KELDA GROUP PLC

Preliminary Announcement of audited results for the year ended 31 March 2004

HIGHLIGHTS

- Group turnover up 5.1% to £725.5m
- Group profit before taxation and exceptional items up 9.4% to £191.6m
- Adjusted earnings per share (excluding deferred tax) increased 9.0% to 46.2p
- Strong performance from UK water business increases prospective financial out-performance in the current price determination period
- Ofwat assessment confirms Yorkshire Water's sector leading financial and operational performance
- Steady performance from Aquarion US water business
- Sale of Waste Recycling Group stake and share buy back completed
- Full year dividend increased 3.0% to 26.83p per share; final dividend 18.73p per share

KEY FIGURES

	2004	2003	Increase %
Group turnover	**£725.5m**	£690.5m	5.1
Profit on ordinary activities before exceptional items and interest	**£294.7m**	£284.1m	3.7
Profit before taxation and exceptional items	**£191.6m**	£175.2m	9.4
Adjusted earnings per share (excluding deferred tax)	**46.2p**	42.4p	9.0
Dividend for the year	**26.83p**	26.05p	3.0
Group net debt	**£1,706m**	£1,720m	(0.8)

Following the announcement of Kelda group's results for the year ended 31 March 2004, the Chairman, John Napier said:

"Kelda's strategy of focus on high quality water and waste water services has been underpinned this year by outperformance, increased turnover and efficiency gains in UK water activities and the sale of our 46% interest in WRG. The outcome is a very satisfactory set of results."

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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

The results for the year were very satisfactory and reflect three main factors:-

- Outperformance, increased turnover and efficiency gains for UK water activities.
- The sale of our 46% interest in Waste Recycling Group (WRG).
- The continuing management and performance advantages of our water industry focus.

Group profit before tax benefited from the net exceptional gain of £14.6 million made from the sale of our WRG interests. If you disregard exceptional gains, profit before taxation of £191.6 million is 9.4% ahead of last year. The main drivers of profit increase were increased UK turnover, continuing improvement from operations and reduced interest costs. These benefits were partially offset by a reduced US contribution due to the translation of the weaker US dollar. In total there was an increase in EPS excluding exceptional gains and deferred tax to 46.2p, 9% up on the prior year.

The sale of our WRG interests, and cessation of our Timco timber operations in the US and subsequent sale of its assets, completed our disposal programme supporting our water and waste water focus strategy. The smaller non-regulated service operations in the US, KeyLand property, Loop business process services and contract operations in the UK now leverage from, support and are sustained by our core businesses. The proceeds of the WRG sale of £142.7 million were applied to reducing debt and a share buyback programme which was completed prior to year end.

Yorkshire Water Services (YWS) went from strength to strength. It improved overall service levels and had outstanding operational performance achieving three 'band A' ratings in the regulator's January 2004 assessment of water and waste water activities. It has continued to out perform expectations in operational and capital efficiencies. Within the period of the current price determination to date it has led UK operational performance in achieving a 12% reduction in costs in real terms over a four year period. At the same time it has continued to drive forward and improve service standards, water quality and compliance obligations.

The performance of YWS in the year is particularly commendable as it was achieved against the background of a challenge of severe water shortages. Supplies were maintained without restriction or special drought orders. This was achieved by a combination of a regional supply network, active water resource management and measurement and close liaison and co-operation with regulatory agencies, especially the Environmental Agency, who work actively with the company. It was also helped by our continuing investment in advancing telemetry and business systems. The company won the National Customer Service Awards for the 'best use of technology in customer services'.

The other UK operations had mixed results. Contract operations won one of the largest contracts awarded in recent times: the contract with the Ministry of Defence (MoD) will earn revenues of £1 billion over the next 25 years for supplying water services to MoD sites in the Midlands, Wales and South West region. This complements previous wins in Scotland. The MoD contract is performing on plan to date. KeyLand had an on plan year. The business support services operation Loop performed below last year due to unrecovered costs on a third party contract upon which Loop has given notice to terminate since the year end.

The performance of the US operations remains satisfactory. They have successfully completed the integration of the New England operations of American Water Works acquired in April 2002. However for the second successive year the business experienced unusual supply and demand conditions. Last year sales were down due to water restrictions because of drought, and in this year sales were down due to excess rainfall and well below average temperatures, which reduced demand.

A new Aquarion Chief Executive, Chuck Firlotte has been appointed, as part of a planned succession, having completed a three year period as director of UK water operations.The objective will be to accelerate the management, operational and cultural integration of the US business which is currently in its rate review cycle. The regulatory base of price determination in the US is an expected rate of return on assets. Aquarion is involved in the process in its major regions. It is complex as it involves a number of different regulatory regional bodies.

The waste water activity continues to develop with a successful start up and above planned performance of Aquarion's first major waste water contract, awarded in Bridgeport in April 2003. The challenge of successful growth by revenue improvement and the organic growth of water service and waste water operations is being actively progressed.

In the wider field of corporate performance the company continues to progress in environmental, social and corporate compliance areas. All activities of the company have an environmental purpose. Apart from the direct provision of drinking water and waste water services the related actions of improving drinking and river water qualities, improved waste water treatment standards and enhanced recreational and bathing water and beach standards, constitute major environmental improvements. The company also has extensive environmental inter-action with national bodies and local communities on the best methods of enhancing and protecting significant natural assets, especially moorlands, water catchment and reservoir areas. At the same time it seeks to meet the challenge of affording the maximum recreational use of these facilities. It is also active in encouraging tenant farmers to adopt agri-environmental best practice approaches.

