

Operating and financial review

Corporate & social responsibility

Kelda Group plc plays a key role in the social, economic and environmental development of the communities in which it operates.

As the 24 hour provider of society's most precious natural resource we make a significant contribution to society through the provision of safe and sustainable drinking water supplies.

The processes we use to undertake that role - collecting the water, treating it and disposing of the waste water generated in homes and businesses - is leading to marked improvements in the quality of rivers and bathing waters.

To help deliver these essential services, we employ more than 3,000 people in the UK and the US, with a further 15,000 people employed by the contract partners and suppliers with whom we work.

In addition to the services and products we provide to our domestic and business customers, Kelda is also making a positive difference to local communities through its involvement with a wide range of community partnerships and initiatives.

We have well established community programmes in place which provide financial support and help in kind to a wide variety of different individuals and organisations.

These partnerships are very important to Kelda in terms of building a greater understanding of and forging stronger links with our stakeholders, a concept commonly referred to today as corporate and social responsibility.

At Kelda, corporate and social responsibility is already well embedded in the company's decision making processes.

In simple terms it is about the continuing adoption and implementation of sound and sustainable policies - be they of a financial, social or environmental nature - which is an integral part of our day to day business activities.

We are committed to developing new strategies, policies and procedures that will help us meet the demands and future expectations of all our stakeholders - shareholders, customers, employees, suppliers and local communities - while at the same time continuing to deliver maximum social and environmental benefits.

These activities are externally assessed using the 'Winning With Integrity' framework developed by Business in The Community. This enables us to benchmark clearly our progress against other companies committed to managing, measuring and reporting their overall impact on society.

Our intention is to use this external framework whilst developing our own internal agenda for action to ensure we can not only meet, but also surpass the expectations of our various stakeholders in the future.

The following few pages are designed to give some insight into the work we currently have underway.

Further details can be obtained from the following websites:

www.keldagroup.com
www.yorkshirewater.com
www.aquarion.com
www.loop.co.uk

Environment We aim to deliver service excellence to our customers and to meet the requirements of our shareholders, whilst recognising that the greatest commitment we can make to the environment is through the efficient, effective and proper conduct of our business.

Business in The Environment's (BiTE) Index of Corporate Environmental Engagement

In March 2003 this independent external agency confirmed Kelda as the water industry's leading performer in its highly regarded Index of Corporate Environmental Engagement.

A score of 97% made Kelda eligible for a place in BiTE's new 'Premier League', an accolade shared by only 17 other FTSE 250 companies.

The survey measured the extent to which companies understood and managed their impacts on the environment and examined whether environmental issues were an integral part of their business strategy. Kelda scored full marks in nearly all categories.

The report also pointed to the significant improvements made by the company over the past few years in all areas of its environmental performance.

Environmental policy

Kelda recognises that the long term viability of our water and waste water business is dependent on environmentally sustainable operations. We believe sustainable operations are those that drive efficient resource use and provide a healthy environment, which in turn facilitates social progress and economic growth. As a company we therefore act as responsible stewards of the environment as part of our normal business practices.

To balance these challenging needs we are committed to efficient and effective business practices. We recognise that sustainability is the collective responsibilities of governments, businesses, individuals and communities and so work in partnership with our stakeholders to pursue this goal.

Corporate commitments

In pursuit of this policy, Kelda has committed itself to the following:

- Achieve and maintain compliance with the environmental legislation in the country of operation of each of our subsidiaries and associated companies. Where no regulations exist, implement challenging company standards.
- Continue to reduce and where practicable prevent pollutant loads entering the environment.

- Seek to use materials efficiently, and promote the application of the waste hierarchy.
- Encourage and facilitate the interchange of environmental technology throughout the group and promote good practice.
- Conserve and enhance biodiversity wherever practicable or required, through efficient and effective business practices.
- Manage our land holdings in a responsible manner and to provide and encourage sustainable access.
- Develop our employees awareness of environmental issues including this policy.
- Foster productive partnerships with our stakeholder groups.
- Take an active and positive role in the community.

The policy applies to Kelda and its subsidiaries. We will also encourage all other companies in which we have an interest as either a shareholder or through our supply chain to implement this policy, or an equivalent.

