAP with the Kelda Group's accounting policies, notably to eliminate a provision for deferred taxation.

Cash flow

Cash flow from operating activities, principally Yorkshire Water, was £398.5m (1999: £358.3m). The principal cash outflow in the financial year was capital expenditure and financial investment of £432.5m (1999: £373.7m). The purchase of Aquarion on 7 January 2000 accounts for £280.9m of the net acquisitions and disposals cash outflow of £238.3m (1999: £158.2m). In April, the sale of the 3C Waste business to WRG resulted in a net cash receipt of £57.4m. Following the termination of the enhanced scrip dividend scheme and the delay in payment of the 1998/99 interim dividend to 6 April 1999, dividend payments in the financial year were £113.5m (1999: £20.0m).

Capital structure

Shareholders' funds at 31 March 2000 were £1,698.0m (1999: £1,576.4m). The principal movement was the profit for the financial year after payment of dividends.

Group net debt amounted to £1,412.8m (1999: £882.8m) at 31 March 2000 of which £833.7m was attributable to the Yorkshire Water businesses. The resultant group gearing (debt:equity) ratio was 83.2% (1999: 56.0%).

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. For these purposes the group holds or issues various financial instruments. Note 20 to the financial statements on pages 36 to 39 shows details of the financial instruments held by the group at the financial year-end.

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 lent to operating subsidiaries at commercial rates of interest. Cash surplus to operating requirements is invested in short-term sterling instruments with institutions rated at least A1 or P1 by Standard & Poor's or Moody's rating agencies, respectively.

Funding and interest rate management

During July 1999, the holding company issued Euro 625m bonds due 2006 to fund the company's non-regulated activities and in particular the acquisition of Aquarion Company. Euro 22m of the net proceeds has been retained in Euros with the balance being swapped into sterling by the use of currency swaps.

Interest rate swaps, interest rate caps and collars and forward rate agreements are used to manage interest rate exposure under a policy that required, for most of the year, that at least 50% of net debt should be at fixed rates. Towards the end of the financial year this policy was revised and new target ranges established. The policy is now that between 80% and 85% of Yorkshire Water's net debt and 60% and 70% of Kelda Group plc's net debt should be held at fixed rates. At the financial year-end the proportions were 74% and 49% respectively: transactions undertaken after the financial year-end have brought the proportions in line with the revised targeted ranges.

Shortly after the year-end, the holding company issued £150m bonds due 2031 (guaranteed by Yorkshire Water) to fund the continuing Yorkshire Water investment programme.

Foreign currency management

Infrequently some UK group companies undertake transactions (normally purchases) in foreign currencies. Group policy requires all significant exposures to be eliminated by the use of forward currency contracts. The group's investments in Holland have been financed by Dutch guilder 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. Loans from the European Investment Bank denominated in Italian lire have been effectively converted into sterling by the use of currency swaps.

The acquisition of Aquarion Company was funded from the proceeds of the Euro 625m bond issue. As noted above, the proceeds of this issue were predominantly swapped into sterling. There is, therefore, a foreign exchange exposure on the translation into sterling of the net assets of Aquarion Company denominated in US dollars. At 31 March 2000 these net assets amounted to \$202.7m.

Going concern

After making enquiries, the directors have a reasonable expectation that the group 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.

Board of directors

John Napier (57)^{CE}

Executive Chairman. Joined the Board in June 1999. Appointed Chairman on 1 April 2000. Non-executive director of Yule Catto & Co. Plc. Chairman of Yorkshire Water Services Limited and a non-executive director of Waste Recycling Group plc. Formerly Chairman of Booker plc, Deputy Chairman of Amey plc and Group Managing Director of Hays plc.

James Newman FCA, MCT (50)

Deputy Chief Executive. Appointed to the Board in January 1998. Formerly Finance Director of Watmoughs (Holdings) PLC and BRIDON plc. Currently non-executive director of Waste Recycling Group plc.

Kevin Whiteman (43)^E

Managing Director of Yorkshire Water Services Limited. Joined Yorkshire Water Services Limited in 1997 as Business Director, Waste Water. Formerly Chief Executive of the National Rivers Authority and Regional Director of the Environment Agency.

John O'Kane FCA (42)

Group Finance Director. Joined Yorkshire Water Services Limited and appointed as Finance Director in 1998. Formerly held senior finance posts in Samsung Electronics and ICI.

Jamie Pike MBA, MI MechE, C.Eng (45)^{ABCD}

Joined the company in June 1999. Executive director of Burmah Castrol plc.

Derek Roberts FCII, FCIB, CIMgt (57)^{ABCD}

Joined the company in September 1996. Chairman of Yorkshire Building Society, where he was formerly Chief Executive. Non-executive director of Yorkshire Water Services Limited, Chairman of Kelda Group Pension Trustees Limited.

Denotes

- A Non-executive
- B Member of the Audit Committee
- C Member of the Nomination Committee
- D Member of the Remuneration Committee
- E Member of the Environment and Community Committee

Directors' report

The directors present their report for the year to 31 March 2000.

Change of name

By special resolution passed on 3 August 1999 the company changed its name from Yorkshire Water plc to Kelda Group plc.

Result and dividends

The profit attributable to shareholders for the year was £208.4m. After payment of dividends totalling £92.8m, £115.6m was transferred to reserves.

The directors recommend a final dividend of 16.85p per share to be paid on 9 October 2000, to those shareholders on the register at the close of business on 15 September 2000. An interim dividend of 7.3p per share was paid on 1 March 2000. The total dividend for the year will amount to 24.15p per share (1999: 22.35p).

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, the group's regulated utility business in the UK, is responsible for both water and sewerage services. Aquarion, the group's US subsidiary acquired in January 2000, provides water services in Connecticut, USA. The group's other activities are clinical waste management (White Rose Environmental), analytical laboratory services (Alcontrol), renewable energy (First Renewables Limited) and property development (KeyLand Developments). In addition, the group holds 46% of the issued share capital of Waste Recycling Group plc, a leading waste management company to which the company's solid and liquid waste businesses were transferred during the previous year.

Directors

The directors who served during the year were: Brandon Gough (Chairman); Kevin Bond (Chief Executive); Jonson Cox (Managing Director, Yorkshire Water Services); James Newman (Group Finance Director); Phil Cox; Pat Marsh; John Napier; David Perry; Jamie Pike; Derek Roberts (non-executive directors).

Kevin Whiteman and John O'Kane have been appointed since the company's 1999 annual general meeting and, in accordance with article 87 of the company's articles of

association, will retire at the forthcoming annual general meeting and offer themselves for election (recommended by the board) in accordance with article 111. Mr Whiteman and Mr O'Kane have service contracts with the company which are terminable by the company on 12 months' notice.

In accordance with article 105, Derek Roberts will retire at the forthcoming annual general meeting and will offer himself for re-election (recommended by the board) in accordance with article 109. Mr Roberts is a non-executive director and has no service contract with the company.

Pat Marsh resigned as a director on 27 May 1999.

Brandon Gough resigned as a director and chairman and Jonson Cox as a director on 31 March 2000.

Kevin Bond, David Perry and Phil Cox have resigned since the year end.

Additional information relating to directors who served during the year, including remuneration and interests in the company's shares is contained on pages 15 to 18. The details of directors' interests in the company's shares form part of this report.

Employees

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

Community projects

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

Charitable and political contributions

Charitable contributions totalling £0.5m were made during the year. No political contributions were made.

Research and development

During the year £4.3m (1999: £4.1m) was committed to research and development including £2.9m (1999: £2.7m) on fixed assets.

Year 2000

The company's Year 2000 project began in 1997 with a wide-ranging assessment programme to identify the risks associated with the Year 2000 problem. Risks given high priority included protection of public health, business continuity and safety of employees. The plans also included assessing key customers and suppliers.

The pre 2000 compliance work the company undertook gave a high level of protection against systems and equipment failures and their potential impact on customers. There were no millennium or leap year rollover related failures or malfunctions of any systems or equipment.

Expenditure in 1999/00 was £2.1m, including the costs of the contingency arrangements for the millennium weekend. Of this sum, £1.9m has been charged to the profit and loss account. The total cost of the work over a three year period has been £7.2m.

Summary financial statements

The company has decided not to publish a separate Annual Review containing a summary financial statement for the year under review. If, in future years, a separate Annual Review is produced, shareholders will only receive the Annual Review unless they notify the company in writing that they wish to receive the full Annual Report and Accounts.

Purchase of own shares

At the forthcoming annual general meeting, the company will be seeking authority to purchase its ordinary shares. Authority was previously granted at the annual general meeting in 1999 in respect of 10% of the company's issued ordinary share capital but expires at the close of the forthcoming meeting.

Qualifying Employee Share Ownership Trust (QUEST)

During the year, the company established the QUEST. This is a discretionary trust for the benefit of directors and employees of the group, operating in conjunction with the employee savings-related option schemes. The trustee, Kelda Group QUEST Trustees Limited, is a subsidiary of the company.

Directors' report

Auditors

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

Payment terms to suppliers

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

Kelda Group plc is a holding company and, at 31 March 2000, had no trade creditors outstanding.