In the social spheres we have led developments to supply cool drinking water to primary schools to deal with the issues of dehydration and acknowledge issues of improving diet and health. The company also works actively with Business in the Community focusing on the Right to Read and other schemes to support local education. These involved up to 25% of our staff working on a voluntary basis. There are also active community schemes and programmes in the US focused on community support, education, deprived groups and enhanced environmental behaviours.

The board has been further strengthened over the last year. On the non-executive front the appointment of Christopher Fisher brought significant banking experience, whilst the continuation of Richard Schmidt, after retirement as Chief Executive Officer in the US, allowed for maximum continuity and an easy transition in management. The requirements of the revised combined code has also meant a higher proportion of non-executives, to avoid too much duplication in the membership of committees. On the executive side the new Finance Director, Martin Towers appointed in March 2003 has settled in well and formed a strong team with your Chief Executive, Kevin Whiteman who has produced his first full year results following his appointment to that post in September 2002. The board conducted its first full formal evaluation process in the year and will continue to review its own and the company's effectiveness.

The immediate outlook for 2004/05 is reasonably predictable and improvement is expected. The year however will be dominated by the publication of the first draft response by the Regulator as part of the price determination process. This will largely determine the UK water industry and Kelda prospects for the period 2005/10. To date that process has been transparent and there has been clear identification of the investment needs required to support environmental improvements. This investment remains significant.

In an incentive based regulatory regime we are well placed due to our excellent service and operational records. The macro factors support an increasing rate regime and the importance of sound and sustainable low risk capital structures to keep borrowing costs to a minimum. All this is known to regulator, government, industry and to capital providers, shareholders and lenders. It is not expected, and would be a major disappointment and damaging to the prospects of the industry, if a more arbitrary price approach were now to be applied.

Generally the industry has been very successful in meeting service, drinking water quality, waste water, river quality and other environmental standards. It has required and will continue to require the confidence and support of capital providers. It is fundamentally an efficient provider of relatively low cost, high consumer value, essential water and environmental services. We expect the future of the industry to be maintained if not encouraged in the next determination.

The process of transforming Kelda has been an interesting and exciting programme which could not have been carried through without the active support of the board and management. Equally importantly the programme has gained the support of employees and their representatives at all levels, despite some difficult issues having had to be addressed. There will undoubtedly be future challenges ahead, but this report is an opportunity to thank all employees on behalf of the shareholders for the progress the company has achieved to date.

CHIEF EXECUTIVE'S REVIEW

A year of continuing achievement

In 2003/4, our continuing strategy of focusing on what we do best, providing high quality water and waste water services, has again helped us to deliver what we believe is sector leading financial and operational performance.

Delivering more for less is now the major driver for our business and this commitment to efficiency and customer service has enabled us to deliver out-performance over the last year, which provides long term price benefits, improved overall service levels for customers and a solid return for our investors.

By providing value for all, we can also do more to protect and improve our environment, improve customer service and make a contribution to society through education programmes, volunteering and community involvement.

The fact that we are able to get this balance right is due to our people and their willingness and ability to accept change and drive innovation throughout the business, one of the key strengths of the group. I would like to pass on my sincere thanks to all who have played their part in making 2003/4 a year of continuous growth and achievement.

We believe that further improvements can be made however, and by building upon our core skills we can continue to provide a trusted, value for money and satisfying service to our customers and a good return for our investors.

Our operational review and corporate social responsibility sections detail our progress in these areas, but I would like to highlight a number of key achievements under the following headings:

Financial performance

- Group profit before taxation and exceptional items is up 9.4% to £191.6m reflecting the effects of improved efficiency gains and increased turnover.

- Yorkshire Water achieved three out of a possible four 'band A' ratings in Ofwat's January 2004 report on the financial efficiency of water and sewerage companies – a unique industry achievement.

- Adjusted earnings per share (excluding deferred tax) increased 9% to 46.2p, with full year dividend increasing 3% to 26.83p per share.

- Aquarion delivered a steady performance despite unfavourable weather conditions and an adverse exchange rate movement.

Business performance

- Over the last year Yorkshire Water maintained supplies to its customers in one of the hottest and driest years on record – testament to our people, the investment in our water supply network and to the good working relationships we have developed with the Environment Agency.

- Yorkshire Water service levels improved across the board with better water quality and fewer incidents of low water pressure, leakage and sewer flooding. Water quality now stands at an all-time high.

- Aquarion, our US operation, performed satisfactorily, despite unusual supply and demand conditions. Management changes will leverage Yorkshire Water skills in asset management.

- Further progress was made at KeyLand and at Yorkshire Water Projects, where our £1 billion turnover, 25 year, water and waste water outsourcing contract with the MoD went live on schedule in December 2003 and is performing well.

- Safe-Move, Yorkshire Water's property search service, increased its turnover to £3m last year from a standing start in 1999.

- Loop continued to deliver industry-leading performance to Yorkshire Water's customers and is one of the lowest cost providers in the sector.

- These activities, building from our core skills base, present long term, relatively low risk income streams for Kelda in line with our focus on waste and water services.

