

Chief Executive's review

Kelda continues to be a well managed, highly focused business committed to delivering sector leading financial, operational and environmental performance.

A year of continuing achievement

The past year has been one of continuing achievement for Kelda Group plc. Our strategy to put our primary focus on what we do best, providing high quality water services, has helped us to deliver what we believe is sector leading performance. Our focus will continue.

Our main UK subsidiary, Yorkshire Water, made significant improvements in its financial, operational and environmental performance and continued to outperform all of the regulatory targets set at the last price review.

Aquarion, our US operation, successfully integrated the four New England water companies acquired from American Water Works in April 2002.

Other businesses have performed in line with expectations. We were particularly pleased that we made the successful bid for Package A of the Ministry of Defence's Private Finance Initiative, in conjunction with Earth Tech Engineering Ltd and Halliburton KBR.

The group's activities are documented in more detail later in this report. The following summary highlights the key achievements of 2002/03.

- Yorkshire Water is now ranked second in Ofwat's Overall Performance Assessment which compares the levels of service provided by the UK's ten major water and sewerage companies.
- Yorkshire Water's water supply service was ranked as the most efficient in Ofwat's relative efficiency report.
- Reported water quality in the Yorkshire region was the best it had ever been, with 99.91% of all samples complying with relevant regulations, according to the Drinking Water Inspectorate's (DWI) annual report on drinking water quality in England and Wales for 2001.
- Our US operations continue to grow and develop with the acquisition of four New England water companies from American Water Works which have now been integrated into existing operations, and further investment in contract operations.
- Yorkshire Water is a key partner in Brey Utilities – a consortium comprising Yorkshire Water, Earth Tech Engineering Ltd and Halliburton KBR – which has won a 25 year £1bn contract to provide water and waste water services to more than 1,000 Ministry of Defence sites in the Midlands, Wales and South West England.
- In December 2002, Yorkshire Water was awarded an interim price determination facilitating additional investment in the services we provide.
- Kelda was confirmed as the water industry's leading performer based on an external assessment carried out by the Business in The Environment Index of Corporate Environmental Engagement.

- Yorkshire's rivers and bathing waters are the cleanest since records began as a direct result of Yorkshire Water's ongoing investment and reduction of pollution incidents.
- Loop – Kelda's customer relationship management business – continued to win new business and was featured in both the Financial Times' Top 50 Best Workplaces in the UK survey and the Sunday Times' 100 Best Companies to Work For awards.
- Aquarion secured a ten year contract to operate waste water treatment services in Bridgeport, Connecticut, home of the company's headquarters.

Periodic review

We believe that the progress Yorkshire Water has made since the last price determination in 2000, in service, operational and financial performance, places the company in a good position for the forthcoming price review. Our objective is to protect the long term financial and operational sustainability of the business, which involves balancing the financeability of agreed investment needs with acceptable prices to customers. This demands a joined up process from government, the regulator, environmental and compliance agencies and finance providers.

Investing in our people

Additional to our focus strategy, a key part of the group's continuing success is due to the talent, hard work and enthusiasm of employees across the business. In the last 12 months we have successfully introduced new information technology systems and more flexible working patterns and practices, to better match our services to customers' needs. The introduction of these changes has required a significant investment in our people to provide them with the necessary training and skills to implement the changes and deliver the benefits. It has also involved extensive consultation with employees and the various trade unions that represent them, whose support and goodwill has been important in helping deliver change which is already bringing important benefits to our customers.

I would like to express my sincere thanks to everyone who has played their part in delivering improved services, a key feature of the group's success over the past 12 months.



Kevin Whiteman
Chief Executive