The policy will be regularly reviewed in light of new knowledge, changing legislation, public concerns and the views of our advisory panels. We will report our environmental performance via our website on a regular basis.

As part of our environmental policy we have refocused and increased the extent of internal reporting on our water and waste water services, including regular reporting on relevant environmental indicators such as energy, CO2 emissions and biodiversity issues. Such measures are used to continuously set and review internal targets, in addition to our annual regulatory targets officially set by Ofwat and the Environment Agency. These environmental indicators are published in our on-line Environment & Community Report available at www.keldagroup.com/environment

Environmental management systems

Environmental matters remain part of the fabric of our operations and most elements required for a formal environmental management system (EMS) represent business as usual for the group. To this end, we have considered in detail the costs and benefits of gaining an externally certified EMS to ISO14001 standard with a view to obtaining certification by March 2004.

Corporate & social responsibility

Environmental advisory panel

Our environmental advisory panel includes representatives from both the voluntary and statutory sectors in Yorkshire.

Meeting quarterly in parallel with the board environment and community committee, the aim of the panel is to provide advice and input to Yorkshire Water to ensure all future environmental improvements represent real value for money to customers. The panel also helps us ensure that sustainability remains at the heart of our activities.

Kelda is grateful to the following organisations for providing their representation and support:

The Government Office for Yorkshire and the Humber, the Ramblers' Association, the Environment Agency, Business In The Community, the Forestry Commission, English Nature, Sheffield City Council, British Waterways, the Council for the Protection of Rural England, the Yorkshire Wildlife Trust, the Regional Assembly for Yorkshire and Humberside, English Heritage, the RSPB, the Countryside Agency, the Yorkshire Dales National Park Authority, North Yorkshire County Council and Eye On The Aire.

The panel has the following terms of reference:

- To offer advice both proactively and reactively to the Kelda board environment and community committee and the executive management team of Yorkshire Water.
- To form a communication link between key environmental stakeholders and groupings in the Yorkshire region and the company.
- To assist the company in prioritising and realising its efforts with respect to environmental matters.
- To support the company in developing its understanding of environmental issues.
- To raise the awareness by the company of the importance of local environmental issues.
- To provide a platform for areas of mutual interest regarding the environment to be progressed.
- To make public as much information as practicable.

Further information on Kelda's environmental performance is available at www.keldagroup.com/environment

Environment

Case study: Loop – green transport plan

A green transport plan was recently produced and implemented by Loop to minimise the adverse impact of travel on the environment.

The aim was to reduce emissions of greenhouse gases, improve local air quality, minimise health risks to employees and reduce congestion, noise, dirt and fumes. To produce a green transport policy successfully it was essential to understand existing transport links and facilities serving Mid Point as well as the amount and types of travel generated by Loop employees. To do this, an assessment of the site and its surroundings was completed and a survey of staff journeys to and from work undertaken.

On analysing the findings of the survey and site assessment the following initiative was introduced:

Discounted bus and train passes were made available to Loop employees, encouraging the use of public transport. Loop now offers to pay in advance for a 12 month bus/train pass for its staff, in the form of an interest free loan. Deductions are then made direct from employees' salaries each month.



Green transport plan Reducing car congestion on the region's roads. Loop's employees are being encouraged to look at alternative methods of travelling to and from work.

Environment

Case study: Yorkshire Water – walking for health

Disadvantaged groups in Keighley, West Yorkshire, are being prescribed a dose of the great outdoors as part of a unique pilot project aimed at improving people's health.

Yorkshire Water has joined forces with a local organisation called Walking for All in Keighley (WALK) to encourage people with health and social disadvantages to make more use of the company's reservoirs, moorland and woodland for recreation.

A special fund has been set up which will be used to fund organised trips to Yorkshire Water's local reservoirs where groups will be given the opportunity to explore the stunning scenery, wildlife and architecture on offer there.

Walking is an ideal form of exercise - research shows that someone who does 30 minutes of moderate exercise five times a week can significantly reduce the risk of coronary heart disease, diabetes and obesity and improve their sense of well being.

As well as improving people's health, the scheme is also designed to promote a greater public awareness of Yorkshire Water's many roles and responsibilities as the region's largest landowner.