- The sale of our interest in WRG completed the disposal process and strategic focus on water and waste water.

Society and the environment

- Kelda is the highest ranked water company in terms of environmental performance achieving Premier League status in the Business in the Environment Index of Corporate Environmental Engagement.

- Kelda was also ranked by Business in the Community in the top 100 companies in the UK for corporate social responsibility and is also a constituent in FTSE4Good, the independently researched corporate responsibility index.

- 25% of Kelda employees are now involved in some form of employee volunteering and are actively involved with their communities to promote the value of what we do.

Our People

- During the year we concluded a two year pay deal with employees which will provide further security for the business moving forward and a stable platform on which to develop new skills.

- We have developed more effective ways of working in consultation with our employees and trade unions and have seen the benefits over the last year in terms of improved efficiency and job satisfaction.

- The use of new information technology is now standard for our field technicians and has resulted in an improved customer experience and a better targeting of resources.

- Management training has been stepped up over the year, with the implementation of bespoke Leadership Development training.

- Our customer services operation Loop was listed in the Top 100 great companies to work for in the UK by *The Sunday Times* newspaper.

Value and pricing

Both Yorkshire Water and Aquarion have applied to their respective regulators for price reviews and are awaiting decisions later in 2004.

Our goal throughout the price review process is to try and strike the right balance between our various stakeholder interests to protect the financial, environmental and operational sustainability of our businesses

The over-riding aim of Yorkshire Water's business plan is to build on the progress which has been made in Yorkshire's water and sewerage infrastructure and maintain levels of service, whilst at the same time making further efficiencies, sustaining the ability to invest in infrastructure and environmental improvement and keeping prices as low as possible.

It's a balance, but one which I believe we have got right, despite the impact of tax rises from 2005 and the significant additional investment which will be required to comply with European environmental legislation.

Aquarion faces similar drivers in its US water and waste water businesses, against an entirely different regulatory backdrop. Our last rate increase in Connecticut, the largest of our US service areas, was in 1996, since when Aquarion has spent over $150 million on infrastructure improvements. The application is intended to finance further investment in infrastructure, water quality and the service we provide to customers.

Kevin Whiteman
Chief Executive

FINANCIAL REVIEW

Profit before interest

Group turnover, excluding associates' and joint ventures' turnover, increased by 5.1% to £725.5m (2003: £690.5m) for the full year, following a 4.5% increase at the half year. The turnover increase stems from the 6% price increase at Yorkshire Water, with the negative impact on translation of the Aquarion figures being offset by growth in non regulated turnover in the UK and US.

Yorkshire Water accounts for 86% of group profit before interest and exceptional items of £294.7m (2003: £284.1m), with its dominant contribution of £252.5m (2003: £233.7m) facilitated by the interim price determination and keen cost control, whilst providing funds to help finance the ongoing capital expenditure programme.

These results set out improved segmental disclosure featuring the operating profit arising from UK non regulated water services, including Project Aquatrine, Package A for the MoD that commenced on 1 December 2003, and KeyLand, the business responsible for managing, developing and disposing of the group's surplus property assets.

Group profit before taxation

Group profit before taxation of £206.2m (2003: £164.3m) is arrived at after an overall exceptional profit of £14.6m arising from disposal of WRG, formerly an associated company, with a contribution to operating profit of £8.2m (2002: £16.2m) from WRG up to the point of sale.

The total net interest expense of £103.1m (2003: £108.9m) is reduced from the previous year following the WRG disposal raising £142.7m in cash for Kelda in August, and the elimination of WRG's own interest expense. Group interest cover is 2.9 times (2003: 2.6 times), before exceptional items, and 4.6 times (2003: 4.2 times) on an EBITDA basis.

Profit on ordinary activities before taxation of £206.2m has increased by 25.5% from £164.3m in the previous year.

Taxation

The group tax charge of £25.5m (2003: £38.0m) includes £11.2m (2003: £11.7m) of favourable prior year adjustments in respect of the current tax charge, and £2.3m (2003: £6.6m) in respect of the deferred tax charge. Excluding both gives rise to an underlying effective tax rate of 20% (2003: 34%), excluding exceptional items. This percentage figure is below that calculated by applying national rates of corporation tax as a result of discounting the deferred tax liability as permitted under UK GAAP.

The underlying current tax charge, excluding prior year adjustments and exceptional items, of £25.8m (2003: £23.3m) is 13% of profit before exceptional items (2003: 12%). The underlying deferred tax charge of £13.2m (2003: £36.5m excluding exceptional items) is 7% of profit before exceptional items (2003: 21%), a reduced percentage as a consequence of changes in discount rates.

Earnings per share and dividends

Earnings per share, adjusted to exclude exceptional items and deferred tax and taking account of the share buy back, increased by 9% to 46.2p (2003: 42.4p). Basic earnings per share is 47.1p (2003: 32.7p).

An interim dividend of 8.10p (2003: 7.86p) was paid on 27 February 2004. The Board is recommending the payment of a final dividend of 18.73p (2003: 18.19p) to make a total dividend for the year of 26.83p (2003: 26.05p), an increase of 3.0%. Dividend cover, excluding exceptional items and deferred tax, is 1.8 times (2003: 1.6 times).

