

## KELDA GROUP PLC

### Interim Results Announcement for the six months ended 30 September 2000

#### HIGHLIGHTS

- Group profit before tax £81.0m (1999: £122.2m).
- Yorkshire Water profit before tax down one third following 14.5% price cut in April.
- Aquarion earnings enhancing.
- Good growth in contribution from share in Waste Recycling Group.
- Interim dividend maintained.

#### KEY FIGURES

	<b>2000</b>	1999	Increase/ (Decrease)
Group turnover (excluding associates)	<b>£349.2m</b>	£342.9m	1.8%
FRS 3 profit before taxation	<b>£81.0m</b>	£122.2m	(33.7%)
Earnings per share	<b>18.8p</b>	30.2p	(37.7%)
Interim dividend per share	<b>7.5p</b>	7.3p	2.7%

## CHAIRMAN'S STATEMENT

Group results for the six months ended 30 September 2000 directly reflect the impact of the November 1999 price determination which reduced prices by 14.5% and profits in the main Yorkshire Water (YW) operating subsidiary by a third. Kelda Group profit before tax at £81.0m was 33.7% down on the comparable period last year. The results benefited from the inclusion of Aquarion, our USA water acquisition, for the first full half year and improved performance from Waste Recycling Group (WRG), our associated waste disposal company. These benefits were offset by higher borrowings and interest costs related to the Aquarion acquisition, increased capital investment in YW and a charge of £5m for the strategic review costs. An interim dividend of 7.5p per share will be paid.

The main and immediate offsetting action has been to substantially reduce costs. This has included the planned closure of the corporate headquarters, and a completed redundancy programme in YW, the full benefits of which will be felt in the second half. With the priority that has to be given to improving quality and service standards, the scope for additional cost reductions is now more limited. The company also has to ensure it has some capacity to respond to the operating pressures of events like the recent flooding. The Board would like to pay a special tribute to all staff for the excellent way they have responded to these events.

The extent of the profit reduction attributable to the price determination, although predictable, after cost offsets, remains the catalyst for an appropriate strategic response taking into account long-term investment needs. The decision to concentrate on water and waste interests and to dispose of non-core activities has been well received and will benefit shareholders. Good progress has been made with the sale process and the majority of the sales should be achieved by the financial year-end with the exception of First Renewables, our renewable energy interests, which will take more time.

Although Kelda's first proposals for restructuring its water business into separate asset and operating companies did not meet regulatory approval, they helped to increase the focus of the Government and the Regulator on longer term issues in the water industry, particularly the need to raise the significant capital sums required at the lowest cost of borrowing. The recently announced 'Not for Profit' ownership structure for Welsh Water, Glas Cymru, is similar to the proposals made by Kelda. There is now more regulatory sensitivity to and acceptance of the dynamics of the linkage between capital and equity markets in the UK.

Further evidence of the need for change was signalled by Thames, who opted to sell itself to a major overseas company. Such companies have the benefits, outside of the UK, of a more stable long-term commercial environment, are allowed more attractive rates of return, can more easily finance investment and have the financial strength to take a longer term strategic view.

There is increasing recognition that the combination of historic privatisation structures, inappropriate "one size fits all" models of competition and a punitive interventionist regulatory approach does not, in the long term, best serve the interests of the consumer, the industry or the wider environment and community, particularly where substantial continuing long term capital expenditure is necessary. Recent events in other industries have helped reinforce this general point.

The imperative is for an agreed long-term strategic view of the water industry with acceptance of the need for more commercial, stable, balanced and cohesive relations with all stakeholders including customers, shareholders, capital providers, the Regulator and Government. The objective has to be to ensure sustainable service improvement and increased long-term investment in both infrastructure maintenance and the environment.

The water industry in general and Kelda in particular has made substantial progress on many fronts, such as cost reductions, water quality and service delivery improvements. We look forward to a greater recognition of these achievements and, believe now is the time for an overall review of all options open to the industry, and with a new Regulator, an opportunity for a more balanced regulatory approach.

The Board expects the focus on water and waste operations to show continued benefits to shareholders into the future. It allows the utilisation of our core operating strengths and clarification of the strategic issues. We believe that wider recognition of these issues is a significant factor behind the short-term improvement in the market perception of water companies. The requirement however remains to deliver long term solutions which allow water companies to effectively service their customers in the short and long run and make the necessary protective investments in essential, existing and future assets and environmental improvements. We look forward to progress in these areas.

