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Kelda Group plc

Presentation of Preliminary Results
5 June 2003

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Introduction

John Napier

Chairman

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Business Review

Kevin Whiteman
Group Chief Executive

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Highlights

- **Underlying profit up 7.7%**
- **Adjusted EPS increased 8.4%**
- **YW strong all round performance**
  - Financial
  - Operational
  - Service
  - Compliance
- **US growth from earnings enhancing acquisitions**
- **Full year dividend increased 2.2% to 26.05p;**

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Yorkshire Water

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Yorkshire Water Highlights

- **Opex outperformance increased to £100m - operating costs reduced by a further 2.0%**
- **Capital investment programme on target - £319.5m (2002: £324.7m)**
- **Ranked 2nd in Ofwat Overall Performance Assessment**
- **Ofwat ranked water supply service most efficient**
- **Successful IDoK**

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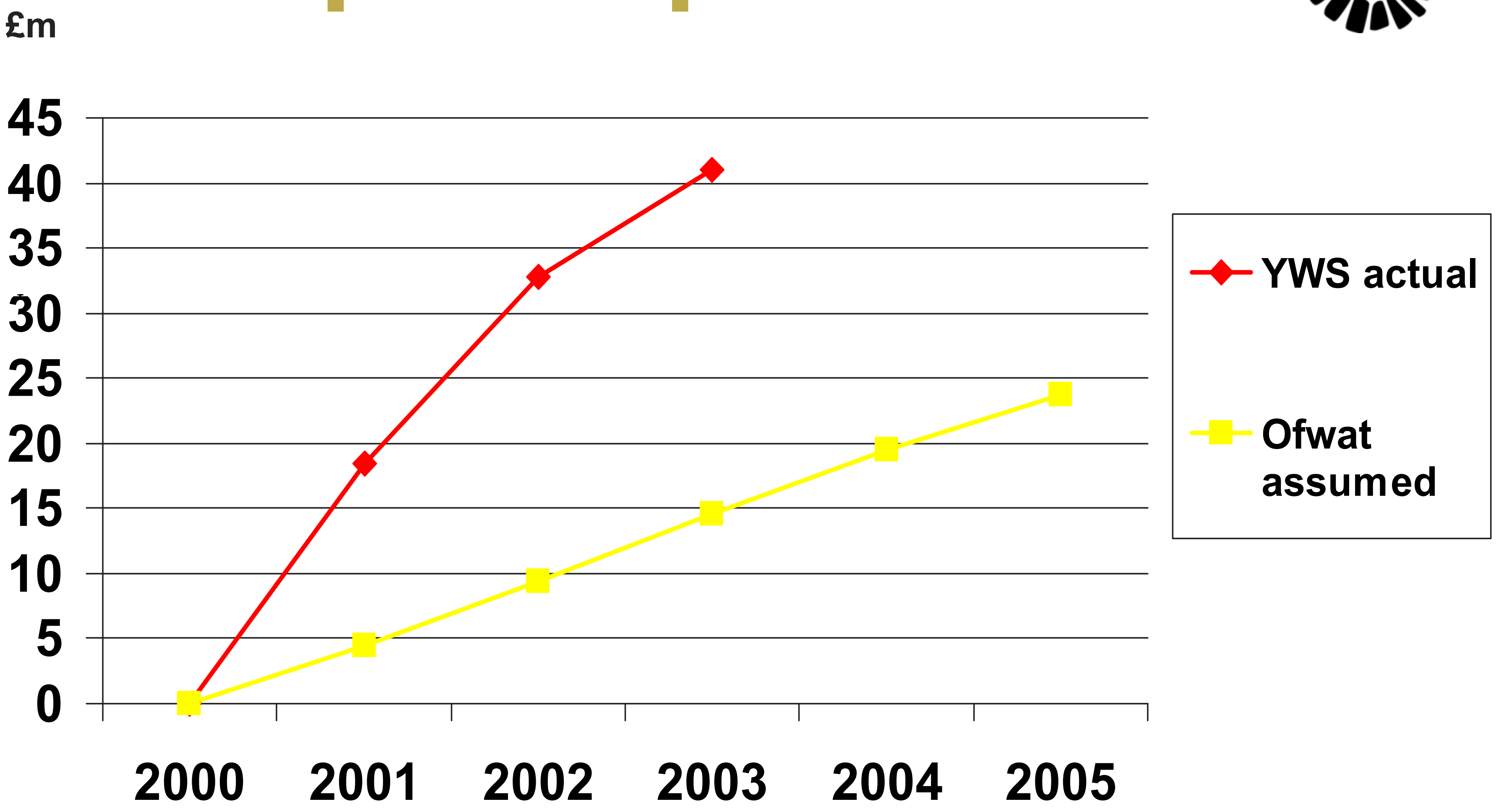
Yorkshire Water
Financial Outperformance