Walking for health Members of Keighley's community enjoy a stroll round Ogden Reservoir near Bradford.

Environment

Case study: Yorkshire Water – red kites

The Yorkshire red kite restoration project began in 1999 with the release of 20 young birds.

Since that date – the first time red kites had been seen in the skies of Yorkshire for more than 150 years – the population is, thanks to subsequent releases and three breeding seasons, steadily increasing.

By the end of July 2003, some 80 young birds will have been released into the wild.

Yorkshire Water is one of three main partners in this important wildlife project and its role has been to fund it over the last four years. The two other key partners are the RSPB and English Nature, while the Harewood Estate has thrown its weight and support to the initiative by allowing the young birds to be released from its land.

Yorkshire Water's involvement isn't one of simply handing over the money and standing well back. It's quite the opposite. Yorkshire Water employees sit on the project's steering committee and communications group.

The company's Eccup reservoir, on the outskirts of Leeds, is one of the best places to view red kites and Yorkshire Water has constructed a viewing platform from where visitors can see the kites.



Red kites Members of the public get a glimpse of the red kites from the newly constructed viewing platform at Eccup reservoir, Leeds.

Environment

Case study: Yorkshire Water – Scarborough

In January 2003, the company's new £30m waste water treatment works in Scarborough won a national award from the Institute of Civil Engineering for its "substantial contribution to sustainable development."

The new works, built as part of Yorkshire Water's £120m CoastCare programme, is situated within the Heritage Coast and near to the North Yorkshire Moors National Park.

An innovative approach was needed therefore to ensure it would blend in with its scenic surroundings.

To achieve this, the plant was designed to resemble a range of traditional farm buildings.

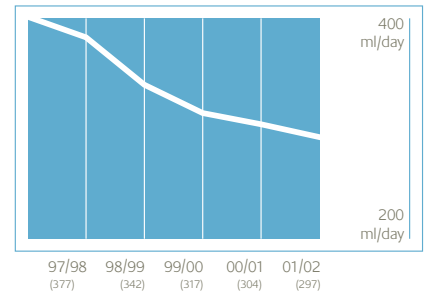
A number of different construction techniques and buildings materials were used in the construction of the external buildings in order to create the illusion of a farm development that had grown over time, with all the treatment processes either contained within the buildings or situated out of sight within a central courtyard.

The local environmental pressure group, the Sons of Neptune, is delighted not only with the sympathetic design of the works but that it also uses ultra-violet disinfection – the ultimate in terms of current waste water treatment technology – ensuring the company's discharges go beyond the standards required under current EU and UK legislation.

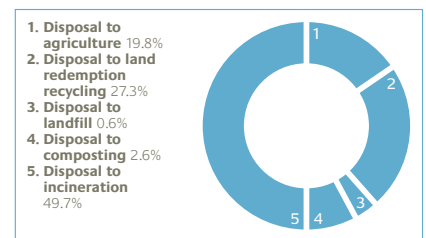


Waste water treatment works This attractive farm style building houses Scarborough's new, state of the art waste water treatment works. During construction over 30 quarries were investigated to obtain stone typical to that used in the surrounding area.

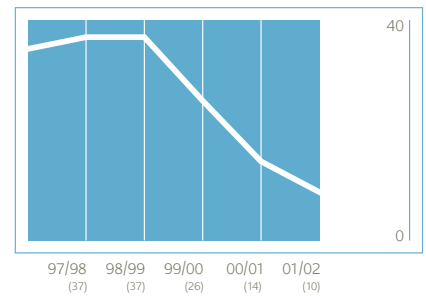
Leakage reduction Yorkshire Water



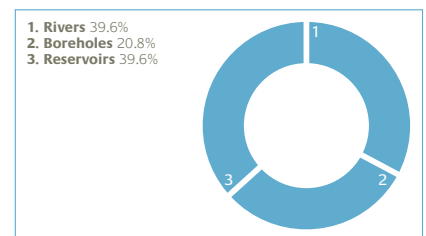
Sludge disposal Yorkshire Water



Number of Category 1 and 2 pollution incidents Yorkshire Water



Source of abstraction Yorkshire Water



Corporate & social responsibility

Community We are as reliant on the support, prosperity and well being of the communities in which we operate as they are on the products and services we provide.