Finally I am pleased to report the continued strengthening of your Board and management. Following the appointment of two additional Executive Directors announced in the Annual Report, two Yorkshire based Non- Executive Directors, Mr David Salkeld, Chief Executive Officer of Arla Foods Plc and Mr Ken Jackson, Deputy Chairman and Chief Executive of Carbo plc have been appointed to the Board.

**John Napier**  
**Executive Chairman**

## **REVIEW OF THE BUSINESS**

### **Group Financial Performance**

The group's turnover increased by 1.8% during the period to £349.2m (1999: £342.9m). Yorkshire Water's turnover reduced by £41.2m as expected following the 14.5% price cut in April as a result of OFWAT's Periodic Review of prices. However, the acquisition of Aquarion, which was completed in January this year, added £38.5m to the group's turnover. The group's share of Waste Recycling Group plc (WRG) turnover increased to £40.0m (1999: £26.7m) as a result of WRG's acquisitions in 1999. Total group turnover, including share of associates, was £396.3m (1999: £370.7m).

The Yorkshire Water price cut had a direct impact on the group's operating profit which fell to £121.9m (1999: £145.6m), despite the inclusion of Aquarion's results. The group's share of associates' operating profit, principally the interest in WRG, increased by over 50% to £8.5m (1999: £5.5m). At the operating profit level, therefore, the impact of the price cut was partly offset by the acquisition of Aquarion and growth in the group's waste management interests.

The group interest charge increased as a result of the continuing investment in Yorkshire Water and the cost of financing the acquisition of Aquarion. Group profit before taxation for the interim period fell to £81.0m (1999: £122.2m) and earnings per share reduced to 18.8p (1999: 30.2p) accordingly.

### **Interim Dividend**

An interim dividend of 7.5p per share (1999: 7.3p) will be paid on 1 March 2001 to shareholders on the register on 26 January 2001. The full cost of this dividend will be met by Yorkshire Water.

### **Yorkshire Water**

Turnover reduced by 13.1% following the price cuts imposed by OFWAT in April. Turnover was also affected by the continuing increase in domestic metering but not as much as had been anticipated following the introduction of the Water Act which came into force on 1 April, which amongst other things allowed for free meter options.

The company continues to improve its cost efficiency and has again substantially reduced its regulated operating costs by around 2% in real terms from the equivalent period last year. This is despite further costs being added into the business as a result of the substantial capital investment programme. This is a good start in achieving the challenging efficiency targets set by OFWAT for the next five years.

As a consequence of the turnover reduction, operating profit at Yorkshire Water fell by £37.0m which was rather less than the reduction in turnover because of the continuing operating cost efficiencies.

The Drinking Water Inspectorate's Report for 1999 was published during the period and reported our overall compliance of 99.9% with drinking water quality standards, our best performance to date. Effort is now been concentrated to ensure that this level of compliance is maintained.

The company's reputation in leakage management has been boosted by the award of a consultancy contract with the Northern Ireland Water Board to assist them in their leakage management programme.

Yorkshire Water's investment programme continues with the opening of new major waste water treatment plants in Scarborough, Whitby and Bridlington which have been completed in advance of their target completion date. The Humbercare improvement project has experienced some delays as a result of the collapse in one section of the tunnel and will thus not be completed until the early part of 2001.

Yorkshire Water continues to pursue business development opportunities outside of the regulated water business and is bidding for a number of water and waste water opportunities. Also, a number of national deals have been signed with existing customers to supply asset management services both in and outside of Yorkshire.

The waste water treatment scheme at Robin Hoods Bay has recently been awarded the environmental award for Engineers 2000 in the Engineering Council's National Awards. The same scheme also collected the category award for Engineering in the National Environment.

### **Loop**

The separation of the customer services division from Yorkshire Water was successfully concluded in April and the business moved to a new purpose built building in Bradford in July. The company now has one of the most modern call centre and customer service functions in the industry and is bidding for third party contracts for customer and debt management services.

### **Aquarion**

The results of Aquarion were encouraging and benefited from favourable currency movements. Turnover was £38.5m and operating profit for the period was £15.7m very much in line with our forecasts at the time of acquisition.

During the six month period Aquarion completed the acquisition of Village Water Company at a cost of £4.1m, the first of a planned series of small in-fill acquisitions in New England.

Aquarion Management Services, the contract operations division, has made good progress over the last six months and has signed new contracts in Connecticut and New York for small clean and waste water operations.

