KELDA GROUP PLC

Preliminary Announcement of audited results for the year ended 31 March 2002

HIGHLIGHTS

- Group profit before taxation and exceptional items up 15.8%
- Adjusted earnings per share increased 11.7% to 35.3p
- Strong performance from UK and US core water businesses
  - Yorkshire Water outperformance increased
  - improved service and compliance standards
  - good operating results from Aquarion
  - completion of US land sale
- Good progress on the focus strategy
  - acquisition of New England American Water Works companies finalised April 2002
  - non core business disposal programme completed
- Full year dividend increased 2.8% to 25.5p per share; final dividend 17.8p per share

KEY FIGURES

	2002	2001	Increase %
FRS 3 Profit before taxation	**£197.1m**	£156.4m	26.0
Profit before taxation and non operating exceptional items	**£162.7m**	£140.5m	15.8
Earnings per share	**39.3p**	31.7p	24.0
Adjusted earnings per share	**35.3p**	31.6p	11.7
Dividend for the year	**25.5p**	24.8p	2.8
Group net debt	**£1,437m**	£1,395m	
Gearing ratio (stated after deferred tax)	**46%**	46%	
Interest cover	**2.6**	2.4	

Following the announcement of Kelda group's results for the year ended March 31 2002, the Executive Chairman, John Napier said:

"A year of solid achievement with continued improvement from core operations in the UK and US, completion of the disposal programme and further planned growth in the US. The company continues to benefit from our strategy of focus and improved management performance which we expect to maintain".

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A copy of this preliminary results announcement will be available on the Kelda Group website from 8am this morning at www.keldagroup.com

CHAIRMAN'S STATEMENT

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

Financial results

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

In the UK, Yorkshire Water:-

- continued to make gains in efficiency and service levels
- further improved drinking water quality and environmental standards, including the delivery of its "CoastCare" programme
- is on target to fully deliver the AMP 3 capital plan

In the US, Aquarion:-

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

Progress on the focus strategy has included:-

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

Financial results

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

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

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

Operational results

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

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

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

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

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

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

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

Outlook

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

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

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

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

Management and staff

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

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

John Napier
Executive Chairman

FINANCIAL REVIEW

Group operating profit

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

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

Group profit before taxation

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

In 2001/02, the group benefited from the previous year's business disposals and lower interest rates. The group's interest charge (excluding share of associates) reduced to £93.5m (2001: £95.2m) of which £64.0m (2001: £56.9m) relates to the Yorkshire Water UK regulated business. The share of associates' interest increased to £9.3m (2001: £3.6m) as a consequence of the debt funded acquisitions by WRG. The key interest cover ratio (expressed as the ratio between operating profit and interest costs) improved to 2.6 (2001: 2.4).

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

Taxation

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

Earnings per share and dividends

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

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

Cash flow

Cash flow from operating activities (principally the UK and US water businesses) was £387.8m (2001: £375.3m restated). The Yorkshire Water regulated investment programme and Aquarion's capital expenditure absorbed most of this cash inflow. Net interest payments on the group's debt were £83.7m (2001: £81.3m) and the group's total capital expenditure on fixed assets was £323.6m (2001: £325.1m). The net receipts from the US land sale were £57.2m. Dividend payments during the year were £96.3m (2001: £93.6m).

Group balance sheet

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

FRS 17

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

Post balance sheet event

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

OPERATING REVIEW

Yorkshire Water

Financial and operational performance

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

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

Capital investment

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

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

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

Environmental performance

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

We also expect at least two beaches in Yorkshire to receive Blue Flags which can only be achieved in co-operation with local authorities in the area who have themselves invested much in their tourist facilities.

As a result of considerable operational effort and proactive pollution prevention initiatives, major pollution incidents in the year have been reduced from 16 to 12. Yorkshire Water aims to improve further on this performance. Despite the success in delivering the target reduction in serious and significant pollution incidents, an increase in prosecutions could follow from an apparent change in prosecutions policy by the Environment Agency.