The group successfully completed a share buy back programme before the year end. 17.3m shares were acquired at a cost of £76.4m (average cost 441p per share).

Cash flow and balance sheet

Net debt of £1,705.8m at year end (2003: £1,720.4m) was assisted by the proceeds from the WRG disposal of £142.7m less the cost of the share buy back of £76.4m.

Strong operating performance from Yorkshire Water enabled the group cash inflow from operating activities to reach £481.1m (2003 £441.4m). Interest payments accounted for £97.1m (2003: £82.1m), taxation £10.1 m (2003 £34.4m) and capital investment £335.5m (2003: £389.6m). Dividend payments of £101.2m (2003: £99.0m) are funded by the Yorkshire Water regulated business.

This performance enabled the ratio of funds from operations net of taxation to interest to reach 4.4 times (2003: 3.8 times).

Year end balance sheet gearing is 50% (2003: 50%), and the Yorkshire Water net debt to RAV is 40% (2003: 40%), ratios that give the group a strong financial platform ahead of the forthcoming regulatory price determination.

Pensions

The disclosures required in accordance with the requirements of FRS 17 will be made in the group accounts. The disclosed FRS 17 deficit in the main UK defined benefit scheme at 31 March 2004 has fallen to £60.7m after deferred tax (2003: £111.9m). The group's pension liabilities are funded on a long term basis based on periodic actuarial reviews and not the FRS 17 figures that can produce volatile results over short time periods. The triennial valuation of the fund as at 31 March 2004 is currently being undertaken.

OPERATING REVIEW: YORKSHIRE WATER

Financial performance

Regulated turnover increased by 6.6% to £604.4m (2003: £567.0m) following the interim price determination which took effect on 1 April 2003. The revenue increase is principally being used to fund additional investments and to recover the additional cost of bad debts.

Operating profit increased by 8% to £252.5m (2003: £233.7m) of which 49% (2003: 49%) accrued in the second half year. The operating cost outperformance target has been increased to £115m from £100m in the current price determination period.

Regulated capital investment for the year was £302.3m (2003: £319.5m). The investment continues to be primarily directed at the upgrading of the region's clean and waste water infrastructure. 2004/05 is the final year of the current asset management programme (AMP3), during which it is estimated that £1.5bn will have been invested in the region's infrastructure, and that Yorkshire Water will achieve capital cost outperformance of 12%.

Operational performance

Yorkshire Water was ranked third by the Office of Water Services (Ofwat) in its Overall Performance Assessment, which compares the levels of service provided by the UK's ten major water and waste water companies. The report benchmarks companies' performance against a wide range of measures including water quality, water pressure, sewer flooding, leakage, treatment works' compliance and the speed at which customer queries are dealt with.

In addition, Ofwat's annual report on water and waste water unit costs and relative efficiency showed Yorkshire Water to be the most efficient company in terms of operating and capital maintenance. This was confirmed by a separate Ofwat report on financial performance and expenditure, which showed that the company had reduced overall operating costs by 12% since 1998/99 – the largest reduction of all the UK's water and waste water companies.

Yorkshire Water remains committed to improving its operational and customer service while at the same time keeping costs firmly under control.

Delivering safe and reliable water supplies

2003 was one of the driest and hottest years on record. While water shortages in parts of the UK prompted some companies to apply for drought permits, recent investment in Yorkshire's water supply system and leakage reduction, coupled with prudent resource management, ensured that customers could continue to use their supplies without cause for concern.

In particular, the integrated water grid system enabled water to be pumped between areas to ensure that the supply and demand balance was managed effectively across the region as a whole.

In December 2003, Yorkshire's long term water resource situation was secured further when the Environment Agency (EA) announced its decision to allow water abstraction from the rivers Ure, Wharfe and Ouse until 2017. In the past the EA had only granted short term abstraction licences.

The agreement that these abstractions were not only necessary but sustainable in the long term, significantly enhances the security of supplies to a population of more than 4.7m across Yorkshire.

The quality of the water provided to local homes and businesses also continued to be exceptionally high, with 99.89% of all the tests taken meeting the Drinking Water Inspectorate's

(DWI) rigorous standards.

Work is continuing to upgrade the extensive network of underground water mains and in November 2003 a two year programme of work to renew 1,202kms of pipes was successfully completed one month ahead of schedule. A further 1,081kms of mains will be renewed by 2006.

Delivering better customer service

The company's new Integrated Customer and Operational Management (ICOM) system continued to deliver significant benefits. The implementation of this system has significantly improved the quality and speed of service provided to our customers. Employees now have access to more comprehensive information about planned work, unexpected bursts and other operational activities, and the impact on customers. This, in turn, means customer enquiries can be dealt with more quickly.

In addition, modern ways of working have been introduced, involving extended working hours for our customer-facing people, and customer appointments specified within two hour time slots. This enables service to be delivered more conveniently and efficiently to the customer. In March 2004 the company launched a scheme called "Close the Loop" which involves call centre staff ringing customers back to ensure that the company has delivered what it said it would and has resolved their issues to their satisfaction.

Yorkshire Water is pleased that its improvements in customer service have received external recognition. The ICOM system won the 'Best Use of Technology in Customer Service' category at the National Customer Services awards, the international 'Gartner Customer Relationship Management (CRM) Excellence Award 2003' and the Customer Care category at the Utility Industry Achievement Awards. For the third year running, Yorkshire Water was voted top for customer service in a national survey carried out by the independent Energy Information Centre. The report concluded: "compared to other suppliers, Yorkshire Water leads the pack for ease of contact, listening to needs, solving problems, explaining the industry and knowing the company."