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

Major shareholders

As at 13 June 2000 the company had been notified of the following interests amounting to 3% or more of the company's issued ordinary share capital:

Prudential plc 4.05%

By 27 July this interest had increased to 5.09%.

Annual general meeting

The notice convening the company's 2000 annual general meeting at the Harrogate International Centre on 21 September at 11am, is set out in a separate document issued to shareholders.

By order of the Board
S J Webb
Company secretary
14 June 2000

Registered office:
2 The Embankment
Sovereign Street
Leeds LS1 4BG

Registered in England
No 2366627

Corporate governance

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

In addition, the board confirms that the company has complied throughout the accounting period with the provisions set out in Section 1 of the Code.

Directors

During the accounting period the board consisted of a non-executive chairman, five other non-executive directors and three executive directors. All of the non-executive directors are considered by the board to be independent. Both Brandon Gough and Jonson Cox left the board on 31 March 2000. Since the year-end John Napier became chairman on 1 April 2000 and has been acting in an interim executive capacity since Kevin Bond's departure in early April.

Biographies of the current board members appear on page 10 of this report. These indicate the high level and range of experience which they possess.

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

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

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

Potential appointments of both executive and non-executive directors to the board are considered by the Nomination Committee. The principal terms of reference of the committee (along with the same information for the Audit, Remuneration and Environment and Community committees) are set out on

page 14. The Nomination Committee consults with executive directors when considering appointments and external search consultants are used to ensure that a wide range of candidates can be considered. The Remuneration Committee will consider any remuneration package before it is offered to a potential appointee.

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

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

Full details of directors' remuneration and a statement of the company's remuneration policy is set out in the Remuneration Report appearing on pages 15 to 18. The Chairman attends meetings of the committee to discuss the performance of the executive directors and make proposals as necessary, but is not present when his own position is being discussed.

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

Communication with stakeholders

The company places a great deal of importance on communication with its stakeholders. Shareholders have direct access to the company via its free shareholder information telephone service and its website. The company responds to numerous communications 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. The chairmen of the board committees attend to take questions at the meeting.

Audit and internal control

The Combined Code introduced a requirement that the directors review the effectiveness of the group's system of internal controls. This extends the existing requirement in respect of internal financial controls to cover all internal controls. Guidance for directors (Internal Control: Guidance for Directors on the Combined Code 'the Turnbull guidance') was published in September 1999. The directors have applied the London Stock Exchange's transitional rules and have reported on internal financial controls in accordance with the guidance for directors on internal control and financial reporting which was issued in December 1994. However, the board confirms that it has established procedures necessary to implement the Turnbull guidance such that it can comply fully with the Combined Code for the accounting period ending on 31 March 2001.

The respective responsibilities of the directors and the auditors in connection with the accounts are explained on page 19; the statement of the directors on going concern appears on page 9.

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

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

Corporate governance

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

The Audit Committee keeps the scope and cost effectiveness of both the internal audit function and the external audit under review. The independence and objectivity of the external auditors is also considered on a regular basis, with particular regard to the level of non-audit fees. The split between audit and non-audit fees for the year under review appears on page 29. The non-audit fees were paid principally in respect of assurance work (including taxation and due diligence) and are considered by the committee not to affect independence or objectivity.

Summary terms of reference of board committees

Audit

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

Remuneration

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

Nomination

Make recommendations to the board on the appointment of directors.

Environment and Community

Recommend to the board appropriate environmental and corporate social responsibility policies.

Remuneration report

Remuneration policy

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

The company's natural comparator group has been within the utility sector, although, as the group develops and the relative contributions of its constituent businesses change, this is a matter which will be kept under review.

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) required a range of OFWAT measures, financial targets and corporate and personal objectives to be fully satisfied. Bonuses are not pensionable.

The bonuses awarded by the Remuneration Committee in respect of the year ended 31 March 2000 are shown in the table on page 16.

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 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 the major water and sewerage companies. No shares will be awarded to participants for below median performance. For the full award to be made, the company's total shareholder return must be in the top quartile of the comparator group.

In addition, there is an overriding performance condition that no awards will vest unless the 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 will be pensionable.

The conditional awards made during the year are shown in the table on page 18.

Remuneration report

Directors' emoluments

	Salary/fees £000	Annual bonus £000	Benefits in kind £000	2000 Total emoluments £000	1999 Total emoluments £000
Executive directors					
K Bond	207	58	30	295	268
J Cox	154	58	20	232	198
J H Newman	147	48	16	211	187
Non-executive directors					
C B Gough (Chairman)	126		16	142	135
P R Cox	26			26	17
C H B Honeyborne (resigned 29.07.98)					8
P J Marsh (resigned 27.05.99)	4			4	25
J A Napier (appointed 01.06.99)	18			18	
D G Perry	26		1	27	25
J R P Pike (appointed 01.06.99)	18			18	
D F Roberts	42			42	41
	768	164	83	1,015	904

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 1999/00 this scheme paid £473 to each qualified participant and this is included in the salaries shown in the table above.

The annual bonuses referred to above are performance-related and are described in the narrative section of this report. The total emoluments shown above in respect of 1999 have been re-stated to reflect the fact that the provisional sums included in last year's report for annual bonus were not paid as the OFWAT measures for that year were not achieved in full.

The fees referred to above in respect of D F Roberts include £16,000 payable in respect of his non-executive directorship of Yorkshire Water Services.

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;
- (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 potential liabilities arising from contractual commitments to directors, such as limits arising from the earnings 'cap'.

Directors' pension information

	Increase in accrued pension (excluding inflation) during year £000	Transfer value of increase in accrued pension (excluding inflation) during year £000	Total accrued pension entitlement 2000 £000	1999 £000
K Bond	11	126	57	46
J Cox	6	45	33	27
J H Newman	5	64	11	6

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

Directors' shareholdings

The beneficial interests of the directors, who held office at the end of the year, and their immediate families in the ordinary shares of the company at 31 March 2000 and at the beginning of the year (or date of appointment where later) are set out below:

	At 31 March 2000	At 1 April 1999
C B Gough	1,854	1,854
K Bond	–	–
J Cox	10,307	8,260
J H Newman	6,091	3,091
P R Cox	–	–
J A Napier (appointed 01.06.99)	30,000	–
D G Perry	5,934	5,934
J R P Pike (appointed 01.06.99)	1,004	–
D F Roberts	4,973	1,973

In addition to the above beneficial interests in the company's shares, the executive directors are regarded for Companies Act purposes as being interested in 8,541,859 ordinary shares of the company held by The Yorkshire Water Employees' Trust and 248,836 ordinary shares held by the 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 Yorkshire Water Employees' Trust, grants made pursuant to the long-term incentive plan. It is not anticipated that any employee or executive director will be entitled to receive from the trust a greater number of shares than that to which they are entitled on exercise of options granted to them under the share option scheme or the vesting of awards pursuant to the long-term incentive plan.

There have not been any changes to the shareholdings or options of the current directors between 31 March 2000 and 27 July 2000.

Directors' share options

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

	At 1 April 1999	Granted during year	Lapsed during year	At 31 March 2000	Exercise price (p)	Date options exercisable	Date options expire
K Bond	3,305	–	–	3,305	295.0	01.05.00	31.10.00
J Cox	2,660	–	–	2,660	389.0	01.03.03	31.08.03
	1,477	–	(1,477)	–	457.0		
	–	2,812	–	2,812	240.0	01.03.05	31.08.05
J Newman	2,119	–	(2,119)	–	457.0		
	–	4,036	–	4,036	240.0	01.03.03	31.08.03

The market price of the shares subject to these options at 31 March 2000 was 265.25p (1999: 445.5p) and has ranged from 501p to 193.5p during the year. No options were exercised during the year.

In the year ended 31 March 1999 Jonson Cox exercised options realising notional gains (representing the difference between the exercise price and the market price of the shares on the date of exercise) of £5,633.

Remuneration report

Long-term incentive plan

Interests of the directors in the plan are:

	Date of award	Maximum number of shares	Earliest vesting date
K Bond	05.08.97	17,289	05.08.00
	18.08.98	14,538	18.08.01
	30.06.99	18,642	30.06.02
J Cox	05.08.97	12,616	05.08.00
	18.08.98	10,810	18.08.01
	30.06.99	13,862	30.06.02
J H Newman	05.01.98	10,569	05.01.01
	18.08.98	10,438	18.08.01
	30.06.99	13,134	30.06.02

The market price of the shares on 13 June 2000 was 333p.

Service agreements and termination payments

Executive directors other than the chairman have service agreements which are terminable by the company on 12 months' notice. The chairman does not have a service agreement.

Payments in respect of the early termination of the agreements with Kevin Bond and Jonson Cox do not appear in the table of emoluments as they were not paid during or in respect of the year. The amounts involved are £263,900 in respect of Kevin Bond and £215,000 in respect of Jonson Cox. In both cases, these payments are subject to tax. Entitlements in respect of awards under the long-term incentive plan and save-as-you-earn share options will be determined in accordance with the plan and scheme rules.

Fees payable to the company

Waste Recycling Group plc (WRG) paid fees of £12,500 per annum each in respect of Kevin Bond 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. Since the end of the year, John Napier has replaced Kevin Bond as a director of WRG and this fee arrangement will continue to apply.