- **Forecast achievement increased 25% from £80m to £100m**
- **Includes recovery of costs through IDoK, previously taken into account**
- **Savings <u>after</u> absorption of additional costs**
- **Forecasting 10% capital outperformance in this five year period**

Yorkshire Water
Opex Outperformance



At outturn prices

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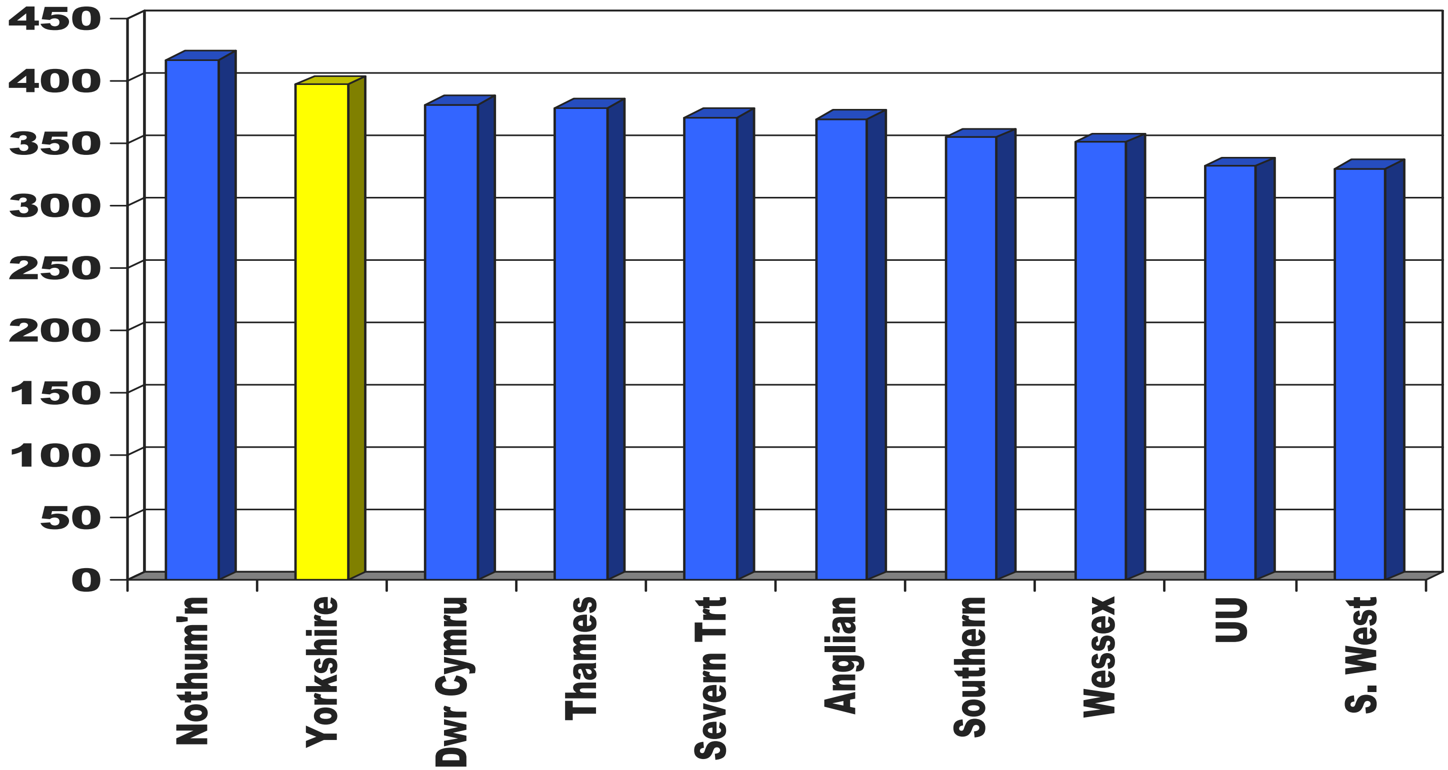
Yorkshire Water
Overall Performance Assessment