95% of Yorkshire Water's business customers rank the company's service as good as or better than that provided by energy suppliers.

Delivering improvements to the environment

In March 2004 Kelda was once again awarded 'Premier League' status in Business in the Environment's Index of Corporate Environmental Engagement. The Index measures the extent to which companies understand and manage their impact on the environment. The company remains committed to improving environmental performance and has recently introduced a new Environmental Management System (EMS) designed to help achieve ISO14001 certification and improve business process. To support the launch, an environmental awareness campaign was implemented and every employee was asked to take part in an IT based training programme.

During 2003 Yorkshire Water started to work with the Carbon Trust, a Government backed organisation that works with businesses to reduce carbon dioxide emissions. The Trust is now conducting a one year feasibility study into the performance of Yorkshire's water supply system with the aim of reducing its carbon dioxide emissions by up to 15%. The company is also looking at expanding its use of hydro and wind power to help reduce energy costs in the future.

The EA's annual 'Spotlight on Business' report published in September 2003 showed that Yorkshire Water had achieved 100% compliance with discharge consents during the previous year at its 612 waste water treatment works and 1,614 pumping stations. In 2003/04 the rate has fallen slightly to 99.9% but the aim is to restore 100% compliance in 2004/05.

There were no prosecutions for pollution incidents during 2003, although regrettably a small number of pollution incidents occurred during the year, some of which have already been the subject of legal proceedings in 2004. The company regrets any incidents of pollution and will continue to make every effort to prevent them occurring in the future.

Despite these incidents, investment is continuing to improve the quality of the region's rivers and bathing waters. The EA has reported a 9% increase since 1990 in the number of Yorkshire rivers classified as 'good' or 'fair' and the number of East Coast bathing waters achieving the EU's higher 'guideline' quality standard has again risen to a record high of 15.

In December 2003, the company signed a partnership agreement with English Nature to protect and improve more than 50 of Yorkshire's 363 designated Sites of Special Scientific Interest (SSSIs). The new partnership agreement is designed to help English Nature fulfil its role in supporting the Government to achieve its target of 95% of SSSIs being in favourable or recovery status by 2010.

In Yorkshire, many upland moorlands have unintentionally suffered the effects of over-grazing and environmentally damaging farming practices. A joint steering group has now been set up by the company and English Nature, to share information about the status and management of SSSIs and to ensure they are maintained in the best possible condition.

OPERATING REVIEW: AQUARION

Financial performance

Turnover from continuing operations for the year was £94.1m (2003: £93.7m). Higher turnover was driven by increased revenue from Aquarion Services Company, the company's contract operations division. This was offset by lower revenue from the core utility business and the weakness of the dollar on retranslation into sterling. Timco, Aquarion's former timber processing subsidiary, was closed and its assets sold during the year.

The utility business was adversely affected by an unusually cool and wet summer season which resulted in lower metered water consumption.

Operating profit for the year was £31.6m (2003: £34.9m). Operating profit in dollar terms was flat but declined on translation into sterling. Profits were impacted by decreased water revenues in the utility business.

The business is primarily focused on the delivery of rate of return maximisation and enhanced efficiency in its core utility business, through the achievement of operational and capital efficiencies, greater use of new technology to support more business improvement initiatives, and the transference of technology used by Yorkshire Water to Aquarion.

Increased water charges

In October, Aquarion's Nassau County, New York based water utility subsidiary began to benefit from a $0.3m increase in water charges to reflect past investments in infrastructure. An additional $0.1m increase will take effect in October. On a larger scale, the state of Connecticut water utility filed an application in March 2004 with the Public Utility Commission requesting annual increase in water charges. The final increase will be determined by the Connecticut Department of Public Utility Control. This is to reflect an approximate $150m invested throughout the state since the most recent increases took effect on or before 1996.

The proposed increases in water service revenues are driven primarily by investments in water utility infrastructure as well as the need to set aside reserves to replace or upgrade future plant and equipment.

Aquarion is also seeking a surcharge to fund a $45m upgrade to a water filtration plant in Connecticut. The decisions will be made by the regulator in the autumn of 2004. If approved, increased water charges will take effect from 1 October 2004, and the surcharge is expected to become effective by the end of 2004.

Aquarion Services

Aquarion Services Company, the contract operations arm, expanded its water and waste water business and increased the number of operations, maintenance and related services sites. Aquarion Services also acquired two contract operations subsidiaries in the north east and on the west coast, which included 25 operations agreements and associated assets and was selected for 15 others through competitive pursuits. Safety Valve, Aquarion's service line protection business, demonstrated revenue and earnings growth through four new municipal partnerships.

Customer service and continuous improvement

Aquarion has remained focused on the enhancement of its water delivery and customer service. After launching its internet-based 'AquariOnline' electronic bill payment service and receiving an even higher customer satisfaction report from the state of Connecticut economic regulatory authority that collects such information, Aquarion's employees are continuing efforts to enhance customer bill payment options as well as continuously improving responsiveness to customers.