Good progress has been made with the state authorities regarding the future of the company's landholdings in Connecticut. It is hoped that appropriate financial and legal arrangements can be put in place to ensure that the state requirements for the preservation of open space can be accommodated alongside the need for the company to maintain control over certain catchment areas as well as being able to economically dispose of surplus land on commercial terms.

## **KeyLand Developments**

Significant progress has been made in the period. Turnover and profitability are both slightly up on last year, with most of the major sales of properties again forecast to take place in the second half.

The development at Mid Point, on the Leeds/Bradford boundary, is ahead of schedule with the completion of the purpose built call centre for Loop and a Granada Travel Lodge, currently under construction. Strong expressions of interest have also been shown by other nationally known businesses for some of the planned office space on the site.

In October the company signed a joint development agreement with the National Railway Museum to develop a major part of its site, in what is one of York's most desirable yet undeveloped locations, close to the station and city centre. This mixed use development will include high quality accommodation to house 650 students of the College of Ripon & York St John, 50,000 sq. ft. of modern office space, district retailing and a 4 star hotel.

## **Waste Recycling Group (WRG)**

The group's share of the results of WRG has been derived from the previously published WRG interim results for the six month period ended 30 June 2000. Although the results for the period show much higher growth due to acquisitions in the previous year, the underlying organic growth of WRG during the period was approximately 20%, reflecting the integration gains from their recent acquisitions as well as new contracts won.

## **Alcontrol**

The performance of the business in the UK and Holland improved compared to last year, the UK performing significantly better than last year due to a high growth in sales in food and soils testing. The two acquisitions made last year in Sweden were merged during the period and a substantial reorganisation and rationalisation programme commenced.

The sale process is well advanced and an announcement will be made in due course.

## **White Rose Environmental**

The company traded well with turnover up 4% from last year. The efforts of the management to reduce overheads and expand its services have started to bear fruit and profitability has improved. Trading was hit at the latter end of the period by the fuel crisis but significant progress was made in renewing a number of large NHS contracts at improved prices.

WRE Services, the joint venture company with the Facultatieve Groep of the Netherlands dealing with culled animal carcasses, traded well and negotiations are well advanced to extend the contracts with the Intervention Board until 2004.

The sale process is also well advanced and an announcement will be made in due course.

## **First Renewables**

At Project Arbre there have been a number of delays during the year in the commissioning of the power plant at Eggborough. Major trials are due to commence during December and it is expected that a full trial of the whole plant will take place during January.

The group has already announced its intention to sell the whole of First Renewables and progress has been made towards identifying suitable potential purchasers.

For further information please contact:

Richard Emmott, Head of Communications

5 December                      0207 568 8732

6 December onwards        01274 692588

Andrew Grant/Nigel Fairbrass  
Tulchan Communications

0207 353 4200

# **Independent review report to Kelda Group plc**

## **Introduction**

We have been instructed by the company to review the financial information set out on pages 9 to 13 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

## **Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The Listing Rules of the Financial Services Authority require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

## **Review work performed**

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

## **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2000.

**Ernst & Young**  
**5 December 2000**

## Group profit and loss account

YEAR ENDED 31 MARCH 2000		SIX MONTHS ENDED		
£m		Note	30 SEPTEMBER 2000 £m	30 SEPTEMBER 1999 £m
<b>782.8</b>	TURNOVER: GROUP AND SHARE OF ASSOCIATES	2	<b>396.3</b>	370.7
<b>(66.6)</b>	Share of associates' turnover		<b>(47.1)</b>	(27.8)
<b>716.2</b>	GROUP TURNOVER		<b>349.2</b>	342.9
<b>712.7</b>	Continuing operations		<b>349.2</b>	340.2
<b>3.5</b>	Discontinued operations		-	2.7
<b>271.7</b>	GROUP OPERATING PROFIT		<b>121.9</b>	145.6
<b>272.6</b>	Continuing operations		<b>121.9</b>	146.5
<b>(0.9)</b>	Discontinued operations		-	(0.9)
<b>12.8</b>	Share of associates' operating profit		<b>8.5</b>	5.5
<b>284.5</b>	OPERATING PROFIT: GROUP AND SHARE OF ASSOCIATES	2	<b>130.4</b>	151.1
<b>2.9</b>	Exceptional items	3	-	-
-	Investment income		<b>0.2</b>	-
<b>287.4</b>	PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		<b>130.6</b>	151.1
<b>(64.5)</b>	Net interest payable - Group		<b>(47.7)</b>	(28.6)
<b>(0.8)</b>	- Associates		<b>(1.9)</b>	(0.3)
<b>222.1</b>	PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<b>81.0</b>	122.2
<b>(13.6)</b>	Taxation	5	<b>(8.8)</b>	(6.5)
<b>208.5</b>	PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<b>72.2</b>	115.7
<b>(0.1)</b>	Equity minority interests		<b>0.1</b>	0.1
<b>208.4</b>	PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<b>72.3</b>	115.8
<b>(92.8)</b>	Dividends		<b>(28.8)</b>	(28.0)
<b>115.6</b>	RETAINED PROFIT FOR THE PERIOD		<b>43.5</b>	87.8
<b>54.4p</b>	EARNINGS PER ORDINARY SHARE	6	<b>18.8p</b>	30.2p
<b>58.0p</b>	ADJUSTED EARNINGS PER ORDINARY SHARE	6	<b>18.8p</b>	30.2p
<b>54.1p</b>	DILUTED EARNINGS PER ORDINARY SHARE	6	<b>18.8p</b>	30.1p
<b>24.15p</b>	DIVIDENDS PER ORDINARY SHARE		<b>7.5p</b>	7.3p

