

KeldaGroup



Kelda Group plc

Presentation of Interim Results

28 November 2006



Introduction

John Napier
Chairman



Business Review

Kevin Whiteman
Chief Executive



- Profit before tax up 10.6% to £120.2m
- Interim dividend up 5.7% to 9.25p
- Adjusted earnings per share increased 11.7% to 25.7p
- Continued improvements in all round performance from YW
- Solid operational performance from Kelda Water Services
- Following completion of Aquarion proposed return of £750m to shareholders



Yorkshire Water



- Turnover up 6.9% to £368.9m
- Operating profit up 9.7% to £168.0m
- Well placed to achieve Ofwat's targets
- Continued drive to be 'clearly the best'
- Improved OPA score for 9th consecutive year





- On track to absorb high energy costs and meet Ofwat operating cost targets in 2006/07
- Continue to outperform operating cost targets 2007/08 and beyond
- AMP 4 capital programme current out performance 7.5% on track to maintain similar levels







UK Service Operations



- UK Service Operations turnover up to £64.1m (2005: £57.7m)
- Operating profits £5.2m (2005:£4.3m)
- UK Service Operations includes Kelda Water Services, Safe-Move and Loop
- Strong operating performance of existing businesses
- Construction on Northern Ireland water treatment facilities commenced
- Operational commencement in Northern Ireland expected in 2008





Aquarion proceeds and capital structure



- Sale of Aquarion announced February 2006 conditional on regulatory clearance
- Clearances received for Connecticut, New Hampshire and Massachusetts (93% of Aquarion rate base)
- Aquarion disposal expected to complete early in 2007
- Board has reviewed use of Aquarion proceeds and capital structure
- Proposed return of £750m to shareholders (£2.10 per share)
- Effect of proposal to increase YW net debt to RCV to approximately 60%



Group Financial Review

Martin Towers

Group Finance Director



Key figures – Kelda Group

6 months to 30 September 2006

	2006	2005	Increase
	£m	£m	%
Turnover (+)	435.0	404.3	7.6
Operating profit (+)	170.0	153.6	10.7
Profit before tax (+)	120.2	108.7	10.6
Adjusted EPS	25.7	23.0	11.7
Interim dividend	9.25p	8.75p	5.7

(+) Continuing operations

- **Good results, strong financial ratios**



Continuous improvement at Yorkshire Water

		Turnover £m	Operating Profit £m
2004	- 1 st half	316.2	132.4 (49%)
	- Year	640.1	272.1
2005	- 1 st half	345.1	153.1 (49%)
	- Year	693.8	312.7
2006	- 1 st half	368.9	168.0

- **6.9% turnover increase (based upon tariff increases of 7.7%)**
- **9.7% increase in operating profit through tight cost control**
- **Absorbed energy cost increases**
- **£250m raised privately in November to fund AMP4 capital programme**



Aquarion

		Exchange Rate	Turnover £m	Operating Profit £m
2005	- 1 st half	1.82	53.6	19.6
	- Year	1.85	104.2	32.8
2006	- 1 st half	1.85	53.0	23.0

- **Unfavourable summer in 2006**
- **Depreciation of £6.3m added back to 2006 operating profit in accordance with IFRS 5**



Other activities

	Turnover £m	Operating Profit £m
UK Service Operations		
2005 - Year	123.6	9.1
2006 - 1 st half	64.1	5.2
KeyLand		
2005 - Year	8.0	3.0
2006 - 1 st half	2.0	1.2
Corporate costs		
2005 - Year	-	(4.7)
2006 - 1 st half	-	(2.3)



Taxation

	2006		2005	
	£m	%	£m	%
Profit before tax	<u>120.2</u>	<u>100</u>	<u>108.7</u>	<u>100</u>
Current tax	31.8	26	27.6	25
Deferred tax	<u>4.6</u>	<u>4</u>	<u>5.5</u>	<u>5</u>
	<u>36.4</u>	<u>30</u>	<u>33.1</u>	<u>30</u>

- Tax charge reflects expectations for the full year
- UK tax only



Cash flow movements summary

	2006 £m	2005 £m
Cash generated by operations	330.6	266.3
Capital spend	(195.4)	(155.6)
Net interest paid	(57.8)	(59.3)
Dividends paid	(76.8)	(76.8)
Share re-purchase	(59.3)	-
Tax	(21.3)	(10.2)
Other movements (net)	<u>17.0</u>	<u>10.6</u>
	(63.0)	(25.0)
Start of period	<u>(1,953.6)</u>	<u>(1,783.5)</u>
End of period	<u>(2,016.6)</u>	<u>(1,808.5)</u>

- **Borrowing levels typically increase during the second half**



Group soundly financed

- Interest cover 3.4 times (2005: 3.4 times)
- Group balance sheet gearing 59% (2005: 55%)
- YW debt to RCV gearing 43% (2005: 38%)
- Purchase of approx. 5% of Kelda equity substantially complete



- Return by way of B scheme and share consolidation
- Subject to shareholder approval circular to be sent to shareholders in due course
- Future dividends per share adjusted to account for return of capital and share consolidation
- Return to 2% per annum real thereafter in line with regulatory expectations
- Proposed contribution of £50m to group defined benefit pension scheme



Aquarion proceeds and capital structure

- 30 September 2006 Group's IAS 19 deficit £84.7 million (2005: 115.6 million)
- Company to maintain current contribution levels subject to next triennial review
- Board review concluded action necessary to address volatility in cost of final salary scheme
- Proposed closure of scheme to all new entrants from October 2007



- Good start to the year
- Continued improvement from Yorkshire Water
- Delivery in UK Service Operations continues
- Following receipt of Aquarion proceeds proposed return of £750m capital to shareholders
- Increase gearing to 60% midpoint of assumed regulatory range
- Achieves financial efficiency in line with efficiencies delivered in operating costs and capital expenditure