YW ranked 2nd in Ofwat Overall Performance Assessment



Source: Ofwat - 2001-02

Yorkshire Water
Service & Compliance

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- **Best ever water quality - 99.91% compliant**
- **Rivers & bathing waters cleanest since records began**
- **Further significant reduction in pollution incidents**
- **ICOM (Integrated Customer & Operations Management system) enabled 98% of appointments to be met within a two hour band**
- **Water industry's leading performer in Business in the Environment Index of Corporate Engagement**

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Yorkshire Water
New Corporate Logo

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Yorkshire Water Cool Schools

Yorkshire Water
Interim Determination

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- **Application based on sewer flooding investment, waste incineration directive, impact of bad debt and construction prices**
- **Combination of cost-recovery and additional capex**
- **Final determination of additional k 3.4% in 2003/4 and 3.5% in 2004/5 (previously 1%)**
- **All items agreed at least in part**

Yorkshire Water Projects

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- **Aberdeen**
- **Aquatrine package A**
- **Future opportunities**

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Aquarion

Aquarion Highlights

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- Entered the US 3 years ago - good progress since then, including land sale deal
- Prudent in-fill acquisitions - earnings enhancing from outset
- US operations represent 13% of Kelda group operating profit

Aquarion
Utilities Operations

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- **Aquarion turnover increased to £93.7m (2002: £70.5m)**
- **Successful integration of New England operations acquired from AWW**
- **Earnings enhancing from outset - service levels maintained**
- **Existing operations coped well with dry weather challenge**

Aquarion
Aquarion Services

- Formation of Aquarion Services contract operations
- 10 year waste water contract won in Bridgeport
- Future contracts in the pipeline
- Leveraging core water and waste water skills

Aquarion
Regulatory Framework

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- Rate of return
- Regulation
- Subject to periodic price increases
- Judgements on best timing

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Other Group Businesses

- **Loop**
  - progress continues to be made with expansion of external business
  - FT Top 50 Best Workplaces & Sunday Times 100 Best Companies to Work For
- **KeyLand**
  - strong second half as anticipated at interims
  - operating profit well ahead
  - demand continues to be strong
- **Waste Recycling Group (45.5%)**

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Group Financial Performance

Martin Towers
Group Finance Director

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KEY FIGURES

Year ended 31 March 2003

	2003	2002	Increase %
Group turnover (before associates)	**£690.5m**	£658.8m	4.8
Group operating profit (before associates)	**£265.3m**	£245.0m	8.3
Group profit before tax and exceptional items	**£175.2m**	£162.7m	7.7
Adjusted EPS (excluding deferred tax)	**42.4p**	39.1p	8.4
Dividend for the year	**26.05p**	25.50p	2.2
Interest cover (before exceptional items)	**2.6**	2.6	
EBITDA cover (before associates)	**4.2**	4.1	
Dividend cover (excluding deferred tax)	**1.5**	1.7	

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GROUP OPERATING RESULTS
Year ended 31 March 2003

	2003 £m	2002 £m	Increase %
Group turnover (before associates)	**690.5**	658.8	4.8
- Continuing operations	**651.3**	647.0	0.7
- US acquisitions (11 months)	**29.5**	-	
- Discontinued operations	**9.7**	11.8	
Group operating profit (before associates)	**265.3**	245.0	8.3
- Continuing operations	**256.6**	251.9	1.8
- US acquisitions (11 months)	**10.5**	-	
- Discontinued operations	**(1.8)**	(6.9)	
Group operating profit (before associates):			
Continuing operations	**256.6**	251.9	1.8
- YW regulated	**233.7**	225.5	3.6
- US operations	**24.4**	28.2	
- other/corporate costs	**(1.5)**	(1.8)	

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YORKSHIRE WATER OPERATING RESULTS

Year ended 31 March 2003

	2003 £m	2002 £m	Increase/ (Decrease) %
Turnover	**567.0**	559.8	1.3
Operating costs	**(211.0)**	(210.9)	(0.0)
Depreciation and amortisation	**(93.8)**	(93.7)	(0.1)
Infrastructure renewals charge	**(36.0)**	(33.5)	(7.5)
Other	**7.5**	3.8	
YW regulated operating profit	**233.7**	225.5	3.6

