



## Chairman's statement

Strong operational and financial performance in the Yorkshire Water business and the successful acquisitions in the US by Aquarion contributed to growth in profit before tax and exceptional items of 7.7%.

The final year results maintained and improved the good start made in the first half. In total, profit before tax and exceptional items of £175.2m was up 7.7% on prior year. The underlying adjusted earnings per share excluding deferred tax were 42.4p per share an 8.4% increase on prior year. The main source of the improved result was an excellent second half performance from Yorkshire Water with further cost and capital efficiencies which at the same time delivered best ever drinking water compliance, environmental and customer service outputs.

The Kelda balance sheet remains strong with gearing of 50%. An opportunity was taken in the year to increase long term debt with a successful offering of £300m bonds which completed in February. The Board recommend a final dividend of 18.19p per share which makes a full year dividend of 26.05p, an increase of 2.2% compared to prior year.

In the interim results the Board announced important senior management changes with the appointment of Kevin Whiteman, Managing Director of Yorkshire Water as Chief Executive, Martin Towers joined us as Group Finance Director and Rich Schmidt, President of Aquarion was appointed as an executive director of Kelda Group plc. These appointments have further strengthened Kelda management, and are part of a continuing review of management standards at all levels in the company.

One of the continuing features of last year was the delivery of the benefits arising from our focus on water and waste water. In the US the acquisition of the New England operations of American Water Works was completed and integrated into existing operations. The US management responded well to an integration challenge which coincided with a period of increased operating complexity caused by water restrictions due to the low snowfall of the prior year. Aquarion was successful in winning a major \$110m waste water contract in Bridgeport, Connecticut, and made further investment in the organic growth of contract operations expertise.

In the UK Yorkshire Water had an excellent year. It delivered beyond expectations on cost and capital dimensions whilst achieving best ever standards of performance in crucial compliance and customer service dimensions. It was also successful in winning the Midlands, Wales and South West region in the national Ministry of Defence contract, one of the largest contracts of its type ever put to tender. Yorkshire Water was also granted an interim price adjustment from Ofwat for the period up to April 2005 which covers the needs of increased investment, increased costs in sewer flooding and higher construction costs. It also enables us to meet the challenge of increased Drinking Water Inspectorate compliance and environmental standards. Yorkshire Water had a year of continuing progress in all aspect of its services and operations.

There was good progress in the results of the supporting operations of KeyLand (property) and Loop (customer services). An announcement was made earlier this year regarding our 45.5% holding in Waste Recycling Group plc (WRG) to the effect that WRG was in discussions which may or may not lead to an offer for WRG from the private equity firm Terra Firma. Subsequent to the signing of the 2002/03 accounts, on 9 June 2003 WRG announced a recommended offer from Terra Firma for 267.5p per share to be effected by a scheme of arrangement.

The continuous delivery of Kelda's water and waste water services has a significant environmental dimension. We deal with environmental issues as diverse as management and access of water catchment areas, sustainable water management, river water and bathing water standards. Our performance affects all our customers and everyone who lives in the region we serve. Kelda attempts at all times to be environmentally focused. We have also developed a broad section of community programmes involving partnerships within local communities and organisations to help support and deliver community involvement by programmes of education, amenities, protection and sustainability on a wide range of environmental matters.

Our staff and management are also involved in a large number of voluntary programmes supporting broader community initiatives such as improved reading standards in schools, improved health and nutrition for children. We also sponsor and support community initiative programmes. We have actively supported government schemes to improve countryside access and amenity by working closely with the competing interests and increased public access to our important moorland catchment and nature conservation areas. All these activities constitute part of what is now termed corporate and social responsibility. Such activities have and continue to form an essential part of our day to day actions and responsibilities and are reported in more detail in this report.

The Board was pleased to see the shareholder support that has led to Kelda entering the FTSE 100. Kelda believes it has played a part in helping to get greater financial market recognition of the underlying value of the water sector.

Our strategy of focusing on water and waste water and on service and efficiency, has resulted in Kelda progressing to become one of the most efficient companies in the sector. Our objective is to maintain our focus and emphasis on performance which we believe to be in the best interests of our shareholders and customers.

In summary, this has been a year of continued progress on all fronts. Given the performance of the company, the Board would wish to thank the management team and equally importantly to thank all employees for their positive contribution to improved results. The world and the water sector remains a challenging environment. There is no place for complacency if we are to continually meet the demands of increasing efficiency, simultaneous improvement of standards of quality and environmental compliance. Our goals must be to improve performance further, expand outsourced and contract operations, and be responsive to opportunities for further profitable growth in our core activities, whilst maintaining a positive dialogue with government and regulators.

Since the half year we have had the confirmation of the 25 year Aquatrine contract and the interim price determination which takes us to year March 2005. These are both positive outcomes since we published our half year results. We said then and repeat now, that with regard to the possible 2005 price determination we continue to be encouraged by the dialogue between regulator, government and industry. There is an increased consensus on the significant achievements of the industry and on the priorities that need to be addressed if we are to encourage equity and capital markets to provide the industry's long term investment funding, on which all future quality improvements increasingly depend. In our view the long term industry outlook remains positive as long as this dialogue is maintained.



**John Napier**  
Chairman