

KELDA GROUP PLC

Preliminary Announcement of audited results for the year ended 31 March 2000

HIGHLIGHTS

- Group turnover including associates up 13.9% to £782.8m
- Profit before tax after £18.2m exceptional restructuring costs £222.1m (1999: £221.0m)
- Earnings per share (after restructuring costs) down 1.8%
- Adjusted earnings per share up 10.3%
- Yorkshire Water operating costs reduced by 5%
- Good growth in non regulated operating profits reflects
 - 46% share of Waste Recycling Group results
 - the acquisition of Aquarion in the US in January 2000
- Final dividend increased 8.0% to 16.85p per share
- Strategy review announcement

KEY FIGURES	2000	1999 (restated)	Increase %
Group turnover (including share of associates)	£782.8m	£687.1m	13.9
FRS3 Profit before tax (after restructuring costs)	£222.1m	£221.0m	0.5
FRS3 Earnings per share (after restructuring costs)	54.4p	55.4p	(1.8)
Adjusted earnings per share (before restructuring costs and exceptional items)	58.0p	52.6p	10.3
Dividend for the year	24.15p	22.35p	8.1
Group net debt	£1,413m	£883m	
Gearing (debt:equity ratio)	83%	56%	
Interest cover	4.4	5.4	

1999 figures have been restated for the impact of FRS 15.

CHAIRMAN'S STATEMENT

Results 1999/2000

In my first results announcement 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 comparative efficiency and service measures Yorkshire Water Services continues to improve its position in the industry. It is now rated first or second on many of the OFWAT measures.

There was a good profit contribution from the full year effect of integrating our waste operations into the 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 Arbore 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. Jonson has been of particular assistance to the strategic review team. We wish Jonson every success in his new role.

Strategic Review Announcement

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 financial year beginning 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.

A key purpose of the strategic review was to address some of the inherent tensions of a financial market environment where increasing capital expenditures and borrowings coincide with initial reductions in turnover and profits followed by a limitation on long term growth, unless there is further substantial acquisition expenditure. The main recommendations of the review are published today and are dealt with in a separate announcement.

Key points include:

1. The focus of the Kelda business on water and waste operations with a planned disposal of renewable energy and other environmental related services in the UK and Europe.
2. Subject to regulatory approval and satisfactory financing agreements with all parties, the separation and sale of Yorkshire Water's assets into a community owned Registered Community Asset Mutual (RCAM) and the related return of excess capital to shareholders.
3. The simplification of the business profile, will provide an opportunity to reduce overhead costs, which together with the net effects of disposals should generate a minimum of £10m savings in a full year.
4. The potential to offer shareholders, customers and employees improved long term benefits.

Management

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

In order to effectively manage this important year of transition, John O'Kane, currently Finance Director of Yorkshire Water Services is appointed Group Finance Director (designate) of Kelda and will support the current Group Finance Director, James Newman, by taking responsibility for the reorganisation of group accounting and the overhead reduction programme. This will enable James to complete the important tasks of establishing the RCAM and Kelda on a satisfactory financial basis and to manage the disposals programme. After completion of this phase, James Newman will continue as an Executive Director of Kelda Group with specific responsibility for corporate development.

As part of the strategic review team I will remain as Executive Chairman until its recommendations are satisfactorily completed.

In order to help establish the proposed RCAM, David Perry has resigned from Kelda Group plc to take up the position of founder Chairman of the new separate RCAM. The board is particularly appreciative of the contribution made by David since joining the group four years ago.

Conclusions

It is the considered view of your directors that the Kelda management and Board has made the most appropriate responses to the price determination. The implementation of the recommendations will require a consultative process, regulatory and other approvals including completion of acceptable refinancing terms. Subject to these matters being satisfactorily resolved, Kelda will have given itself a new opportunity to significantly grow its core operations of water and waste services. The fully completed plan has the potential to provide substantial benefits to shareholders, customers and employees.