## Group balance sheet

AT 31 MARCH 2000 £m		AT 30 SEPTEMBER 2000 £m	AT 30 SEPTEMBER 1999 £m
FIXED ASSETS			
201.7	Goodwill	203.5	32.0
3,082.2	Tangible assets	3,156.8	2,694.3
124.3	Investments in associated undertakings	126.9	115.0
28.9	Other Investments	29.0	29.0
<b>3,437.1</b>		<b>3,516.2</b>	<b>2,870.3</b>
CURRENT ASSETS			
5.5	Stocks	7.7	2.7
195.9	Debtors	190.9	147.4
11.2	Cash and short-term deposits	152.3	495.5
<b>212.6</b>		<b>350.9</b>	<b>645.6</b>
(375.0)	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	(386.2)	(381.4)
<b>(162.4)</b>	NET CURRENT (LIABILITIES) ASSETS	<b>(35.3)</b>	<b>264.2</b>
<b>3,274.7</b>	TOTAL ASSETS LESS CURRENT LIABILITIES	<b>3,480.9</b>	<b>3,134.5</b>
(1,576.6)	CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	(1,727.3)	(1,468.9)
<b>1,698.1</b>	NET ASSETS	<b>1,753.6</b>	<b>1,665.6</b>
<b>1,698.0</b>	EQUITY SHAREHOLDERS' FUNDS	<b>1,753.4</b>	<b>1,665.6</b>
0.1	EQUITY MINORITY INTERESTS	0.2	-
<b>1,698.1</b>	CAPITAL EMPLOYED	<b>1,753.6</b>	<b>1,665.6</b>

## Statement of Group total recognised gains and losses

YEAR ENDED 31 MARCH 2000 £m		SIX MONTHS ENDED 30 SEPTEMBER 2000 £m	30 SEPTEMBER 1999 £m
208.4	Profit attributable to shareholders	72.3	115.8
4.5	Exchange adjustments	10.8	0.5
<b>212.9</b>	TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE PERIOD	<b>83.1</b>	<b>116.3</b>
(4.8)	Prior year adjustment	-	(4.8)
<b>208.1</b>	TOTAL RECOGNISED GAINS AND LOSSES SINCE LAST ANNUAL REPORT	<b>83.1</b>	<b>111.5</b>

## Group cash flow statement

YEAR ENDED 31 MARCH 2000		Note	SIX MONTHS ENDED	
			30 SEPTEMBER 2000	30 SEPTEMBER 1999
£m			£m	£m
398.5	NET CASH INFLOW FROM OPERATING ACTIVITIES	7	221.9	224.4
2.6	DIVIDENDS RECEIVED FROM ASSOCIATED UNDERTAKINGS		0.9	1.0
(56.9)	RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(40.2)	(30.2)
(18.5)	TAXATION		(5.7)	0.2
(432.5)	CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		(152.2)	(193.8)
(238.3)	ACQUISITIONS AND DISPOSALS		(4.1)	53.6
(113.5)	EQUITY DIVIDENDS PAID		-	(25.8)
72.2	MANAGEMENT OF LIQUID RESOURCES		(135.5)	(346.0)
375.7	FINANCING		120.3	369.7
(10.7)	INCREASE (DECREASE) IN CASH IN THE PERIOD		5.4	53.1