Non-executive directors

The fees for non-executive directors are determined by the board. Business expenses are also reimbursed.

Neither non-executive directors nor the chairman participate in the annual bonus scheme, the long-term incentive plan or any company pension scheme.

Directors' responsibilities

Directors' responsibilities in relation to the accounts

The following statement, which should be read in conjunction with the Auditors' report, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the accounts. The directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the accounts on pages 20 to 45 the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Auditors' report

Auditors' report to the shareholders of Kelda Group plc

We have audited the accounts on pages 20 to 45, which have been prepared under the historical cost convention and the accounting policies set out on pages 25 to 27.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report. As described above this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the corporate governance statement on pages 13 and 14 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 either the group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 March 2000 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young, Registered Auditor, Leeds.
14 June 2000

Group profit and loss account

Year ended 31 March 2000

	Notes	2000 £m	1999 Restated £m
Turnover: Group and share of associates		782.8	687.1
Share of associates' turnover	2	(66.6)	(15.7)
Group turnover	2	716.2	671.4
Continuing operations		685.8	670.9
Acquisitions		26.9	–
Discontinued operations		3.5	0.5
Operating costs	3	(426.3)	(418.2)
Exceptional restructuring costs	3	(18.2)	–
Group operating profit	2	271.7	253.2
Continuing operations		266.9	253.2
Acquisitions		5.7	–
Discontinued operations		(0.9)	–
Share of associates' operating profit	2	12.8	0.6
Operating profit: Group and share of associates		284.5	253.8
Profit on disposal of subsidiary undertaking	4	2.9	–
Profit on disposal of associated undertakings	5	–	11.5
Investment income	6	–	2.5
Profit on ordinary activities before interest		287.4	267.8
Net interest payable			
– Group	7	(64.5)	(46.6)
– Associates		(0.8)	(0.2)
Profit on ordinary activities before taxation		222.1	221.0
Taxation on profit on ordinary activities	8	(13.6)	(10.1)
Profit on ordinary activities after taxation		208.5	210.9
Equity minority interests		(0.1)	(0.5)
Profit attributable to shareholders		208.4	210.4
Dividends	10	(92.8)	(85.7)
Retained profit for the financial year		115.6	124.7
Basic earnings per ordinary share	11	54.4p	55.4p
Adjusted earnings per ordinary share	11	58.0p	52.6p
Diluted earnings per share	11	54.1p	55.1p
Dividends per ordinary share	10	24.15p	22.35p

Statement of Group total recognised gains and losses

Year ended 31 March 2000

		2000 £m	1999 Restated £m
Profit attributable to shareholders		208.4	210.4
Exchange adjustments		4.5	0.5
Total recognised gains and losses relating to the year		212.9	210.9
Prior year adjustment	1	(4.8)	
Total recognised gains and losses since last annual report		208.1	

Group balance sheet

At 31 March 2000

	Notes	2000 £m	1999 Restated £m
Fixed assets			
Goodwill	12	201.7	30.5
Tangible assets	13	3,082.2	2,548.6
Investments in associated undertakings	14	124.3	58.6
Other investments	14	28.9	29.3
		3,437.1	2,667.0
Current assets			
Investment held for resale	6	–	113.9
Stocks	15	5.5	2.0
Debtors	16	195.9	137.6
Cash and short-term deposits		11.2	108.7
		212.6	362.2
Creditors: amounts falling due within one year			
Short-term borrowings	17	(46.9)	(71.7)
Other creditors	18	(328.1)	(306.1)
		(375.0)	(377.8)
Net current liabilities			
		(162.4)	(15.6)
Total assets less current liabilities			
		3,274.7	2,651.4
Creditors: amounts falling due after more than one year			
Long-term borrowings	19	(1,377.1)	(919.8)
Other creditors	18	(199.5)	(155.1)
		1,698.1	1,576.5
Net assets			
Capital and reserves			
Called up share capital	22	61.1	60.8
Share premium account	23	15.4	11.1
Capital redemption reserve	23	142.6	142.6
Special reserve	23	–	5.7
Profit and loss account	23	1,478.9	1,356.2
		1,698.0	1,576.4
Equity shareholders' funds			
Equity minority interests		0.1	0.1
		1,698.1	1,576.5

Approved by the board of directors on 14 June 2000 and signed on their behalf by:

John Napier, Chairman

James H Newman, Group Finance Director

Parent company balance sheet

At 31 March 2000

	Notes	2000 £m	1999 £m
Fixed assets			
Tangible assets	13	0.2	0.2
Other investments	14	1,549.1	1,134.6
		1,549.3	1,134.8
Current assets			
Debtors	16	85.8	65.6
Cash and short-term deposits		2.5	103.9
		88.3	169.5
Creditors: amounts falling due within one year			
Short-term borrowings	17	(21.5)	(20.5)
Other creditors	18	(208.7)	(243.8)
		(230.2)	(264.3)
Net current liabilities			
		(141.9)	(94.8)
Total assets less current liabilities			
		1,407.4	1,040.0
Creditors: amounts falling due after more than one year			
Long-term borrowings	19	(613.5)	(215.7)
Net assets			
		793.9	824.3
Capital and reserves			
Called up share capital	22	61.1	60.8
Share premium account	23	15.4	11.1
Capital redemption reserve	23	142.6	142.6
Special reserve	23	–	5.7
Profit and loss account	23	574.8	604.1
Equity shareholders' funds			
		793.9	824.3

Approved by the board of directors on 14 June 2000 and signed on their behalf by:

John Napier, Chairman

James H Newman, Group Finance Director

Group cash flow statement

Year ended 31 March 2000

	2000 £m	1999 Restated £m
Net cash inflow from operating activities	398.5	358.3
Dividends received from associated undertakings	2.6	1.8
Returns on investments and servicing of finance		
Interest received	15.1	17.6
Interest paid	(42.7)	(18.5)
Interest element of finance lease rental payments	(29.3)	(24.7)
Dividends received	-	1.8
Dividends on B shares	-	(0.3)
Dividends paid to minority interests	-	(0.4)
Net cash outflow from returns on investments and servicing of finance	(56.9)	(24.5)
Taxation	(18.5)	(86.1)
Capital expenditure and financial investment		
Purchase of tangible fixed assets (excluding assets financed by leases)	(465.5)	(402.9)
Capital grants and contributions	31.8	14.1
Sale of ordinary shares by ESOT	-	2.3
Proceeds from sale of tangible fixed assets	1.2	12.8
Net cash outflow for capital expenditure and financial investment	(432.5)	(373.7)
Acquisitions and disposals		
Purchase of subsidiary and associated undertakings	(304.5)	(49.9)
Subscription for rights issue shares of associated undertaking	(56.5)	-
Sale (purchase) of investment held for resale	113.9	(113.9)
Net cash balances of subsidiary undertakings purchased	4.8	0.7
Proceeds from sale of subsidiary undertaking	4.0	-
Proceeds from sales of investments in associated undertakings	-	12.7
Net cash balances transferred to associated undertakings	-	(7.8)
Net cash outflow for acquisitions and disposals	(238.3)	(158.2)
Equity dividends paid	(113.5)	(20.0)
Net cash inflow from management of liquid resources	72.2	42.8
Financing		
Issue of ordinary share capital	1.0	1.8
Redemption of B share capital	-	(6.1)
Financing transactions with associated undertakings	0.7	3.1
Proceeds from transfer of ESOT and QUEST ordinary shares to option holders	1.8	-
(Decrease) increase in short-term borrowings	(12.0)	36.9
Sale and lease-back finance	-	11.2
Increase in long-term borrowings	394.1	218.7
Capital element of finance lease rental payments	(9.9)	(6.8)
Net cash inflow from financing	375.7	258.8
Decrease in cash in the year	(10.7)	(0.8)

Notes to the Group cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities

	2000 £m	1999 Restated £m
Group operating profit	271.7	253.2
Depreciation	145.9	138.0
Goodwill amortisation	1.9	0.3
Release of grants and contributions	(3.3)	(3.7)
Loss (profit) on sale of fixed assets and other adjustments	1.0	(4.3)
(Increase) decrease in stocks	(0.7)	0.4
Increase in debtors	(15.7)	(6.8)
Decrease in creditors	(2.3)	(18.8)
Net cash inflow from operating activities	398.5	358.3

Reconciliation of net cash flow to movement in net debt

	2000 £m	1999 £m
Decrease in cash in the year	(10.7)	(0.8)
Cash inflow from decrease in liquid resources	(72.2)	(42.8)
Cash inflow from increase in debt and lease financing	(372.2)	(260.0)
Change in net debt resulting from cash flows	(455.1)	(303.6)
Net loans and finance leases (acquired) sold with subsidiary undertakings	(75.6)	0.3
Exchange and other non-cash adjustments	0.7	(6.2)
Movement in net debt in the year	(530.0)	(309.5)
Opening net debt	(882.8)	(573.3)
Closing net debt	(1,412.8)	(882.8)

Analysis of movement in net debt

	At 1 April 1999 £m	Cash flow £m	Acquisitions £m	Currency translation £m	At 31 March 2000 £m
Cash	29.3	(25.4)	–	0.1	4.0
Short-term deposits	71.7	(70.2)	–	–	1.5
Commercial paper	7.7	(2.0)	–	–	5.7
	108.7	(97.6)	–	0.1	11.2
Overdrafts	(14.9)	14.7	–	–	(0.2)
Debt due within one year	(51.0)	12.0	(1.9)	–	(40.9)
Finance leases due within one year	(5.8)	–	–	–	(5.8)
	(71.7)	26.7	(1.9)	–	(46.9)
Debt due after one year	(421.6)	(394.1)	(73.7)	0.6	(888.8)
Finance leases due after one year	(498.2)	9.9	–	–	(488.3)
	(919.8)	(384.2)	(73.7)	0.6	(1,377.1)
	(882.8)	(455.1)	(75.6)	0.7	(1,412.8)

Notes to the accounts

1 Accounting policies

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

(a) 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 and, except where stated otherwise in the notes to the accounts, with the Companies Act 1985.