John Napier
Executive Chairman
14 June 2000

GROUP FINANCIAL RESULTS

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 (WRG). 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 £5.7 million 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.

The financial performance of the individual businesses is described in more detail in the operating reviews below.

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 has 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) and are as set out in Note 4. 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 has no unrecovered surplus ACT.

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).

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 1999/2000, 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 per share, an increase of 8.0% per share as indicated at the time of the interim 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.

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

Since 1996/97, Yorkshire Water's overall service performance, as assessed by the industry regulator, OFWAT, has improved faster and by more than any other water and sewerage services company. In 1998/99, the last year for which comparisons have been published, the company achieved a top ranking in five 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%).

As a result of improved working practices, 100.0% (1999: 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 98.5% are dealt with within 5 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 best performer in the industry.

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.

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 DWI 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 we have met and surpassed the mandatory leakage targets set by OFWAT. Total leakage from the Yorkshire Water network and customer's pipes in 1999/00 was 308 MI/d (1999: 333MI/d) compared with the OFWAT target of 329 MI/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 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 over the next few years. 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 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 Kelda Group plc 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 twenty 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 nation-wide 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 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 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 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 after FRS 11 write down of £2.1m) 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 of goodwill within the WRG investment cost in the accounts of the Kelda Group.

KELDA GROUP PLC

Group profit and loss account

6 months to 30 Sept 1999 £m		Note	2000 £m	1999 Restated £m
370.7	Turnover: group and share of associates	2	782.8	687.1
(27.8)	Share of associates' turnover		(66.6)	(15.7)
342.9	Group turnover		716.2	671.4
340.2	Continuing operations		685.8	670.9
-	Acquisitions		26.9	-
2.7	Discontinued operations		3.5	0.5
(197.3)	Operating costs		(426.3)	(418.2)
-	Exceptional restructuring costs		(18.2)	-
145.6	Group operating profit		271.7	253.2
146.5	Continuing operations		266.9	253.2
-	Acquisitions		5.7	-
(0.9)	Discontinued operations		(0.9)	-
5.5	Share of associates' operating profit		12.8	0.6
151.1	Operating profit: group and share of associates	2	284.5	253.8
-	Exceptional items	3	2.9	11.5
-	Investment income	8	-	2.5
(28.6)	Net interest payable - group		(64.5)	(46.6)
(0.3)	- associates		(0.8)	(0.2)
122.2	Profit before taxation		222.1	221.0
(6.5)	Taxation	4	(13.6)	(10.1)
115.7	Profit after taxation		208.5	210.9
0.1	Equity minority interests		(0.1)	(0.5)
115.8	Profit attributable to shareholders		208.4	210.4
(28.0)	Dividends	6	(92.8)	(85.7)
87.8	Retained profit for the financial year		115.6	124.7
30.2p	EARNINGS PER ORDINARY SHARE	5	54.4p	55.4p
30.2p	ADJUSTED EARNINGS PER ORDINARY SHARE	5	58.0p	52.6p
30.1p	DILUTED EARNINGS PER ORDINARY SHARE	5	54.1p	55.1p
7.3p	DIVIDENDS PER ORDINARY SHARE	6	24.15p	22.35p

KELDA GROUP PLC

Summarised group balance sheet

At 30 Sept 1999		At 31 March 2000	At 31 March 1999 Restated
£m		£m	£m
Fixed assets			
32.0	Intangible assets	201.7	30.5
2,694.3	Tangible assets	3,082.2	2,548.6
115.0	Investments in associates	124.3	58.6
29.0	Investments	28.9	29.3
2,870.3		3,437.1	2,667.0
Current assets			
-	Investment held for resale	-	113.9
2.7	Stocks	5.5	2.0
147.4	Debtors	195.9	137.6
495.5	Cash and short-term deposits	11.2	108.7
645.6		212.6	362.2
(381.4)	Creditors: amounts falling due within one year	(375.0)	(377.8)
264.2	Net current (liabilities) assets	(162.4)	(15.6)
3,134.5	Total assets less current liabilities	3,274.7	2,651.4
(1,468.9)	Creditors: amounts falling due after more than one year	(1,576.6)	(1,074.9)
1,665.6	Net assets	1,698.1	1,576.5
1,665.6	Shareholders' funds	1,698.0	1,576.4
-	Equity minority interests	0.1	0.1
1,665.6	Capital employed	1,698.1	1,576.5

