

Directors' report

The directors present their report for the year to 31 March 2002.

Result and dividends

The profit attributable to shareholders for the year was £151.4m. After dividends totalling £98.3m, £53.1m was transferred to the reserves.

The directors recommend a final dividend of 17.8p per share to be paid on 1 October 2002, to those shareholders on the register at the close of business on 30 August 2002. An interim dividend of 7.7p per share was paid on 1 March 2002.

The total dividend for the year will amount to 25.5p per share (2001: 24.8p).

Principal activities

The directors' report should be read in conjunction with the operating and financial review, which includes information about group businesses, the financial performance during the year and likely developments.

The principal activities of the group are the supply of clean water and the treatment and disposal of waste water. Yorkshire Water Services Limited (Yorkshire Water), the group's regulated utility business in the UK, is responsible for both water and waste water services. Aquarion Company, the group's US subsidiary, provides water services in the states of Connecticut, New York, Massachusetts and New Hampshire. The group's other businesses are KeyLand Developments Limited, a property development company, and Loop Customer Management Limited which provides managed customer services. In addition, the group holds 46% of the issued share capital of Waste Recycling Group plc, a leading waste management company.

Acquisitions and disposals

Details of the disposal by Aquarion of certain rights and title to approximately 15,300 acres of land, and details of the acquisition since 31 March 2002 by Aquarion of the New England operations of the American Water Works Company are given on page 11.

The sale of First Renewables Limited to Energy Power Resources Limited has been completed. Details of the transaction are included at note 25 to the accounts on page 50.

Directors

The directors are: John Napier, Executive Chairman; James Newman, Deputy Chief Executive; John O'Kane, Group Finance Director; Kevin Whiteman, Managing Director, Yorkshire Water; Ken Jackson, Jamie Pike, Derek Roberts and David Salkeld, non executive directors. Jamie Pike has given notice of his intention to resign as a director with effect from the close of the forthcoming annual general meeting.

In accordance with article 105, John Napier and Kevin Whiteman will retire at the forthcoming annual general meeting and will offer themselves for re-election, which is recommended by the board in accordance with article 109. Mr Napier's appointment in an executive capacity was interim in nature and he has no service agreement with the company. Mr Whiteman has a service agreement with the company.

The terms of the director's service agreements appear in the remuneration report on page 24. Additional information relating to directors who served during the year, including remuneration and interests in the company's shares is contained on pages 21 to 24. The details of directors' interests in the company's shares form part of this report.

Employees and employment policies

The group strives to create a positive working environment for its employees. The company is committed to increasing employee involvement and places great emphasis on open two way communications. There is an extensive consultation and communication process with employees and trade unions, to keep employees informed and involved. Employees have opportunities to express their views including regular face to face sessions with the senior management team, and are kept informed via regular briefings and in-house publications.

The group's employment policies go well beyond current legal requirements. The company recognises that work/life balance is a key factor and offers a range of part time working opportunities, flexible working for some jobs, and a formal jobshare policy. UK based employees also have the opportunity to acquire a direct stake in the success of business through a sharesave scheme which has been operating since 1989.

The group is committed to treating job applicants and employees in the same way, regardless of their ethnic origin, gender, disability, race, colour, religion, sexual orientation or age. An active approach to keeping employees who become disabled in employment, and a commitment to equal opportunities for less able job applicants has been recognised with the 'double tick' accreditation from the UK employment service.

The company's approach to equal opportunities and diversity applies to advertisements for jobs, recruitment and selection, training, conditions of work, pay and to any other aspect of employment. The company continues to build links with ethnic minority groups and, commencing in 2002, will be taking further positive action including an awareness campaign on issues of diversity and the monitoring of the composition of the workforce to track the effectiveness of our actions in these areas.

One in five employees has volunteered to take part in a wide range of community activities. These include a Community Ambassadors scheme, a Speakers Panel, and support to local education ranging from Right to Read in junior schools through to coaching at senior schools, and mentoring university students from diverse ethnic backgrounds.