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

Customer service

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

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

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

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

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

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

Commercial activity

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

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

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

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

Community involvement

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

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

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

Aquarion

Operating results

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

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

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

Customer service

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

Aquarion Services

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

Community involvement

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

Other operations

KeyLand Developments

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

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

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

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

Loop

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

Loop continues to provide services under the contract secured last year with the National Blood Service, for which Loop operates an outbound calling service reminding donors of their appointments. Working with the Wales Tourist Board, Loop will be handling up to 200,000 calls a year, ranging from answering customer enquiries about events and activities throughout Wales, to booking holiday accommodation. Work for Merseyside Fire and Civil Defence Authority started in March 2002 contacting over 500,000 households in Merseyside to offer a free home fire safety check. Loop has also secured a contract with Lewisham Borough Council to provide the contact centre services required for a pilot project matching house hunters to council properties, and with DIY giant B&Q operating a three fold service relating to the company's range of power tools.

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

Waste Recycling Group

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

Group profit and loss account

Six months ended 30 September 2001 £m		Note	Year ended 31 March 2002 £m	Year ended 31 March 2001 Restated £m
394.3	**Turnover: group and share of associates**	2	**799.8**	774.6
(64.5)	Share of associates' turnover		**(141.0)**	(93.4)
329.8	**Group turnover**		**658.8**	681.2
329.5	Continuing operations		**658.2**	631.9
0.3	Discontinued operations		**0.6**	49.3
(197.3)	Operating costs		**(413.8)**	(447.0)
-	Exceptional operating costs	3	**-**	(6.2)
132.5	**Group operating profit**		**245.0**	228.0
134.8	Continuing operations		**250.0**	231.3
(2.3)	Discontinued operations		**(5.0)**	(3.3)
9.1	Share of associates' operating profit		**20.3**	16.5
-	Exceptional impairment of investment in associated undertaking	3	**-**	(5.6)
141.6	**Operating profit: group and share of associates**	2	**265.3**	238.9
-	Net exceptional profit on sale of land (US)	4	**60.3**	-
-	Net exceptional (loss) profit on disposal of operations	4	**(25.9)**	15.9
141.6	**Profit on ordinary activities before interest**		**299.7**	254.8
-	Income from investments		**0.2**	0.4
(46.1)	Net interest payable - group		**(93.5)**	(95.2)
(4.1)	- associates		**(9.3)**	(3.6)
91.4	**Profit on ordinary activities before taxation**		**197.1**	156.4
	Taxation on profit on ordinary activities			
(11.5)	- current taxation	5	**(31.0)**	(23.6)
(6.2)	- deferred tax	6	**(14.8)**	(12.0)
73.7	**Profit on ordinary activities after taxation**		**151.3**	120.8
0.4	Equity minority interests		**0.1**	1.0
74.1	**Profit attributable to shareholders**		**151.4**	121.8
(29.7)	Dividends		**(98.3)**	(95.4)
44.4	**Retained profit for the period**		**53.1**	26.4
19.2p	Basic earnings per share	7	**39.3p**	31.7p
19.2p	Adjusted earnings per share	7	**35.3p**	31.6p
19.2p	Diluted earnings per share	7	**39.2p**	31.6p
7.7p	Dividends per share	8	**25.5p**	24.8p

Summarised group balance sheet

At 30 September 2001 £m		At 31 March 2002 £m	At 31 March 2001 Restated £m
	Fixed assets		
185.4	Intangible assets	**184.9**	186.0
3,223.9	Tangible assets	**3,332.2**	3,192.5
114.8	Investments in associated undertakings	**119.6**	112.7
25.8	Other investments	**25.2**	26.4
3,549.9		**3,661.9**	3,517.6
	Current assets		
3.5	Stocks	**3.1**	4.4
180.8	Debtors	**214.8**	194.7
189.8	Cash and short term deposits	**195.5**	146.5
374.1		**413.4**	345.6
	Creditors: amounts falling due within one year		
(32.2)	Short term borrowings	**(36.9)**	(24.9)
(340.9)	Other creditors	**(373.9)**	(323.0)
1.0	**Net current assets (liabilities)**	**2.6**	(2.3)
3,550.9	**Total assets less current liabilities**	**3,664.5**	3,515.3
	Creditors: amounts falling due after more than one year		
(1,504.8)	Long term borrowings	**(1,595.1)**	(1,516.7)
(219.2)	Other creditors	**(225.2)**	(219.7)
	Provisions for liabilities and charges		
(143.8)	- deferred tax	**(149.9)**	(138.1)
(1.5)	- other	**(3.8)**	(2.4)
1,681.6	**Net assets**	**1,690.5**	1,638.4
1,682.2	**Equity shareholders' funds**	**1,690.5**	1,638.9
(0.6)	Equity minority interests	**-**	(0.5)
1,681.6	**Capital employed**	**1,690.5**	1,638.4