Aquarion employees earned three Innovation Prize Awards in 2003 from the Connecticut Quality Improvement Award Partnership. These recognised initiatives designed to enhance the internal awareness of local and national industry-related news events, improve the disinfection process for new water mains, and educate customers on water conservation and watershed protection.

In addition, the company launched a pilot programme to transform excess pressure within water pipes into electricity by using a new microturbine technology. This pilot programme intends to enhance infrastructure while providing a new source of clean, renewable energy and revenue for utilities. The power will be delivered back to the electric utility grid.

Environmental stewardship and community involvement

Aquarion employees have also earned awards for community service, environmental stewardship and performance excellence. In addition to the Innovation Prize Award, Aquarion also collected awards for outstanding mentoring and a school business partnership, community service, educational programme support and community outreach.

To inspire local youth to continually pursue academic excellence, employee teams sponsored several activities in 2003, including a Black History Celebration, now into its twelfth consecutive year.

OPERATING REVIEW: UK SERVICE OPERATIONS

During 2003/04 Kelda continued to use its core skills in water and waste water management to help grow its non regulated businesses. The focus remains on developing long term, low risk, secure income streams with potential for increased activity in the future.

The turnover from these non regulated businesses, including our share of associates' and joint ventures' turnover, amounted to £30.7m, having increased from £16.9m in 2003. Operating profit was £2.0m (2003: £2.4m). The company intends to continue to bid for water and waste water contract operations in the UK.

Yorkshire Water Projects

The company now operates water and waste water contracts for the Ministry of Defence (MoD) in parts of Wales, the Midlands and the South West of England, and for Scottish Water in the North of Scotland.

In December 2003, a 25 year contract commenced to provide water and waste water services to more than 1,100 MoD sites in the Midlands, Wales and the South West. Turnover for the four months to end of March was £5.5m. Yorkshire Water Projects is a 45% shareholder in the contract consortium. 80% of the operating contract is being carried out by Delta Water Services ('Delta'), a wholly owned subsidiary of YWP. Delta was formed in March 2003 and has 27 employees including newly recruited field technicians and former MoD employees. It is based at Kelda's head office in Bradford, with satellite offices in Telford and Salisbury.

YWP is a 45% shareholder in Aberdeen Environmental Services which manages four waste water treatment plants under a 25 year contract in Aberdeenshire. Grampian Waste Water Services, a wholly owned subsidiary of YWP, operates the contract for AES.

Grampian Waste Water Services was awarded ISO9001 (2000) for quality management and ISO14001 for environmental excellence. The ISO standard specifies that environmental management systems must integrate with other management systems to make sure that both environmental and economic objectives are met.

All four of the Scottish plants are continuing to perform well, with all the local bathing waters served by the plants meeting the mandatory EU quality standards.

Business Services

The company continues to develop profitable non regulated activities.

These include Safe Move, a business that provides drainage and water information to solicitors and conveyancers, which has continued to grow rapidly and now contributes an annual turnover of more than £3m. This service is now being promoted by the Property Search Group.

Loop

Loop provides customer relationship management services. Its turnover increased to £19.9m (2003: £17.3m), including £3.5m (2003: £1.8m) from external contracts, although profitability was affected due to unrecovered costs on a third party contract upon which Loop has given notice to terminate since the year end.

Loop continued to deliver high standards of service to Yorkshire Water's customers, including excellent results in the customer response and debt collection measures monitored by Ofwat. Loop is also one of the lowest cost providers of the services in the sector.

OPERATING REVIEW: KEYLAND

KeyLand had a strong second half year as anticipated in the interim results statement. Turnover (including share of associates and joint ventures) was slightly behind last year at £11.2m (2003: £12.8m) but operating profit increased to £5.2 m (2003: £4.6m). This reflects the continued high demand for prime development land.

The primary source of revenue continues to be through the disposal or development of brownfield sites for housing. Net assets of KeyLand were £34m at the end of March 2004. The second half saw the sale of a significant housing development site at Bransholme, Hull. A number of smaller, high margin, properties supplemented this sale. Planning delays continue to affect the timing of sales.

In addition to its primary activities, KeyLand has participated in selected joint venture developments. These contributed turnover of £2.8m (2003: £3.0m) and operating profit of £1.0m (2003: £0.4m) to these results.

KeyLand will continue to concentrate its resources primarily upon the development of the Kelda landbank and in particular the surplus property assets of Yorkshire Water.