Kelda group continues to be committed to high levels of training and employee development through a wide range of in-house and accredited programmes. Employees are encouraged to seek out the information, development and training needed to carry out their role to its full potential and to share learning, expertise and information with colleagues. The company recognises team and individual achievements via 'Business Excellence' events and presentations.

Directors' report

Health and safety

The company is committed to achieving high health and safety standards throughout its businesses. The management of health and safety issues operates in the context of the policy adopted by the board and the system of internal control. The company has put in place a number of safety policies and procedures, and provides such information, instruction, training and supervision as is appropriate. In addition, the company provides occupational health, safety and welfare advisory services.

Health and safety goals are set annually in relation to numbers of accidents, working time lost as a result of accidents, training delivery, internal safety audits and the health surveillance programme. These are monitored and reported monthly to senior managers and directors. The use of stretching goals, the effective provision of training and advice, and the continued emphasis by all parties on the importance of health and safety matters has resulted in significant reductions in reportable accidents, all accidents, and working days lost. By the nature of accidents, there can be no guarantee that they will never occur. The measures taken by the company are intended to place emphasis on prevention and continuing vigilance.

During the year, twenty three senior managers were awarded the Institute of Occupational Safety and Health accredited Safety for Senior Executives Certificate. Yorkshire Water was audited by the British Safety Council and awarded four stars for its safety management system. The company consults with all employees via area and functional health and safety forum groups and subsidiary company safety committees. Local safety issues are discussed and resolved within these groups. The groups have representation on the company Health and Safety Group, which meets quarterly.

Environment and community

The environmental policy of the company recognises that a sustainable water and waste water business is dependent on environmentally sustainable operations. It is, therefore, committed to integrating environmental best practice and continuous improvement in environmental performance through the efficient, effective and proper conduct of its business.

Environmental performance is reported through the company's web based environment and community report which is regularly updated and independently verified.

This can be viewed at www.keldagroup.com/environment

The company contributes actively to the communities which it serves. This includes active encouragement of employee participation in community based schemes, as well as direct financial support. Further details are set out on pages 8 and 11.

The internal control processes described on page 20 take account of social, environmental and ethical risks. In addition, the board receives information as part of the normal reporting process to identify and assess such significant risks where they are relevant to the nature of the company's business.

Charitable and political contributions

Charitable contributions totalling £0.6m (2001: £0.4m) were made during the year. No political contributions were made.

Research and development

During the year £3.3m (2001: £3.8m) was committed to research and development including £2.3m (2001: £2.8m) on fixed assets.

Purchase of own shares

At the forthcoming annual general meeting, the company will be seeking authority to purchase up to 10% of its ordinary shares. Authority was previously granted at the annual general meeting in 2001 in respect of 10% of the company's issued ordinary share capital but expires at the close of the forthcoming meeting.

Auditors

A resolution to reappoint Ernst & Young LLP as the company's auditors and to authorise the directors to determine their remuneration will be proposed at the forthcoming annual general meeting. The auditors are required to provide assurance as to their own application of best practice to ensure objectivity and independence. It is generally considered that the auditors are best placed to undertake due diligence work in relation to acquisitions and disposals, and to provide advice on taxation. Other consultancy services are awarded by competitive process. The performance of the auditors is monitored on an ongoing basis and the audit committee considers annually whether a reappointment is appropriate. The auditors provide reports directly to the audit committee.

Payment terms to suppliers

The company's normal terms are to make payment in accordance with suppliers' terms of trade or within 30 days from the receipt of services or invoices subject to satisfactory performance by the supplier. Kelda Group plc is a holding company and, at 31 March 2002, had no trade creditors outstanding. The payment terms of individual operating subsidiaries are disclosed in their accounts.

Major shareholdings

As at 29 May 2002 the company had been notified of the following interests amounting to 3% or more of the company's issued ordinary share capital:

M & G Investment Management Ltd 5.09%
Barclays PLC 3.02%

Annual general meeting

The notice convening the company's 2002 annual general meeting at the Barbican Centre, York on 25 July 2002 at 11am is set out in a separate document issued to shareholders.

By order of the board
Philip Hudson
Group Company Secretary
30 May 2002

Registered office:
Western House
Halifax Road
Bradford
BD6 2SZ

Registered in England
No. 2366627