(b) 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.

(c) Turnover

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

(d) 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.

(e) 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.

(f) 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.

Deferred taxation in respect of capital allowances and other material timing differences is provided for to the extent that there is reasonable probability that a liability will crystallise in the foreseeable future.

(g) Tangible fixed assets and depreciation

Tangible fixed assets comprise the following:

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

Freehold land is not depreciated. Depreciation is charged on other tangible fixed assets on a straight-line basis over their estimated 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.

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

Notes to the accounts

1 Accounting policies continued

(h) 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.

(i) 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.

(j) Goodwill

Goodwill is the excess of the fair value of the consideration paid for a business 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 subsidiary to which it relates.

(k) 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 over the Group's associates is generally presumed to exist where the Group's effective ownership is 20 per cent 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.

Other fixed asset investments in the accounts of the Group and the Company are stated at cost less provision for impairment in value.

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

(l) 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.

(m) Foreign currencies

Company 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 settled during the year and unsettled monetary assets and liabilities are dealt with in the profit and loss account.

1 Accounting policies continued

Group 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.

(n) Financial instruments

Financial instruments include the following:

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.

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 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.

Realised gains and losses that occur from the early termination of debt instruments are taken to profit and loss account in that period.

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 forward exchange contracts and currency swaps only where they relate to an existing asset, liability or firm commitment, are in the same currency as the hedged item and move inversely in relation to the foreign currency cash flows of the Group's activities.

(o) Change in accounting policy

In accordance with Financial Reporting Standard (FRS) 15 'Tangible Fixed Assets', plant and equipment comprising two or more major components with substantially different useful economic lives has been identified and treated separately for depreciation purposes. The changes in net book values of tangible fixed assets as a result of the different useful economic lives of the major components have been accounted for as a prior year adjustment and comparative figures for the year ended 31 March 1999 have been adjusted as follows:

	Profit for the year after dividends £m	Net assets £m
As previously reported	125.3	1,581.3
Effect of the change to component depreciation	(0.6)	(4.8)
As restated	124.7	1,576.5

Profit before taxation for the year ended 31 March 2000 has been increased by £0.2m following the change in accounting policy in respect of FRS 15.

Notes to the accounts

2 Segmental information

	Turnover		Operating profit		Net assets	
	2000 £m	1999 Restated £m	2000 £m	1999 Restated £m	2000 £m	1999 Restated £m
Geographical analysis						
United Kingdom	738.1	662.8	288.3	257.0	2,694.9	2,307.6
Continental Europe	24.2	12.4	2.0	1.8	25.4	7.6
North America	17.0	–	6.1	–	361.7	–
Discontinued operations	3.5	11.9	(0.9)	0.2	–	0.9
Total	782.8	687.1	295.5	259.0	3,082.0	2,316.1
Business analysis						
Water services						
– UK regulated continuing operations	624.0	580.7	271.5	250.5	2,525.6	2,233.2
– US operations acquisitions	17.0	–	6.1	–	360.9	–
Environmental services						
– Group continuing operations	51.2	86.1	2.4	4.4	52.2	41.3
– Group acquisitions	9.9	–	(0.4)	–	4.7	–
– Associated undertakings	64.9	1.3	11.0	0.2	105.0	46.8
Energy						
– Group	–	–	(1.0)	–	16.7	11.2
– Associated undertakings	0.6	2.2	0.7	(0.6)	8.1	1.5
Land development						
– Group	10.6	4.1	5.0	3.5	11.5	14.4
– Associated undertakings	1.1	0.8	1.1	0.8	11.2	10.3
Discontinued operations						
– Group	3.5	0.5	(0.9)	–	–	0.9
– Associated undertakings	–	11.4	–	0.2	–	–
	782.8	687.1	295.5	259.0	3,095.9	2,359.6
Corporate and business development	–	–	(11.0)	(5.2)	(13.9)	(43.5)
	782.8	687.1	284.5	253.8	3,082.0	2,316.1
Other investments					28.9	29.3
Investment held for resale					–	113.9
Net debt					(1,412.8)	(882.8)
Total						
– Group	716.2	671.4	271.7	253.2	1,573.8	1,517.9
– Associated undertakings	66.6	15.7	12.8	0.6	124.3	58.6

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.

3 Operating costs

	Group				1999 Total Restated £m
	Continuing operations	2000		Total	
		Acquisitions	Discontinued operations		
	£m	£m	£m	£m	
Own work capitalised	(21.3)	(0.4)	–	(21.7)	(23.0)
Raw materials and consumables	26.4	2.8	3.1	32.3	26.4
Other external charges	152.6	7.8	1.1	161.5	177.5
Staff costs (see note 29)	103.4	8.2	0.2	111.8	108.0
Depreciation of tangible fixed assets:					
On owned assets – infrastructure	34.2	–	–	34.2	33.4
– other assets	91.4	2.7	–	94.1	88.1
On assets held under finance leases – infrastructure	1.7	–	–	1.7	1.7
– other assets	15.9	–	–	15.9	14.8
Operating lease rentals – plant and equipment	1.7	–	–	1.7	1.2
– other	0.8	–	–	0.8	0.4
Amortisation of grants and contributions	(3.3)	–	–	(3.3)	(3.7)
Amortisation of goodwill on subsidiary undertakings	1.6	0.3	–	1.9	0.3
Research and development	1.4	–	–	1.4	1.4
Year 2000 modification costs	1.9	–	–	1.9	0.7
Other operating income	(7.7)	(0.2)	–	(7.9)	(9.0)
	400.7	21.2	4.4	426.3	418.2
Staff costs – exceptional restructuring costs	18.2	–	–	18.2	–

Yorkshire Water incurred exceptional restructuring costs of £18.2m. The restructuring costs relate primarily to the reductions in manpower required to achieve the company's efficiency targets implicit in the Final Determination on price limits for the five year period from 1 April 2000 announced by OFWAT in November 1999.

Auditors' remuneration	Group	
	2000 £m	1999 £m
Statutory audit fees and expenses	0.3	0.2
Assurance work	0.3	0.4
Other services	0.2	0.1
	0.8	0.7

4 Profit on disposal of subsidiary undertaking

Discontinued operations	Group	
	2000 £m	1999 £m
Gain on disposal of subsidiary net tangible assets	3.6	–
Goodwill not previously charged to the profit and loss account	(0.7)	–
Profit on disposal of subsidiary undertaking	2.9	–
Taxation	1.2	–

On 25 October 1999, the Group sold York Gas Limited, a wholly-owned subsidiary. In the period from 1 April 1999 to the date of disposal, York Gas Limited incurred a loss before tax amounting to £0.9m.

Notes to the accounts

5 Profit on disposal of associated undertakings

During the prior year, the Group disposed of its 50% shareholdings in Babcock Water Engineering Limited and White Rose Property Investments Limited realising a profit of £11.5m before attributable taxation of £0.8m.

6 Investment income

The Group owned 3C Waste Limited (3C) from September 1998 until April 1999 when Waste Recycling Group plc (WRG) exercised their option to purchase the Group's investment in the company. The net proceeds from the sale of 3C amounted to £113.9m, being the original purchase cost of £119.9m less the £6.0m option fee received as part of the merger agreement with WRG in August 1998.

The Group did not consolidate the results of 3C into its accounts during the period of the Group's ownership because the investment in the company was held exclusively for subsequent resale. The profit after taxation of 3C during the period of the Group's ownership, which amounted to £2.5m, was distributed as dividends and reported as investment income to the Group.

7 Net interest payable

	Group	
	2000 £m	1999 £m
Interest payable on:		
Bank loans and overdrafts	16.4	17.3
Other loans	5.4	1.3
6.875% Guaranteed Bonds 2010	13.9	13.1
5.25% Eurobond 2006	17.4	–
Amortisation of issue costs in respect of bonds	0.4	–
Finance leases	26.3	34.4
Total interest payable	79.8	66.1
Interest receivable	(15.3)	(19.5)
Net interest payable	64.5	46.6

8 Taxation on profit on ordinary activities

	Group	
	2000 £m	1999 £m
UK corporation tax		
Corporation tax at 30% (1999: 31%)	8.4	57.7
Advance Corporation Tax (ACT) offset against mainstream corporation tax	–	(37.6)
ACT on dividends added back in the year	–	(8.2)
Adjustments in respect of prior years	(0.2)	(3.0)
Foreign tax		
Current tax on income for the year	1.2	0.4
Share of taxation of associated undertakings	4.2	0.8
Taxation on profit on ordinary activities	13.6	10.1

The effective tax rate on the profit for the year is less than 30% principally as a result of timing differences for which deferred tax has not been provided.