Group profit & loss account

	Note	Year ended 31 March 2004 Before exceptional items £m	Year ended 31 March 2004 Exceptional items £m	Year ended 31 March 2004 Total £m	Year ended 31 March 2003 Before exceptional items £m	Year ended 31 March 2003 Exceptional items £m	Year ended 31 March 2003 Total £m
Turnover: group and share of associates and joint ventures	2	**822.6**	**-**	**822.6**	838.1	-	838.1
Share of associates' and joint ventures' turnover		**(97.1)**	**-**	**(97.1)**	(147.6)	-	(147.6)
Group turnover		**725.5**	**-**	**725.5**	690.5	-	690.5
Continuing operations		**722.2**	**-**	**722.2**	680.8	-	680.8
Discontinued operations		**3.3**	**-**	**3.3**	9.7	-	9.7
Operating costs		**(441.5)**	**-**	**(441.5)**	(425.2)	-	(425.2)
Group operating profit		**284.0**	**-**	**284.0**	265.3	-	265.3
Continuing operations		**284.0**	**-**	**284.0**	267.1	-	267.1
Discontinued operations		**-**	**-**	**-**	(1.8)	-	(1.8)
Share of associates' and joint ventures' operating profit		**10.7**	**(2.5)**	**8.2**	18.8	(7.0)	11.8
Operating profit: group and share of associates and joint ventures		**294.7**	**(2.5)**	**292.2**	284.1	(7.0)	277.1
Exceptional profit on sale of WRG stake	4	**-**	**17.1**	**17.1**	-	-	-
Exceptional loss on closure of operations		**-**	**-**	**-**	-	(3.9)	(3.9)
Profit on ordinary activities before interest		**294.7**	**14.6**	**309.3**	284.1	(10.9)	273.2
Net interest payable							
- group		**(95.7)**	**-**	**(95.7)**	(98.1)	-	(98.1)
- associates' and joint ventures'		**(7.4)**	**-**	**(7.4)**	(10.8)	-	(10.8)
Profit on ordinary activities before taxation		**191.6**	**14.6**	**206.2**	175.2	(10.9)	164.3
Taxation on profit on ordinary activities							
- current taxation	5	**(14.7)**	**-**	**(14.7)**	(7.0)	-	(7.0)
- deferred tax	5	**(10.9)**	**-**	**(10.9)**	(29.9)	0.9	(29.0)
- share of associates' and joint ventures' tax		**0.1**	**-**	**0.1**	(4.6)	2.6	(2.0)
Profit on ordinary activities after taxation		**166.1**	**14.6**	**180.7**	133.7	(7.4)	126.3
Equity minority interests		**(0.1)**	**-**	**(0.1)**	(0.2)	-	(0.2)
Profit attributable to shareholders		**166.0**	**14.6**	**180.6**	133.5	(7.4)	126.1
Dividends		**(100.3)**	**-**	**(100.3)**	(100.8)	-	(100.8)
Retained profit for the financial year		**65.7**	**14.6**	**80.3**	32.7	(7.4)	25.3
Basic earnings per share	6			**47.1p**			32.7p
Adjusted earnings per share	6			**43.3p**			34.6p
Adjusted earnings per share (excluding deferred tax)	6			**46.2p**			42.4p
Diluted earnings per share	6			**47.0p**			32.6p
Dividends per share	7			26.83p			26.05p

Group balance sheet

	Note	At 31 March 2004 £m	At 31 March 2003 £m
Fixed assets			
Intangible assets		**244.1**	243.8
Tangible assets		**3,719.7**	3,606.7
Investments in joint ventures		**9.7**	3.1
Share of gross assets		**47.3**	34.9
Share of gross liabilities		**(48.5)**	(35.1)
Loans to joint ventures		**10.9**	3.3
Investments in associated undertakings		**5.8**	115.5
Other investments		**17.0**	19.5
		3,996.3	3,988.6
Current assets			
Stocks		**0.8**	1.5
Debtors		**202.4**	198.2
Cash and short term deposits		**282.0**	328.0
		485.2	527.7
Creditors: amounts falling due within one year			
Short term borrowings		**(37.5)**	(44.4)
Other creditors		**(333.3)**	(325.9)
Net current assets		**114.4**	157.4
Total assets less current liabilities		**4,110.7**	4,146.0
Creditors: amounts falling due after more than one year			
Long term borrowings		**(1,950.3)**	(2,004.0)
Other creditors		**(233.8)**	(237.3)
Provisions for liabilities and charges			
- deferred tax	5	**(191.8)**	(183.1)
- other		**(2.9)**	(3.7)
Net assets		**1,731.9**	1,717.9
Equity shareholders' funds		**1,731.3**	1,717.3
Non-equity minority interests		**0.6**	0.6
Capital employed		**1,731.9**	1,717.9

Statement of group total recognised gains and losses

	Year ended 31 March 2004 £m	Year ended 31 March 2003 £m
Profit attributable to shareholders	**180.6**	126.1
Exchange adjustments	**(3.8)**	1.5
Total recognised gains and losses since last annual report	**176.8**	127.6

Summarised group cash flow statement

	Note	Year ended 31 March 2004 £m	Year ended 31 March 2003 £m
Net cash inflow from operating activities	8	**481.1**	441.4
Dividends received from associated undertakings		**-**	2.5
Returns on investments and servicing of finance		**(97.1)**	(82.1)
Taxation		**(10.1)**	(34.4)
Capital expenditure and financial investment			
- purchase of tangible fixed assets		**(335.5)**	(389.6)
- other		**-**	17.5
Acquisitions and disposals	9	**141.5**	(76.3)
Equity dividends paid		**(101.2)**	(99.0)
Management of liquid resources		**68.8**	(189.8)
Financing		**(122.3)**	347.6
Increase/(decrease) in cash in the year		**25.2**	(62.2)

Analysis of movement in net debt

	Year ended 31 March 2004 £m	Year ended 31 March 2003 £m
Increase/(decrease) in cash in the year	**25.2**	(62.2)
Decrease/(increase) in short term debt	**10.6**	(2.6)
Decrease/(increase) in long term debt	**35.1**	(341.1)
(Decrease)/increase in liquid resources	**(68.8)**	189.8
Debt acquired with subsidiary undertakings	**-**	(82.0)
Exchange and other non-cash adjustments	**12.5**	14.2
Movement in net debt in the year	**14.6**	(283.9)
Net debt at the beginning of the year	**(1,720.4)**	(1,436.5)
Net debt at the end of the year	**(1,705.8)**	(1,720.4)

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 2004. 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.