KELDA GROUP PLC

Summarised group cash flow statement

Six months to 30 Sept 1999 £m		2000 £m	1999 £m
224.4	Cash flow from operating activities	398.5	358.3
1.0	Dividends received from associated undertakings	2.6	1.8
(30.2)	Returns on investments and servicing of finance	(56.9)	(24.5)
0.2	Taxation	(18.5)	(86.1)
(193.8)	Capital expenditure and financial investment	(432.5)	(373.7)
53.6	Acquisitions and disposals	(238.3)	(158.2)
(25.8)	Equity dividends paid	(113.5)	(20.0)
(346.0)	Management of liquid resources	72.2	42.8
369.7	Financing	375.7	258.8
53.1	(Decrease) increase in cash in the period	(10.7)	(0.8)

KELDA GROUP PLC

Analysis of changes in group net debt

Six months to 30 Sept 1999 £m		2000 £m	1999 £m
53.1	(Decrease) increase in cash in the period	(10.7)	(0.8)
26.7	(Increase) decrease in short-term debt	12.0	(36.9)
(395.3)	(Increase) in long-term debt	(384.2)	(223.1)
346.0	(Decrease) increase in liquid resources	(72.2)	(42.8)
-	Net loans and finance leases (acquired) sold with subsidiary undertakings	(75.6)	0.3
0.8	Exchange rate and other non cash adjustments	0.7	(6.2)
31.3	Movement in net debt in the period	(530.0)	(309.5)
(882.8)	Net debt at the beginning of the period	(882.8)	(573.3)
(851.5)	Net debt at the end of the period	(1,412.8)	(882.8)

KELDA GROUP PLC

Notes to the preliminary results

1. The preliminary announcement has been prepared on the basis of the accounting policies disclosed in the group's Annual Report and Accounts for the year ended 31 March 1999 except as explained below.

The full implementation of FRS 15 (measurement of Tangible Fixed Assets) 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 Company acquired in January 2000 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.

2. The segmental analysis of group turnover and operating profit is as follows:

Turnover: group and share of associates						
	Group	Associates	2000	Group	Associates	1999
	£m	£m	Total	£m	£m	Total
			£m			£m
Water services						
- UK regulated	624.0	-	624.0	580.7	-	580.7
- US acquisitions	17.0	-	17.0	-	-	-
Environmental services						
- continuing operations	51.2	64.9	116.1	86.1	1.3	87.4
- acquisitions	9.9	-	9.9	-	-	-
Energy	-	0.6	0.6	-	2.2	2.2
Land development	10.6	1.1	11.7	4.1	0.8	4.9
Discontinued operations	3.5	-	3.5	0.5	11.4	11.9
	716.2	66.6	782.8	671.4	15.7	687.1

Operating Profit: group and share of associates						
	Group	Associates	2000	Group	Associates	1999
	£m	£m	Total	£m	£m	Total
			£m			£m
Water services						
- UK regulated	271.5	-	271.5	250.5	-	250.5
- US acquisitions	6.1	-	6.1	-	-	-
Environmental services						
- continuing operations	2.4	11.0	13.4	4.4	0.2	4.6
- acquisitions	(0.4)	-	(0.4)	-	-	-
Energy	(1.0)	0.7	(0.3)	-	(0.6)	(0.6)
Land development	5.0	1.1	6.1	3.5	0.8	4.3
Discontinued operations	(0.9)	-	(0.9)	-	0.2	0.2
	282.7	12.8	295.5	258.4	0.6	259.0
Corporate and business development costs	(11.0)	-	(11.0)	(5.2)	-	(5.2)
	271.7	12.8	284.5	253.2	0.6	253.8