Statement of group total recognised gains and losses

Six months ended 30 September 2001 £m		Year ended 31 March 2002 £m	Year ended 31 March 2001 Restated £m
74.1	Profit attributable to shareholders	**151.4**	121.8
(2.3)	Exchange adjustments (net of tax)	**(1.5)**	14.6
71.8	**Total recognised gains and losses relating to the period**	**149.9**	136.4
(138.1)	Prior year adjustment in respect of the adoption of FRS 19	**(138.1)**	-
(66.3)	**Total recognised gains and losses since last annual report**	**11.8**	136.4

Summarised group cash flow statement

Six months ended 30 September 2001 £m		Note	Year ended 31 March 2002 £m	Year ended 31 March 2001 Restated £m
216.1	**Net cash inflow from operating activities**	9	**387.8**	375.3
0.8	**Dividends received from associated undertakings**		**2.7**	5.2
(47.1)	**Returns on investments and servicing of finance**		**(83.7)**	(81.3)
(13.7)	**Taxation**		**(15.1)**	(12.7)
	Capital expenditure and financial investment			
(120.5)	**- purchase of tangible fixed assets**		**(323.6)**	(325.1)
-	**- US land sale**		**57.2**	-
9.5	**- other**		**30.0**	55.7
(0.6)	**Acquisitions and disposals**		**(1.9)**	101.5
-	**Equity dividends paid**		**(96.3)**	(93.6)
24.4	**Management of liquid resources**		**9.0**	(134.7)
(1.3)	**Financing**		**91.9**	110.5
67.6	**Increase in cash in the period**		**58.0**	0.8

Analysis of movement in net debt

Six months ended 30 September 2001 £m		Year ended 31 March 2002 £m	Year ended 31 March 2001 £m
67.6	Increase in cash in the period	**58.0**	0.8
(3.1)	(Increase) decrease in short term debt	**(12.7)**	22.0
4.8	(Increase) decrease in long term debt	**(78.6)**	(129.4)
(24.4)	(Decrease) increase in liquid resources	**(9.0)**	134.7
-	Short term debt acquired with subsidiary undertaking	**-**	(0.2)
3.0	Other	**0.9**	(10.2)
47.9	**Movement in net debt in the period**	**(41.4)**	17.7
(1,395.1)	Net debt at the beginning of the period	**(1,395.1)**	(1,412.8)
(1,347.2)	**Net debt at the end of the period**	**(1,436.5)**	(1,395.1)

Notes to the preliminary results

1 Basis of Preparation

The preliminary results have been prepared using the accounting policies disclosed in the Annual Report and Accounts 2001 with the following modifications. In accordance with FRS 18 'Accounting Policies', the directors have reviewed the group's accounting policies and consider them to be the most appropriate to the group's operations.

FRS 19 'Deferred Tax' was implemented during the year resulting in the creation of a significant provision for deferred tax at 31 March 2002 of £149.9m (2001: £138.1m). The prior year comparative figures have been restated accordingly. FRS 19 requires provision to be made for deferred tax arising from timing differences between the recognition of gains and losses in the accounts and their recognition in the tax computation. As permitted by FRS 19 a policy of discounting has been adopted. The implementation of the new standard does not affect the group's cash or borrowing position.

The first disclosures in accordance with the phased implementation requirements of FRS 17 'Retirement Benefits' will also be made in the group accounts for the year ended 31 March 2002. The new accounting standard does not directly affect the funding position of the group's pension schemes or, therefore, the group's cash or borrowing position.

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

The prior year comparative figures in the summarised group cash flow statement have been restated for the reclassification of a tax debtor.