2 Segmental analysis of turnover and operating profit

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

	Turnover		Operating profit	
	2004	2003 (restated)	**2004**	2003 (restated)
	£m	£m	**£m**	£m
UK regulated water services	**604.4**	567.0	**252.5**	233.7
US operations	**94.1**	93.7	**31.6**	34.9
UK service operations				
- group	15.3	10.3	0.5	0.2
- associates and joint ventures	15.4	6.6	1.5	2.2
UK service operations sub-total	**30.7**	16.9	**2.0**	2.4
Keyland				
- group	8.4	9.8	4.2	4.2
- associates and joint ventures	2.8	3.0	1.0	0.4
Keyland sub-total	**11.2**	12.8	**5.2**	4.6
Discontinued operations				
- group	**3.3**	9.7	**-**	(1.8)
- WRG	**78.9**	138.0	**8.2**	16.2
	822.6	838.1	**299.5**	290.0
Corporate costs	**-**	-	**(4.8)**	(5.9)
Total: group and share of associates and joint ventures (before exceptional items)	**822.6**	838.1	**294.7**	284.1
Exceptional items				
- Waste Recycling Group plc (discontinued associate)	**-**	-	**(2.5)**	(7.0)
Total: group and share of associates and joint ventures	**822.6**	838.1	**292.2**	277.1

Prior year comparatives have been restated to reflect the new segmental format adopted in 2004, as described in the Financial Review

3 Exchange rates

The results of the group's US operations have been translated using the average exchange rate during the period of \$1.69 to the pound (2003: \$1.55). The exchange rate used to translate the group's US assets and liabilities at the balance sheet date was \$1.84 (2003: \$1.58).

4 Exceptional items

A profit of £17.1m arose in the year from the sale of the group's investment in Waste Recycling Group plc. No taxation arose on the sale.

An exceptional loss of £3.9m before tax (£3.0m after tax) incurred in the year ended 31 March 2003 arose on the closure of Timco, in the US.

5 Taxation

Current taxation

	2004 £m	2003 £m
UK corporation tax charge	**19.9**	9.7
Overseas taxation	**6.0**	9.0
Prior year credit – UK	**(10.3)**	(4.8)
Prior year credit – US	**(0.9)**	(6.9)
	14.7	7.0

Deferred tax

	2004 £m	2003 £m
Full deferred tax charge	**35.6**	34.1
Discount	**(22.4)**	1.5
Adjustment in respect of prior year	**(2.3)**	(6.6)
Total deferred tax	**10.9**	**29.0**

Deferred tax provision

	2004 £m	2003 £m
At 1 April	**183.1**	149.9
Deferred tax charge	**10.9**	29.0
Acquisition of operations	**-**	6.2
Exchange rate and other adjustments	**(2.2)**	(2.0)
Discounted provision for deferred tax	**191.8**	183.1
Undiscounted provision for deferred tax	**542.8**	513.7
Discount	**(351.0)**	(330.6)
Discounted provision for deferred tax	**191.8**	183.1

6 Earnings per share

The weighted average number of shares used in the calculation of basic earnings per share (EPS) is 383.1m (2003: 385.8m) and of diluted EPS is 384.3m (2003: 387.1m).

Adjusted EPS is calculated excluding exceptional items as follows:

2004: Exceptional profit on sale of WRG stake of £17.1m less share of WRG exceptional items of £2.5m. There is no taxation associated with these exceptional items.

2003: Exceptional loss on the closure of Timco £3.9m (£3.0m net of tax) and Kelda's share of WRG's exceptional items £7.0m (£4.4m net of tax).

Adjusted EPS is also presented excluding the charge for deferred tax.

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

7 Proposed dividend

The proposed final dividend of 18.73p per share, if approved by shareholders, will be paid on 1 October 2004 to shareholders on the register on 27 August 2004.

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

	2004 £m	2003 £m
Group operating profit	**284.0**	265.3
Depreciation	**155.9**	144.8
Goodwill amortisation	**0.8**	1.0
Release of grants and contributions	**(3.3)**	(3.3)
Exchange rate and other adjustments	**35.4**	23.7
Decrease in stocks	**0.7**	-
Decrease in debtors	**4.1**	19.9
Increase/(decrease) in creditors	**3.5**	(10.0)
Net cash inflow from operating activities	**481.1**	441.4

9 Acquisitions and disposals

	2004 £m	2003 £m
Payments relating to acquisitions of subsidiary undertakings	-	(78.0)
Net cash acquired with subsidiary undertakings	-	1.6
Disposal of WRG	**142.7**	-
Purchase of intangibles	**(1.2)**	(0.4)
Proceeds arising from sales of operations	-	0.5
	141.5	(76.3)

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 2003 and 31 March 2004 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 2003 have been filed with the Registrar of Companies. The full statutory accounts for the year ended 31 March 2004 will be posted to shareholders in June.

11 This announcement was approved by the board of directors on 26 May 2004.

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 2004 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, 26 May 2004

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