9 Profit attributable to parent company

The profit of the parent company, after taking account of dividends from subsidiary undertakings, was £58.9m (1999: £92.3m). 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 14 June 2000.

10 Dividends

	2000 £m	1999 £m
Equity – ordinary		
Interim paid: 7.3p (1999: 6.75p) per share	28.0	25.8
Final proposed: 16.85p (1999: 15.6p) per share	64.8	59.7
	92.8	85.5
Non-equity – B shares		
Paid: 1.53p per share	–	0.2
	92.8	85.7

Dividends amounting to £2.1m (1999: £1.9m) in respect of the Company's shares held by the Yorkshire Water Employees' Trust and the Kelda Group QUEST Trust (see note 14) have been deducted in arriving at the aggregate of dividends paid and proposed.

11 Earnings per share

Basic Earnings Per Share (EPS) is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. The ordinary shares held in the Yorkshire Water Employees' Trust and the Kelda Group QUEST Trust are excluded from the weighted average number of ordinary shares.

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 under the Company's Sharesave scheme where the exercise price is less than the average market price of the Company's ordinary shares during the year.

	Earnings £m	2000 Weighted average number of shares m	Per share amount pence	Earnings £m	1999 Weighted average number of shares m	Per share amount pence
Profit attributable to shareholders	208.4			210.4		
Less: Non-equity dividends	–			(0.2)		
Basic EPS	208.4	383.0	54.4	210.2	379.3	55.4
Effect of dilutive share options		2.4	(0.3)		2.2	(0.3)
Diluted EPS	208.4	385.4	54.1	210.2	381.5	55.1

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:

Basic EPS	208.4	383.0	54.4	210.2	379.3	55.4
Exceptional operating costs (net of tax)	15.3		4.0	–		–
Non-operating exceptional items (net of tax)	(1.7)		(0.4)	(10.7)		(2.8)
Adjusted EPS	222.0	383.0	58.0	199.5	379.3	52.6

Notes to the accounts

12 Goodwill

Group	£m
Cost	
At 1 April 1999	30.8
Additions (see note 26)	173.8
Disposals (see note 26)	(0.7)
At 31 March 2000	203.9
Aggregate amortisation	
At 1 April 1999	0.3
Charge for the year	1.9
At 31 March 2000	2.2
Net book amount at 31 March 2000	201.7
Net book amount at 31 March 1999	30.5

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 Company 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'. The accounting treatment of the Aquarion Company goodwill is a departure from the requirements of Paragraph 21 of Schedule 4 of 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 2000 would have been £2.1m and the net book amount of goodwill at 31 March 2000 would have been correspondingly reduced to £162.2m. Goodwill capitalised in respect of the Group's other acquisitions since 1 April 1998 has been assigned a useful economic life of 20 years.

13 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 1999	986.6	1,261.3	1,079.1	472.4	3,799.4	2.7
Exchange adjustments	1.4	-	4.8	0.1	6.3	-
Additions	64.9	154.0	130.4	128.8	478.1	0.1
Acquisitions	54.5	-	165.4	3.4	223.3	-
Disposals	(9.4)	(0.2)	(80.9)	(2.4)	(92.9)	-
Grants and contributions	-	(0.2)	-	(22.4)	(22.6)	-
At 31 March 2000	1,098.0	1,414.9	1,298.8	579.9	4,391.6	2.8
Depreciation						
At 1 April 1999	302.0	547.4	396.6	-	1,246.0	2.5
Prior year adjustment	-	-	4.8	-	4.8	-
Exchange adjustments	0.2	-	1.2	-	1.4	-
Disposals	(7.8)	-	(80.9)	-	(88.7)	-
Charge for the year	22.7	35.9	87.3	-	145.9	0.1
At 31 March 2000	317.1	583.3	409.0	-	1,309.4	2.6
Net book amount at 31 March 2000	780.9	831.6	889.8	579.9	3,082.2	0.2
Net book amount at 31 March 1999 (restated)	684.6	713.9	677.7	472.4	2,548.6	0.2

Accumulated depreciation at 31 March 1999 has been adjusted to reflect the adoption of component depreciation in accordance with FRS 15, as explained in the accounting policy note on page 27.

13 Tangible fixed assets continued

The assets of the parent company comprise plant and equipment, at cost, of £2.8m (net £0.2m).

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	152.0	59.4	280.3	34.9	526.6	–
Depreciation	(11.5)	(3.4)	(61.7)	–	(76.6)	–
Net book amount at 31 March 2000	140.5	56.0	218.6	34.9	450.0	–
Net book amount at 31 March 1999	141.8	57.7	236.8	34.8	471.1	–

The net book amount of land and buildings comprises:

Freeholds	773.7
Long leaseholds	0.9
Short leaseholds	6.3

780.9

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 the accounting policy on page 26, 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 £151.7m lower than it would have been had this treatment not been adopted.

14 Investments in associated undertakings and other investments

Group	Goodwill Restated £m	Share of net assets in associated undertakings Restated £m	Loans to associated undertakings £m	Total investment in associated undertakings £m	Other investments £m
Cost and share of post-acquisition retained profits					
At 1 April 1999	14.1	33.5	11.0	58.6	29.3
Additions	59.3	3.4		62.7	–
Disposals	–	–		–	(0.2)
Share of retained profits for the year		7.9		7.9	
Movement in the year	(1.2)		(0.7)	(1.9)	(0.2)
At 31 March 2000	72.2	44.8	10.3	127.3	28.9
Aggregate amortisation					
At 1 April 1999	–			–	
Charge for the year	3.0			3.0	
At 31 March 2000	3.0			3.0	
Net book amount at 31 March 2000	69.2	44.8	10.3	124.3	28.9
Net book amount at 31 March 1999	14.1	33.5	11.0	58.6	29.3

The Group's solid and liquid waste businesses were transferred to WRG in exchange for shares in January 1999. Investments in associated undertakings at 31 March 1999 include the Group's 46% share of the net assets of WRG at 31 December 1998. Additions include £56.5m in respect of the Group's subscription for its full entitlement to shares following a rights issue by WRG during the year. Goodwill arising on the Group's interest in WRG, totalling £66.6m, is being amortised on a straight-line basis over 20 years. The Group's share of retained profits for the year in respect of WRG, which amounted to £8.3m, is based on the published financial statements of WRG for the year ended 31 December 1999. The market value of the Group's investment in WRG at 31 March 2000 amounted to £205.8m.

Notes to the accounts

14 Investments in associated undertakings and other investments continued

The Group acquired a 31% interest in Fibro Holdings Limited (FHL) in February 2000 for consideration amounting to £6.2m. Goodwill arising on the acquisition of FHL amounted to £5.6m.

Company	Shares in Group undertakings £m	Shares in associated undertakings £m	Loans to Group undertakings £m	Other investments £m	Total £m
Cost					
At 1 April 1999	909.4	–	196.2	29.0	1,134.6
Additions	142.4	105.8		–	248.2
Disposals	(51.0)	–		(0.2)	(51.2)
Impairment of investment in Group undertakings	(21.2)				(21.2)
Movement in the year			238.7	–	238.7
At 31 March 2000	979.6	105.8	434.9	28.8	1,549.1

Other investments are stated at cost and consist primarily of 8,541,859 and 248,836 ordinary shares of the Company which are held in the Yorkshire Water Employees' Trust (ESOT) and the Kelda Group QUEST Trust (QUEST), respectively, explained in note 22. The market value of the shares held by the ESOT and the QUEST at 31 March 2000 was £22.7m and £0.7m, respectively. The market value of the shares held by the ESOT and the QUEST on 13 June 2000 was £28.4m and £0.8m, respectively. The trustees of the ESOT and the QUEST have waived the right to receive dividends in respect of the shares held by the trusts.

Details of principal subsidiary and associated undertakings are set out on page 45.

15 Stocks

	Group 2000 £m	1999 £m
Raw materials and consumables	3.7	1.6
Work in progress	1.8	0.4
	5.5	2.0

16 Debtors

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Trade debtors	69.9	48.5		
Amounts owed by subsidiary undertakings			79.6	62.1
Amounts owed by associated undertakings	1.7	1.4	1.3	–
Prepayments and accrued income	89.2	63.2	4.4	3.0
Other debtors:				
Receivable within one year	34.9	23.8	0.5	0.5
Receivable after more than one year	0.2	0.7	–	–
	195.9	137.6	85.8	65.6

17 Short-term borrowings

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Bank loans and overdrafts	19.0	48.5	-	5.8
Other loans	22.1	17.4	21.5	14.7
Finance leases	5.8	5.8	-	-
	46.9	71.7	21.5	20.5

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.