## Analysis of movement in net debt

YEAR ENDED 31 MARCH 2000		SIX MONTHS ENDED	
		30 SEPTEMBER 2000	30 SEPTEMBER 1999
£m		£m	£m
(10.7)	Increase (decrease) in cash in the period	5.4	53.1
12.0	Decrease in short-term debt	19.3	26.7
(384.2)	Increase in long-term debt	(137.7)	(395.3)
(72.2)	Increase (decrease) in liquid resources	135.5	346.0
(1.9)	Short-term debt acquired with subsidiary undertaking	-	-
(73.7)	Long-term debt acquired with subsidiary undertaking	(0.2)	-
0.7	Currency translation differences	(6.6)	0.8
(530.0)	MOVEMENT IN NET DEBT IN THE PERIOD	15.7	31.3
(882.8)	Net debt at the beginning of the period	(1,412.8)	(882.8)
(1,412.8)	NET DEBT AT THE END OF THE PERIOD	(1,397.1)	(851.5)

## Notes to the accounts

The figures for the year ended 31 March 2000 have been extracted from the accounts which have been filed with the Registrar of Companies and which contain an unqualified audit report and did not include a statement under section 237 (2) or (3) of the Companies Act 1985.

The Interim Statement was approved by the Board of Directors on 5 December 2000.

### Note 1 Basis of preparation

The interim results have been prepared using the accounting policies disclosed in the Annual Report and Accounts 2000.

### Note 2 Segmental analysis of turnover and operating profit

	TURNOVER SIX MONTHS ENDED		OPERATING PROFIT SIX MONTHS ENDED	
	30 SEPTEMBER 2000 £m	30 SEPTEMBER 1999 £m	30 SEPTEMBER 2000 £m	30 SEPTEMBER 1999 £m
Water services				
- Yorkshire Water	273.3	314.5	113.0	150.0
- Aquarion	38.5	-	15.7	-
Waste Recycling Group (associated undertaking)	40.0	26.7	7.3	4.5
Other activities	44.5	26.8	3.0	2.4
	<b>396.3</b>	368.0	<b>139.0</b>	156.9
Discontinued operations	-	2.7	-	(0.9)
	<b>396.3</b>	370.7	<b>139.0</b>	156.0
Corporate and business development costs			(3.7)	(4.9)
Strategy Review costs			(4.9)	-
	<b>396.3</b>	370.7	<b>130.4</b>	151.1
Group	<b>349.2</b>	342.9	<b>121.9</b>	145.6
Associated undertakings	<b>47.1</b>	27.8	<b>8.5</b>	5.5
	<b>396.3</b>	370.7	<b>130.4</b>	151.1

### Note 3 Exceptional items

The profit of £2.9m in the year ended 31 March 2000 arose from the disposal of York Gas Limited.

**Note 4 Foreign currencies**

The results of the Group's overseas subsidiaries have been translated using average exchange rates ruling during the period. The results of Aquarion have been translated using an average exchange rate of \$1.50 to the pound.

**Note 5 Taxation**

	SIX MONTHS ENDED	
	30 SEPTEMBER 2000	30 SEPTEMBER 1999
	£m	£m
Group	5.9	4.4
Associated undertakings	2.9	2.1
	8.8	6.5

The Group taxation charge for the six months ended 30 September 2000 comprises both mainstream corporation tax and overseas tax calculated at the estimated effective tax rates for the year.

**Note 6 Earnings per ordinary share**

The weighted average number of shares used in the calculation of earnings per share is 384,214,624 (1999: 382,827,755) and of diluted earnings per share is 384,579,776 (1999: 385,091,090).

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

Adjusted earnings per share excludes non-operating exceptional items, net of tax.

**Note 7 Reconciliation of operating profit to net cash inflow from operating activities**

	SIX MONTHS ENDED	
	30 SEPTEMBER 2000	30 SEPTEMBER 1999
	£m	£m
Group operating profit	121.9	145.6
Depreciation	68.6	63.5
Amortisation of goodwill	1.0	0.8
Release of grants and contributions	(1.6)	(1.6)
Profit on sale of fixed assets and other adjustments	(0.4)	(0.1)
Increase in stocks	(1.8)	(0.6)
Increase in debtors	(1.1)	(7.5)
Increase in creditors	35.3	24.3
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>221.9</b>	<b>224.4</b>