Kelda challenges itself to make a difference to the quality of people's lives over and above the provision of high quality water and waste water services.

In the UK and the US we have well established community programmes in place which provide financial support and help in kind to a wide variety of different individuals and organisations.

These partnerships are of real importance to Kelda in terms of building a greater understanding of and forging stronger links with the communities in which we operate.

Our community programmes have the following themes:

Education – It is our role to educate people about water, nature's most precious resource and build a greater awareness of our activities and environmental achievements.

Environment – The environment is at the heart of almost everything we do. As well as being stewards of the land and providing sustainable water supplies, through the efficient operation and upgrading of our sewers and waste water treatment works, we also play a significant role in terms of preventing pollution and promoting improvements in river and bathing water quality.

Empowerment – As well as helping communities to help themselves, we believe there are benefits to empowering our employees by giving them the opportunity to get involved in a wide range of initiatives.

To make the partnerships we forge as strong and productive as possible, all our employees are actively encouraged to become involved in community initiatives and act as ambassadors for the company.

Encouraging employees to take a wider role and more ownership of our community programmes has given greater recognition and pride of achievement in the business. It has generated greater personal development opportunities for individuals and delivered important benefits for the communities we serve.

Community

Case study: **Yorkshire Water – 'Cool Schools'**

Yorkshire Water's 'Cool Schools' campaign was named community initiative of the year 2002 at the prestigious Utility Industry Achievement Awards, beating off stiff competition from some of the biggest names in the water, gas, electricity and telecommunications industries.

'Cool Schools' was launched in June 2002 and is the biggest community initiative ever undertaken by the company.

The aim of the campaign is to combat the problem of dehydration in local primary schools by making chilled drinking water more readily available to pupils.

Over the next three years Yorkshire Water plans to install mains fed water coolers in every primary school in the region. To encourage children to make maximum use of the coolers, a special water bottle has also been designed aimed specifically at five to 11 year olds.

The campaign was launched in response to claims by local health experts that dehydration in schools is having a damaging effect on children's health and education.

Research shows that children are suffering from headaches, fatigue, irritability and poor concentration because some schools are failing to provide pupils with adequate access to drinking water. It is also causing short and long term kidney and urinary tract infections.

Under the terms of the scheme, Yorkshire Water is offering schools free water coolers, with schools only being asked to pay for installation and maintenance.



'Cool Schools' School children are being given ready access to a safe and refreshing supply of tap water to help boost their well being.

Community

Case study: **Aquarion – 'Water For People'**

Aquarion has joined forces with 'Water For People', a US based charity that helps improve the availability of quality drinking water in impoverished countries.

Every year Aquarion supports community based and charitable events by donating bottles of water.

During 2003 however, the company has also agreed that for every bottle it donates, it will give 10 cents to 'Water For People' to help fund its ongoing work in developing countries.

Aquarion's bottles will also carry labels that explain 'Water For People's' aims and objectives and how people can obtain even more information by visiting the charity's website.

Aquarion Water's President and Chief Executive Janet Hansen said: "Americans have become so accustomed to drinking water that complies with stringent, health related standards that we often overlook the terribly unsafe conditions that affect our neighbours' drinking water throughout the world. Aquarion is delighted to be able to help 'Water For People' address this very important issue."

"Water For People" executive director Steve Werner said: "This is a wonderful example of corporate giving that not only provides us with a new source of funding but also helps spread the word to a much broader audience."

"Water For People" has already supported more than 500 community based projects in developing countries, resulting in a dramatic decline in the number of diseases such as cholera, typhoid and hepatitis A.



'Water For People' Aquarion's initiative will help provide improved water supplies in developing countries.

Community

Case study: **Yorkshire Water – helping schools**

Yorkshire Water and HSBC are joint lead sponsors of the North East Sheffield Education Action Zone (EAZ).

The zone is one of 73 created by the government to improve performance in schools in challenging circumstances. It embraces three secondary and 17 primary schools and one special needs school.

During the past year Yorkshire Water has invested more than £45,000 in cash and support in kind.