18 Other creditors

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Amounts falling due within one year:				
Trade creditors	55.8	48.2	-	-
Capital creditors	85.3	68.9	-	-
Amounts owed to subsidiary undertakings			115.9	140.8
Amounts owed to associated undertakings	0.2	0.7	0.2	-
Deferred grants and contributions on depreciated fixed assets	11.2	8.1	-	-
Taxation	12.1	21.4	1.1	-
Social security and payroll deductions	2.5	2.8	-	-
Receipts in advance	30.3	31.4	-	-
Other creditors	65.9	39.1	26.7	17.5
Proposed dividends	64.8	85.5	64.8	85.5
	328.1	306.1	208.7	243.8
Amounts falling due after more than one year:				
Capital creditors	3.0	4.1	-	-
Deferred grants and contributions on depreciated fixed assets	135.4	95.6	-	-
Other creditors	61.1	55.4	-	-
	199.5	155.1	-	-

Other creditors falling due after more than one year consist principally of deferred interest on finance leases.

Notes to the accounts

19 Long-term borrowings

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Bank loans and overdrafts	202.5	214.6	9.7	10.6
6.875% Guaranteed Bonds 2010	198.6	198.4	198.6	198.4
5.25% Eurobond 2006	405.2	–	405.2	–
Other loans	82.5	8.6	–	6.7
Finance leases	488.3	498.2	–	–
	1,377.1	919.8	613.5	215.7
Long-term borrowings are repayable as follows:				
In more than one year but not more than two years	17.5	20.5	–	–
In more than two years but not more than five years	88.2	75.2	9.7	10.6
After more than five years	1,271.4	824.1	603.8	205.1
	1,377.1	919.8	613.5	215.7

Borrowings repayable by instalments over five years include £464.1m (1999: £471.8m) in respect of finance leases.

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. In July 1999, in connection with the issue of Euro 625m 5.25% bonds due 2006, the Group entered into the following swaps whereby:

- for a notional principal of Euro 22m, the Group receives a fixed rate of 5.25% and pays interest at EURIBOR plus 0.5975%.
- for a notional principal of Euro 603m, the Group receives a fixed rate of 5.25% and pays interest at a rate of sterling LIBOR plus 0.66% on a fixed notional principal of £394m.

During the year, the Group entered into further interest rate swaps for notional principal amounts totalling £60m, maturing at various dates to 2030. Under these interest rate swaps, the Group receives interest at a rate of 12 month LIBOR and pays interest at an average rate of 5.93%.

The Group and Company 5.25% Eurobond 2006 is stated net of unamortised issue costs of £2.1m (1999: £nil). The Company incurred total issue costs of £2.3m in respect of the 5.25% Eurobond 2006 issued in July 1999 principally to fund the acquisition of Aquarion Company. The issue costs incurred in respect of the 5.25% Eurobond 2006 are allocated to the profit and loss account over the seven year term at a constant rate on the carrying amount.

20 Financial instruments

(a) Interest rate risk profile of financial liabilities

The interest rate risk profile of the Group's financial liabilities at 31 March 2000, after taking account of the interest rate and currency swaps used to manage the interest and currency profile, was:

	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	707.0	610.2	1,317.2	64.1	1,381.3
Dutch Guilders	2.8	6.9	9.7	–	9.7
Swedish Krona	6.9	–	6.9	–	6.9
US Dollars	1.7	75.3	77.0	–	77.0
Euro	13.2	–	13.2	–	13.2
At 31 March 2000	731.6	692.4	1,424.0	64.1	1,488.1
Sterling	350.3	615.9	966.2	59.5	1,025.7
Dutch Guilders	17.7	7.6	25.3	–	25.3
At 31 March 1999	368.0	623.5	991.5	59.5	1,051.0

The Group's financial liabilities falling due within one year, other than short-term borrowings, are excluded from the table above.

20 Financial instruments continued

Floating rate sterling, Dutch Guilder, Swedish Krona, US Dollar and Euro debt bears interest at rates based on sterling LIBOR (London Inter-Bank Offered Rate), AIBOR (Amsterdam Inter-Bank Offered Rate), STIBOR (Stockholm 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. In addition, through a combination of interest rate and currency swaps, the majority of the proceeds of the 5.25% Eurobond 2006 have been converted from a fixed rate Euro liability to a floating rate sterling liability.

	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	7.0	10.0	3.8
Dutch Guilders	7.1	3.0	–
US Dollars	6.4	29.0	–
At 31 March 2000	7.0	12.0	3.8
Sterling	7.2	9.5	3.5
Dutch Guilders	7.1	4.0	–
At 31 March 1999	7.2	9.5	3.5

(b) Interest rate risk of financial assets

	2000			1999		Total £m
	Cash at bank and in hand £m	Short-term deposits £m	Total £m	Cash at bank and in hand £m	Short-term deposits £m	
Sterling	2.2	3.3	5.5	27.9	79.4	107.3
Dutch Guilders	0.3	–	0.3	1.4	–	1.4
Swedish Krona	0.7	–	0.7	–	–	–
US Dollars	0.8	3.9	4.7	–	–	–
At 31 March	4.0	7.2	11.2	29.3	79.4	108.7

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

(c) Maturity of financial liabilities

	Debt £m	Finance leases £m	Gross debt £m	Other financial liabilities £m	Total £m
In one year, or less, or on demand	41.1	5.8	46.9	–	46.9
In more than one year but not more than two years	–	0.2	0.2	11.7	11.9
In more than two years but not more than five years	35.3	0.5	35.8	36.5	72.3
After more than five years	857.0	487.6	1,344.6	15.9	1,360.5
	933.4	494.1	1,427.5	64.1	1,491.6
Unamortised issue costs	(3.5)	–	(3.5)	–	(3.5)
At 31 March 2000	929.9	494.1	1,424.0	64.1	1,488.1
In one year, or less, or on demand	65.9	5.8	71.7	–	71.7
In more than one year but not more than two years	13.0	7.5	20.5	11.4	31.9
In more than two years but not more than five years	56.3	18.9	75.2	37.9	113.1
After more than five years	352.3	471.8	824.1	10.2	834.3
	487.5	504.0	991.5	59.5	1,051.0
Unamortised issue costs	–	–	–	–	–
At 31 March 1999	487.5	504.0	991.5	59.5	1,051.0

Notes to the accounts

20 Financial instruments continued

(d) Borrowing facilities

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

	2000 £m	1999 £m
Expiring in one year or less	–	–
Expiring in more than one year but not more than two years	78.5	–
Expiring in more than two years	–	85.3
	78.5	85.3

(e) Fair values of financial assets and financial liabilities

	2000		1999	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Primary financial instruments financing the Group's operations				
Short-term borrowings	(46.9)	(47.4)	(71.7)	(73.3)
Long-term borrowings	(1,377.1)	(1,386.7)	(919.8)	(960.4)
Gross debt	(1,424.0)	(1,434.1)	(991.5)	(1,033.7)
Cash and short-term deposits	11.2	11.2	108.7	108.7
Net debt	(1,412.8)	(1,422.9)	(882.8)	(925.0)
Other financial liabilities	(64.1)	(64.1)	(59.5)	(59.5)
Total	(1,476.9)	(1,487.0)	(942.3)	(984.5)

Derivative financial instruments held to manage the interest rate and currency profile

Interest rate swaps	–	(10.5)	–	(17.1)
Interest rate caps and collars	–	–	–	(0.4)
Currency swaps	(37.1)	(37.1)	–	–

The above table excludes short-term debtors and creditors which are primarily of a trading nature and expected to be settled within normal commercial terms. Market values, where available, have been used to determine fair values, otherwise fair values have been calculated by discounting cash flows at year-end interest rates. The book value of long-term borrowings includes the fair value of a hedge amounting to £37.1m.

(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. Fuller details of such borrowings taken out to date are discussed in the Operating and Financial Review on page 9. 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.

(g) Hedges

The Group's policy is to hedge interest rate risk within approved board policies and guidelines as described on pages 8 and 9 in the Operating and Financial Review. Gains and losses on hedges are not recognised until the interest payment that is being hedged is itself recognised. Unrecognised gains and losses on hedges and the movements during the year are as follows:

31 March 2000	Gains £m	Losses £m	Total net gains (losses) £m
Unrecognised gains and losses on hedges at 1 April 1999	0.5	(18.0)	(17.5)
Gains and losses arising in previous years recognised during the year	–	8.7	8.7
Gains and losses arising in the year that were not recognised	1.5	(3.2)	(1.7)
Unrecognised gains and losses on hedges at 31 March 2000	2.0	(12.5)	(10.5)
of which:			
Gains and losses expected to be recognised during the year ended 31 March 2001	0.3	(8.5)	(8.2)
Gains and losses expected to be recognised in later years	1.7	(4.0)	(2.3)

20 Financial instruments continued

31 March 1999	Gains £m	Losses £m	Total net gains (losses) £m
Unrecognised gains and losses on hedges at 1 April 1998	0.5	(10.2)	(9.7)
Gains and losses arising in previous years recognised during the year	(0.1)	1.3	1.2
Gains and losses arising in the year that were not recognised	0.1	(9.1)	(9.0)
Unrecognised gains and losses on hedges at 31 March 1999	0.5	(18.0)	(17.5)
of which:			
Gains and losses expected to be recognised during the year ended 31 March 2000	0.1	(2.7)	(2.6)
Gains and losses expected to be recognised in later years	0.4	(15.3)	(14.9)

The table excludes the fair value of a currency swap amounting to £37.1m which is recognised in the book value of long-term borrowings at 31 March 2000.