- The exceptional profit of £2.9m represents the profit on disposal of York Gas. Exceptional items in the prior year comprise the profit on the sale of the group's engineering business, Babcock Water Engineering Limited, and the disposal of a joint venture property investment.
- The taxation charge for the year comprises the following:

	2000	1999
	£m	£m
Corporation tax charge	8.4	20.1
Prior year refund	(0.2)	(3.0)
Advance corporation tax	-	(8.2)
Overseas taxation	1.2	0.4
Share of associates' taxation	4.2	0.8
	<u>13.6</u>	<u>10.1</u>

- The weighted average number of shares used in the calculation of earnings per share is 383.0m (1999: 379.3m) and of diluted earnings per share is 385.4m (1999: 381.5m).

Adjusted earnings per share is calculated excluding exceptional items and the exceptional restructuring costs of £18.2m (£15.3m net of tax) in 1999/00.

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

- The proposed final dividend of 16.85p per share, if approved by shareholders, will be paid on 9 October 2000 to shareholders on the register on 15 September 2000.

7. On 7 January 2000 the Group acquired the entire issued share capital of Aquarion Company, a supplier of clean water services in Connecticut USA, for cash consideration amounting to \$455.4m (£280.9m). The goodwill arising on the acquisition, totalling £164.3m, has, in the opinion of the directors, an indefinite life, and therefore is not being amortised. The company operates in a stable market in which barriers to entry are high due to significant infrastructure requirements. In addition Aquarion has the rights to operate in its current territory in perpetuity. Consequently the goodwill is demonstrated to be “durable” and since it is not the Group’s intention to merge the business with its existing business, is capable of “continued measurement” as defined by FRS10 “Goodwill and Intangible Assets”. If the goodwill had been amortised over 20 years the amortisation charge for the period ended 31 March 2000 would have been £2.1m.
8. On 12 April 1999, 3C was sold to WRG for £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. To fund the acquisition, WRG carried out a rights issue in which the company subscribed for its full entitlement at a cost of £56.5m. The profit after tax of 3C during the Group's period of ownership from September 1998 to April 1999 was distributed as dividends and reported as investment income to the Group.
9. The reconciliation of operating profit to net cash inflow from operating activities is as follows:

	2000	1999
	£m	£m
Group operating profit	271.7	253.2
Depreciation	145.9	138.0
Amortisation of goodwill	1.9	0.3
Release of grants and contributions	(3.3)	(3.7)
Loss (profit) on the 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

10. No statement of total recognised gains and losses has been included in the preliminary announcement because there are no material unrealised gains or losses for the year ended 31 March 2000.
11. The financial information set out in this preliminary announcement is an abridged version of the full accounts and does not constitute statutory accounts. This information is derived from the statutory accounts for the years ended 31 March 1999 and 31 March 2000 upon which unqualified audit reports have been given. No statement has been made by the auditors under Section 237(2) or (3) of the Companies Act 1985 in respect of either of these sets of accounts. The accounts for the year ended 31 March 1999 have been filed with the Registrar of Companies. The full statutory accounts for the year ended 31 March 2000 will be available in August.

12. This announcement was approved by the board of directors on 14 June 2000.

Auditor's report on the preliminary announcement to the directors of Kelda Group plc

We have concluded our audit of the statutory accounts of Kelda Group plc for the year ended 31 March 2000 and signed our auditor's report thereon. We have also reviewed the above preliminary announcement in respect of the same accounting period and report that is consistent with those statutory accounts.

Ernst & Young, Registered Auditor
14 June 2000

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