As well as funding the EAZ's award winning newsletter, Yorkshire Water provides office accommodation, facilities support and training and development courses. Several employees also donate a considerable amount of time and energy towards helping the EAZ realise its goals.

Several other large businesses - including Cadbury Schweppes, Toshiba, Corus and Sheffield City Council - also support the zone's activities.

Yorkshire Water's Commercial Director Paul Wynn, who is also chairman of the EAZ, said: "The EAZ has made a real difference to the quality of education provided in local schools and Yorkshire Water is proud to have played a pivotal role in delivering these improvements."



Helping schools Prime Minister Tony Blair and Home Secretary David Blunkett jamming with young musicians during a fact finding visit to Firth Park Community Arts College in February 2003.

Community

Case study: **Yorkshire Water – 'Community Catalyst Fund'**

Yorkshire Water operates a 'Community Catalyst Fund' which is administered by a panel of 12 employees drawn from all levels of the business.

These volunteers are responsible not only for considering requests for financial assistance but also proactively identifying community based initiatives which align with the company's business objectives.

Donations are predominantly given as a catalyst to help kick start new initiatives and help community groups help themselves.

Members of the panel conduct regular site visits to see for themselves the work carried out by potential beneficiaries and ensure the authenticity and sustainability of the initiatives we are asked to support.

During 2002/03, Yorkshire Water donated a total of £100,000 to approximately 50 different projects in this way.



Community Catalyst Fund Bradford Amateur Rowing Club was one of the many organisations to benefit from the fund. A £4,000 donation from Yorkshire Water helped the club purchase a vitally needed new boat suitable for junior rowers. The water company's donation was match funded through the 'Sportsmatch' scheme which enables the advancement of sport at a grass roots level.

Corporate & social responsibility

Workplace We recognise that the morale and motivation of our staff directly links with how they value the company and how well the business performs. Our aim therefore is to continually improve all aspects of the workplace.

Working at Kelda

Kelda employs over 3,000 people, of which around 500 are based in the US.

We strive to improve our reputation as a good employer. This helps and encourages people to stay with us and act as community ambassadors for the business.

We recognise that work/life balance is important to many of our employees and this year we launched a new suite of family friendly policies to supplement our existing range of part time working opportunities, flexible working and formal job share policies.

A lot of emphasis is placed on helping employees to understand how their objectives relate to the company's business plan, how they are performing against their objectives, and how their performance related pay is determined.

We monitor employee satisfaction on a regular basis.

Regular communications include face to face sessions between employees and the senior management team, our 'We're Listening' database where all issues raised are replied to within seven days and our bi-monthly house magazine, Connections. Employees are encouraged to seek out the information needed to carry out their role to its full potential, to share learning, expertise and information with colleagues, to give feedback which helps the company to improve and to ensure that they understand issues.

Through our annual business excellence awards, we also seek to celebrate and reward the innovation, creativity and achievements of our employees. During 2002/03, almost 200 team and individual entries were received, giving a clear indication of the ongoing popularity and success of the event.

Workplace

Case study:

Loop – great place to work

Loop is officially a great place to work.

During 2002/03, the company picked up two prestigious accolades which clearly demonstrates how its positive approach to people is appreciated by employees.

Loop was featured as one of the 100 best companies to work for in the well respected Sunday Times' awards.

Loop competed against an international list of companies and was placed at number 70 – ahead of much larger organisations such as Marks and Spencer, American Express and Avon Cosmetics.

It was also featured in the Financial Times' Top 50 Best Workplaces in the UK survey, at number 42. Again this was a considerable achievement as more than 1,000 companies entered.

Managing Director of Loop Alastair Thomson said: "One of the most important ways we ensure high levels of service on behalf of our clients is to ensure that the people who work for us are happy and fulfilled in their working life. To receive such positive endorsement of our approach in these nationally recognised awards is an important measure of how much we try to get our approach to people right," he added.



Great place to work Alastair Thomson (right) is pictured receiving one of the awards from the Sunday Times Editor John Witherow.

Workplace

Case study:

Yorkshire Water – employee volunteering

Yorkshire Water's commitment to employee volunteering is well established.

The company was singled out for praise in a discussion document published recently by HM Treasury and the Home Office.