(h) Financial instruments held for trading purposes

The Group does not trade in financial instruments.

21 Deferred taxation

The full potential deferred taxation liability on timing differences, calculated using the liability method at a tax rate of 30% (1999: 31%) is:

	2000 £m	Group 1999 Restated £m
Accelerated capital allowances		
Infrastructure assets	169.3	157.4
Other assets	262.3	223.0
Short-term timing differences	(3.6)	(2.4)
At 31 March	428.0	378.0

Deferred taxation will crystallise only in the event of any disposal of the infrastructure assets at amounts in excess of their written down value for tax purposes. In the opinion of the directors, the likelihood of such a liability crystallising in the future is remote.

22 Called up share capital

	2000		1999	
	Number	Nominal value £	Number	Nominal value £
Authorised				
Ordinary shares of 15 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 ⁵ / ₉ p each	392,595,440	61,070,402	391,173,293	60,849,179

During the year, 1,422,147 ordinary shares of 15⁵/₉p were issued, 411,261 of which were issued directly to employees exercising Sharesave options.

The Group has both an Employee Share Ownership Trust (ESOT) and a Qualifying Employee Share Ownership Trust (QUEST), which are trusts used to administer the issue of shares to employees and directors under the Group's Sharesave and, in the case of the ESOT, the Long Term Incentive Plan share option schemes. The QUEST subscribed for 1,010,886 ordinary shares of 15⁵/₉p for consideration amounting to £3.6m, of which £0.5m was funded by proceeds from the exercise of Sharesave options. 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 14.

Notes to the accounts

22 Called up share capital continued

Options granted and outstanding at 31 March 2000	Date of grant	Number of shares 2000	Number of shares 1999	Option price	Normal exercise date
Sharesave schemes					
Three year schemes	14 March 1997	340,434**	510,119	295.0p	May-Oct 2000
	17 December 1997	625	902	280.3p	Feb-Jul 2001
	31 December 1997	147,925*	327,641	389.0p	Mar-Aug 2001
	21 December 1998	1,547	2,167	249.7p	Feb-Jul 2002
	6 January 1999	108,501*	268,605	457.0p	Mar-Aug 2002
	7 January 2000	1,378,606	-	240.0p	Mar-Aug 2003
	Five year schemes	28 December 1994	251,202**	1,161,658	204.0p
20 December 1995		1,083	1,083	286.5p	Feb-Jul 2001
9 January 1996		689,736**	898,678	242.5p	Mar-Aug 2001
18 December 1996		2,701	2,701	268.1p	Feb-Jul 2002
14 March 1997		928,140**	1,239,748	295.0p	May-Oct 2002
17 December 1997		3,319	3,319	280.3p	Feb-Jul 2003
31 December 1997		376,943*	739,327	389.0p	Mar-Aug 2003
21 December 1998		3,295	3,295	249.7p	Feb-Jul 2004
6 January 1999		190,233*	485,996	457.0p	Mar-Aug 2004
7 January 2000		1,234,076	-	240.0p	Mar-Aug 2005

* Shares under options to be satisfied by the ESOT

** Shares under options to be satisfied by the QUEST

23 Reserves

	Group £m	Company £m
Share premium account		
At 1 April 1999	11.1	11.1
Premium on issue of shares	4.3	4.3
At 31 March 2000	15.4	15.4
Capital redemption reserve		
At 1 April 1999 and 31 March 2000	142.6	142.6
Special reserve		
At 1 April 1999	5.7	5.7
Transfer to profit and loss account	(5.7)	(5.7)
At 31 March 2000	-	-
Profit and loss account		
At 1 April 1999	1,356.2	604.1
Exchange rate translation change	4.5	2.0
QUEST funding payments	(3.1)	(3.1)
Transfer from special reserve	5.7	5.7
Transfer from the profit and loss account	115.6	(33.9)
At 31 March 2000	1,478.9	574.8

The cumulative amount of goodwill written-off to reserves prior to 1 April 1998 in respect of the acquisition of existing subsidiaries is £37.3m.

24 Reconciliation of Group movements in shareholders' funds

	2000 £m	1999 Restated £m
Profit attributable to shareholders (1999 restated for prior year adjustment of £0.6m)	208.4	210.4
Dividends	(92.8)	(85.7)
	115.6	124.7
Other recognised gains and losses relating to the year	4.5	0.5
QUEST funding payments	(3.1)	–
New share capital issued	4.6	1.8
Dividends taken as scrip	–	33.1
Net movement in goodwill	–	10.6
Redemption of B shares	–	(6.1)
Net increase in shareholders' funds	121.6	164.6
Opening shareholders' funds (1999 restated for prior year adjustment of £4.2m)	1,576.4	1,411.8
Closing shareholders' funds	1,698.0	1,576.4

25 Commitments

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Contracts placed at 31 March	142.0	277.6	–	–

In addition, Yorkshire Water Services Limited has a long-term investment programme which identifies substantial future expenditure commitments in the period to 2004/05.

At 31 March 2000, Group companies were committed to making the following payments during the next financial year under non-cancellable operating leases expiring as set out below:

	Group			
	Land and buildings 2000 £m	Other 2000 £m	Land and buildings 1999 £m	Other 1999 £m
Operating leases which expire:				
Within one year	0.1	1.7	–	0.7
Between one and five years	0.2	2.4	0.2	0.3
	0.3	4.1	0.2	1.0

Notes to the accounts

26 Acquisitions and disposals

(a) Acquisition of Aquarion Company

The Group acquired the entire share capital of Aquarion Company on 7 January 2000 for consideration amounting to £284.7m, including acquisition costs, and has accounted for the purchase as an acquisition. The book values of the assets and liabilities of Aquarion Company have been adjusted by £24.8m in order to reflect their fair values and ensure compliance with the Group's stated accounting policies. Aquarion Company contributed turnover of £17.0m and operating profit of £6.1m in the period from the date of acquisition to 31 March 2000. Aquarion Company contributed £3.2m to the Group's net operating cash flows, paid £1.4m in respect of interest, £0.9m in respect of taxation and utilised £1.5m in respect of capital expenditure.

Aquarion Company reported a profit after tax of \$22.2m in its last financial year ended 31 December 1999.

	Book value £m	Consistency of accounting policy £m	Other £m	Provisional fair value £m
Tangible fixed assets	216.6	3.0	–	219.6
Stock	1.9	–	–	1.9
Debtors	27.7	(2.2)	8.6 ¹	34.1
Creditors	(58.5)	–	(3.0)	(61.5)
Taxation	(4.5)	–	–	(4.5)
Deferred taxation	(9.9)	9.9 ²	–	–
Cash	4.3	–	–	4.3
Loans net of deposits	(82.0)	–	8.5 ³	(73.5)
Net assets acquired	95.6	10.7	14.1	120.4
Goodwill				164.3
Consideration satisfied by cash				284.7

The book values of the assets and liabilities have been taken from the completion accounts of Aquarion Company at 7 January 2000 at actual exchange rates on that date. The significant fair value adjustments are:

¹ The book value of the pension scheme surplus of Aquarion Company has been adjusted to reflect its fair value in accordance with FRS 7 'Fair values in acquisition accounting'.

² The deferred taxation liability in the acquisition balance sheet of Aquarion Company is calculated using the full provision method in accordance with US accounting standards. The fair value adjustment in respect of deferred taxation has been calculated in accordance with the requirements of both FRS 7 and SSAP 15 'Accounting for deferred tax', which requires the use of the partial provision method.

³ An adjustment has been made to reflect the market value of the loan balances acquired with Aquarion Company.

(b) Other acquisitions

In addition to the acquisition of Aquarion Company, the Group acquired the entire share capital of three companies, and an effective 65% interest in another, during the year as set out on page 45 for a consideration totalling £13.6m. No fair value adjustments have been made in respect of the Group's other acquisitions. Other acquisitions contributed turnover of £9.9m and operating loss of £0.4m in the period from the dates of acquisition to 31 March 2000.

	£m
Book value of net assets acquired (includes £0.5m cash)	4.8
Goodwill	8.8
Consideration satisfied by cash	13.6

26 Acquisitions and disposals continued

(c) Disposal of York Gas Limited

	£m
Tangible fixed assets	0.1
Debtors	2.4
Creditors	(2.1)
Goodwill not previously charged to the profit and loss account	0.7
	1.1
Profit on disposal	2.9
Satisfied by cash	4.0

(d) Adjustments to provisional fair values

Additions to goodwill amounting to £173.8m include £0.7m in respect of an adjustment to the provisional fair values on the acquisition of the Biochem group reflected in the Group's accounts for the year ended 31 March 1999.

27 Contingent liabilities

The Company has guaranteed certain subsidiary undertakings' borrowings of £695.8m (1999: £734.6m).