2 Segmental analysis of turnover and operating profit

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

	Turnover		Operating profit	
	2002 £m	2001 £m	**2002 £m**	2001 £m
Water Services				
- UK regulated	**559.8**	542.1	**225.5**	214.8
- US operations	**81.7**	77.7	**26.3**	27.1
Waste Recycling Group plc (associate)	**129.3**	80.6	**18.5**	15.0
Other activities - group	**16.7**	12.1	**3.4**	3.1
- associates	**1.1**	-	**0.4**	-
	788.6	712.5	**274.1**	260.0
Discontinued operations - group	**0.6**	49.3	**(5.0)**	(3.3)
- associates	**10.6**	12.8	**1.4**	(4.1)
	799.8	774.6	**270.5**	252.6
Corporate and business development costs			**(5.2)**	(7.9)
Strategy review costs			**-**	(5.8)
	799.8	774.6	**265.3**	238.9
Group	**658.8**	681.2	**245.0**	228.0
Associated undertakings	**141.0**	93.4	**20.3**	10.9
	799.8	774.6	**265.3**	238.9

The weighted average exchange rates used in the translation of the profit and loss accounts were US dollar £1 = $1.43 (2001: $1.48)

3 Exceptional operating charge

Operating profit (group and share of associates) for the year ended 31 March 2001 is stated after a £11.8m exceptional operating charge in respect of the impairment of the group's renewable energy interests. The charge comprised £6.2m exceptional operating costs and £5.6m exceptional impairment of the investment in an associated undertaking.

4 Exceptional items

An exceptional profit of £60.3m was realised on the sale of land in the US. A £25.9m loss on disposal of the group's renewable energy interests has been incurred in 2002.

The exceptional profit in the prior year of £15.9m represents the profit realised from the business disposal programme.

5 Current taxation

The taxation charge for the year comprises the following:

	2002 £m	2001 £m
UK corporation tax charge	**2.3**	10.9
Overseas taxation	**5.1**	3.1
Tax charge on exceptional items		
- on US land sale	**19.0**	-
- on disposal of operations	**-**	3.6
Prior year credit	**(0.1)**	(0.2)
Share of associates' taxation	**4.7**	6.2
	31.0	23.6

6 Deferred tax

Deferred tax has been provided in accordance with the requirements of FRS 19 as follows:

	2002	2001 Restated
	£m	£m
Deferred tax charge	**14.8**	12.0

The effect of the adoption of FRS 19 on the group's previously reported earnings per share, profit retained for the period and capital employed is as follows:

	Year ended 31 March 2001
Basic earnings per share	p
As previously reported	34.8
Effect of implementing new accounting policy	(3.1)
As restated	31.7
Profit retained for the period	£m
As previously reported	38.4
Effect of implementing new accounting policy	(12.0)
As restated	26.4
Capital employed	£m
As previously reported	1,776.5
Effect of implementing new accounting policy	(138.1)
As restated	1,638.4

7 Earnings per share

The weighted average number of shares used in the calculation of basic earnings per share (EPS) is 385.2m (2001: 384.4m) and of diluted EPS is 386.3m (2001: 385.3m).

Adjusted EPS is calculated excluding exceptional items (2002 profit on the sale of land £60.3m (£41.3m net of tax), provision for loss on disposal of renewable energy activities £25.9m (£25.9m net of tax) and 2001 profit on the disposal of operations of £15.9m (£12.3m net of tax)) and the exceptional operating charge of £11.8m (£11.8m net of tax) in 2001.

Diluted EPS assumes conversion of all dilutive potential ordinary shares under the group's sharesave schemes.

8 Proposed dividend

The proposed final dividend of 17.8p per share, if approved by shareholders, will be paid on 1 October 2002 to shareholders on the register on 30 August 2002.

9 Reconciliation of operating profit to net cash inflow from operating activities

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

10 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 2001 and 31 March 2002 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 2001 have been filed with the Registrar of Companies. The full statutory accounts for the year ended 31 March 2002 will be posted to shareholders at the end of June.

11 This announcement was approved by the board of directors on 30 May 2002.

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 2002 and signed our auditor's report thereon. We have also reviewed the attached preliminary announcement in respect of the same accounting period and report that it is consistent with those statutory accounts.

Ernst & Young LLP

Leeds, 30 May 2002

ENDS