Entitled 'Next Steps On Volunteering & Giving In The UK', the document set out how the government proposed to continue encouraging businesses to forge stronger links with the communities in which they operate.

Yorkshire Water, which has approximately 20% of its workforce actively engaged in volunteering schemes, was highlighted as an organisation that offers great flexibility, opportunities and encouragement to its employees to get involved in community initiatives.

"The strategy is entrenched in the company's business plan. The focus is on a programme of employee volunteering – this helps build close links with community groups and the business itself benefits as its people see community engagement as a part of their personal development," said the report.

The company is involved in a range of volunteering schemes, such as 'Right To Read', the national science and engineering ambassadors initiative and through Bradford's Shipley and A+ Education Action Zones.

Employees also donate more than £30,000 a year to charity through the company's payroll giving scheme.



Employee volunteering Yorkshire Water filter management technician Gerald Leach helps pupils at Salt Grammar School in Bradford with their work.

Marketplace Our interface with customers, suppliers and contractors is important to the success of our business. We continually seek to improve our relationships with our stakeholders and share our expertise and success.

Kelda proactively engages with a wide range of stakeholder groups and has forged numerous partnerships aimed at building a greater understanding of their diverse needs and aspirations.

This meaningful two way dialogue helps us to shape our policies and procedures to ensure that, wherever practicable, we can tailor our activities to meet market expectations.

Through regular research we gauge the views of our customers and their levels of satisfaction with the products and services we provide. This has already led to the development of a range of added value services.

For example, domestic customers are provided with free water saving devices to install in their homes, free drinking water bottles, a wide range of flexible payment options and special tariffs for vulnerable customers.

Yorkshire Water was also one of the first UK companies to introduce service plans for its key business customers and voluntarily commit to enhanced levels of service over and above regulatory requirements.

We recognise however that our reputation for financial efficiency, service excellence and environmental improvements is not based solely on our own efforts but those of our suppliers and contractors as well.

We have developed contract partner criteria which balance cost and financial efficiency with their desire and commitment to deliver the same high standards of customer care as we as a company strive to achieve and which our customers expect.

Marketplace

Case study: Yorkshire Water – business customer survey

For the second year running, Yorkshire Water has topped a business customer satisfaction survey commissioned by the independent Energy Information Centre.

150 businesses nationally were asked to rate how their local water and sewerage company performed in a number of key areas.

Yorkshire Water was ranked joint first for water supply and was top performer for the removal of industrial waste and effluent.

The report said: "When compared in detail against other individual water suppliers, Yorkshire Water comes top for water pressure, reducing water usage, ease of contact, listening to needs, solving problems, explaining the industry and knowing the customer's company. Many of these arise from good account management."

Yorkshire Water recently launched a major customer care initiative believed to be a first for the UK water industry.

Each of the company's top 30 business customers now have their own dedicated customer care teams responsible for managing their every need.

Following the launch of the new key account teams, customer satisfaction rose from 91% to 95% and when compared against other leading suppliers, from 86% to 89%.



Business customer survey Yorkshire Water provides its business customers with a range of products and services to help improve their own performance and profitability.

Marketplace

Case study: Yorkshire Water – contractor awards

Yorkshire Water recently took a major step forward in being recognised as a contract centre of excellence when it staged its inaugural contract partner awards.

Over 180 employees from key contractors attended the event along with representatives from the industry's regulatory bodies, the Environment Agency, Drinking Water Inspectorate, Ofwat and the Health and Safety Executive.

The aim of the event was to recognise and reward the achievements of Yorkshire Water's contractors who play a crucial role in the delivery of services and improvements to the company's 4.7 million customers.

Morrison Utility Services was named best overall performing partner, with AMEC Utilities taking the title of best overall safety provider.

Steve Ryan, contract support manager for AMEC, said: "Winning the award was great because we've worked so hard to strengthen our safety record over the past 12 months. As a business we place a lot of emphasis on employee and public safety."

Yorkshire Water has also developed a 'Service Charter' which has been rolled out to contractors to ensure they understand the company's policies and procedures and are able to deliver a consistently high standard of service to customers.



Contractor awards The successful Morrison Utilities team pictured with Kelda's Chief Executive Kevin Whiteman.