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

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

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

28 Pensions

Most employees of the Group are members of the main pension arrangement called the Kelda Group Pension Plan (KGPP) (formerly the Yorkshire Water Pension Plan). With effect from 1 April 2000, transfers were made to the KGPP from the Water Mirror Image Pension Scheme (WMIS) and the Water Companies' Pension Scheme. The KGPP now has a number of different defined benefit sections and one defined contribution section. The Group also operates a Group Personal Pension Plan. Aquarion Company and certain of its subsidiaries in the US also operate non-contributory defined retirement plans and provide healthcare benefits for substantially all retired employees. Full provision for the post-retirement healthcare benefit obligations of Aquarion Company has been made in the Group's accounts at 31 March 2000. Post-retirement healthcare benefits are not provided to employees appointed after 1 July 1996.

The UK pension cost under Statement of Standard Accounting Practice (SSAP) 24 'Accounting for Pension Costs' for KGPP has been assessed in accordance with the advice of William M Mercer Limited, using the projected unit method and the attained age method for former WMIS members. For this purpose, the actuarial assumptions adopted are based upon investment growth of 6.5% per annum, pay growth of 5% per annum and increases to pensions in payment and deferred pensions of 3% per annum. The actuarial value of the assets was taken as 82% of the market value as at 31 March 1998.

The last actuarial valuations for KGPP and WMIS were carried out as at 31 March 1998 with the market values being £481.7m and £44.5m, respectively. Using the assumptions adopted for SSAP 24, the actuarial value of assets represented 109% for KGPP and 122% for WMIS of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension costs under SSAP 24, the surpluses are spread over the future working lifetime of the employees.

The Group also operates a series of individual unfunded retirement benefit arrangements. The cost of these arrangements is included in the total pension cost on a basis consistent with SSAP 24 and the assumptions used for KGPP. A provision for unfunded benefits of £0.4m (1999: £0.3m) has been accrued.

The total pension charge for the year was £7.8m (1999: £7.7m).

29 Employees

	2000 Number	Group 1999 Number
Average number of people employed:		
Water services		
– UK regulated	2,884	3,008
– US operations	99	–
Other activities	1,330	1,201
	4,313	4,209
	£m	£m
Total employment costs:		
Wages and salaries	94.8	92.2
Social security contributions	9.2	8.1
Other pension costs (see note 28)	7.8	7.7
	111.8	108.0

At 31 March 2000, the number of people employed at Aquarion Company in the US was 396.

The emoluments, share options and LTIP interests of the directors are described on pages 16 to 18 of the Remuneration Report.

30 Related parties

During the year, Group companies extended finance to the associated companies, White Rose Development Enterprises Limited, White Rose (Leeds) Limited and WRE Services Limited on a proportionate basis with other shareholders. These loans are included in investments analysed in note 14 and at the end of the year the amounts outstanding were:

	2000 £m	1999 £m
White Rose Development Enterprises Limited	5.5	4.7
White Rose (Leeds) Limited	3.7	4.4
WRE Services Limited	1.1	1.9

The loans to White Rose Development Enterprises Limited and White Rose (Leeds) Limited are interest-free, but all other loans carry market rates of interest. Total interest received on loans to associated undertakings was £0.1m (1999: £0.2m). There were no loans outstanding at 31 March 2000 between the Group and Waste Recycling Group plc or the Group's new associated company, Fibro Holdings Limited.

There were no other material transactions between the Group and its associated undertakings during the year in addition to those disclosed above.

Group companies

	Country of incorporation	Equity shares in issue	Proportion of equity share capital held
Principal subsidiary undertakings			
Water services			
Yorkshire Water Services Limited*	Great Britain		100%
The York Waterworks Limited	Great Britain		100%
Yorkshire Water Projects Limited*	Great Britain		100%
Aquarion Company (acquired 7/1/00)	USA		100%
Environmental services			
White Rose Environmental Limited* (formerly Yorkshire Environmental Solutions Limited)	Great Britain		100%
Alcontrol Limited*	Great Britain		100%
Geochem Group Limited (acquired 23/9/99)	Great Britain		100%
Alcontrol BV	Holland		100%
Biochem Food BV	Holland		100%
KMLab AB (acquired 1/7/99)	Sweden		100%
Svelab Miljölaboratorier AB (acquired 25/1/00)	Sweden		100%
Energy			
First Renewables Limited*	Great Britain		100%
Arbre Energy Limited	Great Britain		85%
Fibrowatt LLC (acquired 8/2/00)	USA		65%
Land development			
KeyLand Developments Limited* (formerly Yorkshire Water Estates Limited)	Great Britain		100%
KeyLand Investment Properties Limited (formerly Yorkshire Water Investment Properties Limited)	Great Britain		100%
Holding companies			
Featurepack Limited*	Great Britain		100%
Kelda Group Inc*	USA		100%
First Renewables (Overseas) Limited	Great Britain		100%
First Renewables Inc	USA		100%
YW (Holdings) BV	Holland		100%
Alcontrol AB	Sweden		100%
Principal associated undertakings			
Environmental services			
Waste Recycling Group plc*	Great Britain	117.3 million	46%
WRE Services Limited	Great Britain	1,000	50%
Land development			
White Rose Development Enterprises Limited	Great Britain	250,000 'A'	Nil
		250,000 'B'	100%
White Rose (Leeds) Limited	Great Britain	250,000 'A'	Nil
		250,000 'B'	100%
Energy			
Yorkshire Windpower Limited	Great Britain	100	50%
Fibro Holdings Limited (acquired 8/2/00)	Great Britain	1,834,511	31%

* Shares held by parent company

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

Five year financial summary

		2000	1999	1998	1997	1996
Turnover: Group and share of associates						
	£m	782.8	687.1	664.1	652.3	593.3
Water services	£m	624.0	580.7	546.1	542.9	521.5
Other activities	£m	158.8	106.4	118.0	109.4	71.8
Operating profit: Group and share of associates						
(before corporate office costs)	£m	295.5	259.0	243.3	243.9	178.1
Water services	£m	271.5	250.5	226.4	232.0	170.5
Other activities	£m	24.0	8.5	16.9	11.9	7.6
Profit before taxation	£m	222.1	221.0	205.6	215.8	162.2
Earnings per share	p	54.4	55.4	11.6	46.2	36.0
Adjusted earnings per share	p	58.0	52.6	49.7	47.2	46.0
Dividends per share – interim	p	7.30	6.75	6.15	5.10	4.55
– final	p	16.85	15.60	14.20	13.40	10.95

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

The results for 1999 have been restated to reflect the adoption of component depreciation in accordance with FRS 15, as explained in the accounting policy note on page 27. Figures prior to 1999 have not been restated as the effect of component depreciation is not material to the Group's results.

		2000	1999	1998	1997	1996
Assets employed						
Fixed assets	£m	3,437.1	2,667.0	2,366.7	2,118.1	1,866.3
Net current liabilities, long-term creditors and provisions	£m	(326.2)	(207.7)	(375.9)	(273.6)	(276.9)
	£m	3,110.9	2,459.3	1,990.8	1,844.5	1,589.4
Financed by						
Shareholders' funds	£m	1,698.0	1,576.4	1,416.0	1,413.2	1,421.5
Minority interests	£m	0.1	0.1	1.5	1.2	1.2
Net debt	£m	1,412.8	882.8	573.3	430.1	166.7
	£m	3,110.9	2,459.3	1,990.8	1,844.5	1,589.4
Regulated investment programme						
Capital expenditure	£m	381.9	322.7	287.9	286.4	188.4
Infrastructure renewals	£m	70.5	60.1	62.2	74.1	46.5
	£m	452.4	382.8	350.1	360.5	234.9
Employees (average number)						
Water services	No.	2,983	3,008	3,208	3,176	3,263
Other activities	No.	1,330	1,201	1,125	1,118	1,055
	No.	4,313	4,209	4,333	4,294	4,318

Regulatory accounts

The regulatory accounting information of Yorkshire Water Services Limited and York Waterworks Limited for the year ended 31 March 2000, published in accordance with Condition F of the Instrument of Appointment, can be obtained, free of charge, by writing to External Communications, Yorkshire Water Services, Buttershaw Complex, Western Way, Halifax Road, Bradford BD6 2LZ.

General information

Financial calendar

	Final dividend for 1999/00
Announcement of results	14 June 2000
Ex-dividend date	11 September 2000
Record date	15 September 2000
Annual general meeting	21 September 2000
Dividend payment date	9 October 2000

Payment of dividends to mandated accounts

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

Annual Report on cassette tape

For the benefit of blind and partially sighted shareholders the text of the Annual Report 2000 is available on a free audio cassette tape from the Shareholder Information Office. Anyone knowing a shareholder who could benefit from this service is asked to draw it to their attention.

Analysis of ordinary shareholders at 31 March 2000 by size of account

	Number of holders	Number of shares held	% of total shares
1 – 100	5,161	126,624	0.03
101 – 1,000	34,544	17,070,198	4.35
1,001 – 10,000	17,673	35,694,416	9.09
10,001 – 100,000	607	20,791,873	5.30
100,001 – 1,000,000	284	79,003,679	20.12
1,000,001+	73	239,908,650	61.11
	58,342	392,595,440	100

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