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CONTINUING U.S. OPERATIONS OPERATING RESULTS

Year ended 31 March 2003

	2003 £m	2002 £m	Increase/ (Decrease) £m
As reported (ex Timco)	24.4	28.2	(3.8)
Add back Aquarion Services	0.3	(0.4)	0.7
	24.7	27.8	(3.1)
Exchange rate conversion ($1.55/$1.43)	-	(2.2)	2.2
Underlying utilities	24.7	25.6	(0.9)

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GROUP FINANCIAL RESULTS
Year ended 31 March 2003

	2003 Group £m	**2003 Associates £m**	**2003 Total £m**	2002 Group £m	2002 Associates £m	2002 Total £m
Turnover	**690.5**	**147.6**	**838.1**	658.8	141.0	799.8
Operating profit	**265.3**	**18.8**	**284.1**	245.0	20.3	265.3
Exceptional items	**(3.9)**	**(7.0)**	**(10.9)**	34.4	-	34.4
Interest	**(98.1)**	**(10.8)**	**(108.9)**	(93.3)	(9.3)	(102.6)
Profit before tax	**163.3**	**1.0**	**164.3**	186.1	11.0	197.1

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TAXATION
Year ended 31 March 2003

	2003 **£m**	2002 £m
Current tax (1)	**7.0**	26.3
Deferred tax	**29.0**	14.8
Share of associates tax	**2.0**	4.7
Profit and loss account charge (2)	**38.0**	45.8
Current tax rate (before exceptional items)	**4.2%**	4.8%
Effective full tax rate	**23.1%**	23.2%

(1) Net of prior year credits £11.7m (2002: £2.3m)

(2) Net of exceptional tax credits £3.5m (2002: £19.0m debit)

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BALANCE SHEET

At 31 March 2003

	2003	2002
	£m	£m
Net assets (before deferred tax)	**1,901.0**	1,840.4
Minority interest	**(0.6)**	
Deferred tax provision	**(183.1)**	(149.9)
Shareholders' funds	**1,717.3**	1,690.5
Net debt	**1,720.4**	1,436.5
- YW regulated	**1,170.5**	1,042.0
- Other	**549.9**	394.5
Gearing ratio (after deferred tax)	**50.0%**	45.9%
Gearing ratio (before deferred tax)	**47.5%**	43.8%
YW net debt : RAV ratio	**39.6%**	39.1%

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SUMMARY CASHFLOW
Year ended 31 March 2003

	2003 **£m**	2002 £m
Operating cash flow	**441.4**	387.8
Capital expenditure	**(372.1)**	(236.4)
- fixed assets	**(389.6)**	(323.6)
- US land sale	-	57.2
- other	**17.5**	30.0
Interest and tax	**(116.5)**	(98.8)
Acquisitions	**(76.3)**	(1.9)
Debt acquired on acquisitions	**(82.0)**	-
Dividends	**(99.0)**	(96.3)
Financing/other	**20.6**	4.2
Increase in net debt	**(283.9)**	(41.4)

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PENSIONS: FRS 17

At 31 March 2003

	2003	2002
	£m	£m
Kelda Group Pension Plan (KGPP)		
Market value of assets	**407.1**	540.2
Present value of scheme liabilities	**(566.9)**	(515.0)
Scheme (deficit)/surplus	**(159.8)**	25.2
Deferred tax	**47.9**	(7.6)
Net UK pension (liability)/asset	**(111.9)**	17.6

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KEY FINANCIAL RATIOS

Year ended 31 March 2003

	2003	2002
P+L ratios:		
Interest cover (before exceptional items)	**2.6**	2.6
EBITDA cover	**4.2**	4.1
Dividend cover (excluding deferred tax)	**1.5**	1.7
Balance sheet ratios:		
Gearing ratio		
- before deferred tax	**47.5%**	43.8%
- after deferred tax	**50.0%**	45.9%
YW net debt: RAV	**39.6%**	39.1%

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Outlook

- **Moving forward from a good set of results**
- **IDoK / Aquatrine up side**
- **Continuous review and strengthening of management**
- **Continuing benefits of our focus strategy**
- **Cautiously optimistic**