NORTHUMBRIAN WATER GROUP

19 November 2003

INTERIM RESULTS FOR THE PERIOD ENDED 30 SEPTEMBER 2003

FIRST FINANCIAL RESULTS FOR NORTHUMBRIAN WATER GROUP PLC

Northumbrian Water Group plc is pleased to announce its first interim results since its debut on AIM on 23 May 2003 and its admission to the Official List of the London Stock Exchange on 23 September 2003.

HIGHLIGHTS

- Turnover of £182.7 million for the four months trading ended 30 September 2003 (2002: £172.7 million).
- Pro forma turnover of £261.4 million for the six month period to 30 September 2003 (2002: £249.8 million).
- Profit before tax of £15.5 million (2002: £34.8 million) reflecting the increased interest charges principally due to the acquisition.
- Pro forma profit before tax of £24.1 million for the six month period to 30 September 2003 (2002: £40.8 million).
- Interim dividend of 2.32 pence per share for the four month trading period, consistent with expectations at the time of AIM listing.
- Kielder refinancing close to completion.
- Highest quality drinking water in the UK and continuing high levels of customer service and environmental protection.
- Ofwat draft interim determination of K of 9.6% to be applied in 2004/05.

John Cuthbert, Managing Director, said today: “2003 has been a year of great significance for Northumbrian Water Group. We listed on AIM in May, submitted our draft business plan to Ofwat for the next regulatory period in August and moved to the Official List in September. In response to our application for an interim determination of our price limits, Ofwat has recently proposed that the company raise its charges by 9.6% for the 2004/05 year.

“The business continues to perform well and our drinking water quality, levels of customer service and environmental protection are amongst the highest in the country. We continue to focus on our core business with an emphasis on performance management across the Group.”

For further information contact:

Northumbrian Water **0191 301 6419**
John Cuthbert, Managing Director
Chris Green, Finance Director
Andrew Panting, Communications Manager
Finsbury **020 7251 3801**
Rollo Head
Mark Harris
Anthony Silverman

Notes to Editors

Northumbrian Water Group plc ("the Group" or "NWG") was admitted to the Official List of the London Stock Exchange on 23 September 2003, following four months on AIM. The Group listed on AIM on 23 May 2003, the day that it purchased Atlantic Water Limited ("AWL") for a consideration of £1,010 million (excluding acquisition costs). AWL includes Northumbrian Services Limited ("NSL"), formerly Ondeo Services UK plc, and its subsidiary companies. The acquisition was financed by cash of £880 million, comprising £344 million (net of expenses) raised from a group of institutional investors and a short term loan of £536 million from Deutsche Bank. The balance of the consideration was satisfied by the issue of shares to Suez, the previous ultimate parent company of AWL, valued at £130 million.

NSL comprises a number of companies, of which the largest are Northumbrian Water Limited ("NWL"), Entec UK Limited, Analytical and Environmental Services Limited and Fastflow Pipeline Services Limited. Northumbrian Water International, a division of NSL, manages waste water treatment plants in Scotland and water operations in Gibraltar.

NWL is a regulated water and sewerage company operating in the north east and south east of England (trading as Northumbrian Water and Essex & Suffolk Water respectively), and is committed to maintaining its leading position in the UK water industry for customer service and environmental protection. NWL currently provides water and sewerage services to 2.6 million people, and water services to 1.7 million people, in the north east and south east of England respectively.

REPORTING PERIOD

These interim results cover the period from 12 May 2003, the date of incorporation of Northumbrian Water Group plc ("the Group" or "NWG"), to 30 September 2003. There was no trading activity between the dates of 12 and 23 May 2003. The statement consolidates the trading results of Northumbrian Services Limited ("NSL") and its subsidiaries for the four months from the date of the acquisition (23 May 2003) of Atlantic Water Limited ("AWL"), its immediate parent company. NSL's trading results for the equivalent period to 30 September 2002 have been provided for comparative purposes.

In addition, pro forma results for NSL for the six month period to 30 September 2003 have been presented which also include the actual trading performance of NSL from 1 April to 22 May. The comparative results for NSL for the six month period to 30 September 2002 are also presented.

GROUP FINANCIAL PERFORMANCE

The Group's turnover was £182.7 million for the trading period from 23 May to 30 September 2003 (2002: £172.7 million). The higher turnover in the current period reflects a £6.5 million increase in income at Northumbrian Water Limited ("NWL"), mainly due to the inflation increase in charges in April 2003. It also reflects £3.3 million of new income following the start of operations at Caledonian Environmental Services ("CES") in late 2002. The pro forma turnover for the six month period to 30 September 2003 was £261.4 million, representing a 4.6% increase on the six month period to 30 September 2002 (2002: £249.8 million).

Operating profit was £57.7 million for the trading period from 23 May to 30 September 2003 (2002: £59.9 million). Exceptional costs of £2.2 million have been recognised in the current period relating to the listing process and costs resulting from the change in relationship with the former parent company, Suez. Operating costs have increased by £5.9 million at NWL and these are explained in further detail below in the section on water. Operating costs at CES have increased by £2.5 million, in line with the increase in turnover. The pro forma operating profit for the six month period to 30 September 2003 was £78.6 million (2002: £77.4 million).

The interest charge was £44 million for the trading period from 23 May to 30 September 2003 (2002: £25.5 million). Of this increase, £6 million (of which £5.2 million is classed as exceptional) relates to the amortisation of debt arrangement costs required to secure the additional debt finance which was necessary for NWG to purchase AWL. Following the transaction, the increased level of debt at NWG has resulted in an additional £7.1 million of interest charges. A further £0.9 million of the increase reflects NWG's equity share of the interest paid by the Ayrshire project company which commenced operation in late 2002. The remaining increase in the interest charge reflects the underlying increase in net debt at NWL and the cost of the short term facilities required as a result of the new Group finance structure.

Profit on ordinary activities before tax was £15.5 million (2002: £34.8 million) for the trading period from 23 May to 30 September 2003, reflecting the acquisition of AWL, while profit on ordinary activities after tax for the same period was £20.1 million (2002: £25.7 million).

CAPITAL STRUCTURE

On 10 September 2003, NWL applied to the Office of Water Services ("Ofwat") for an interim determination of K ("IDoK"). On 5 November 2003, the Director General for Water Services announced his draft interim determination. In this announcement, Ofwat proposed to allow the company to raise its charges by 9.6% in real terms in 2004/05. The Director General's final decision will be announced by 11 December 2003 after a period of consultation. The application to increase prices in real terms in 2004/05 was made because NWL faces unanticipated additional costs caused by increased customer bad debt, water quality monitoring, new obligations requiring capital expenditure and lower than forecast demand for water.

NWL is close to raising additional finance with a long term maturity date by securitising the income stream relating to its contract with the Environment Agency ("EA") to operate the Kielder Water transfer scheme. Deutsche Bank has been mandated to manage the transaction. The exact proceeds have not yet been finalised but are likely to be in excess of £200 million. The proceeds will be used to repay existing debt incurred on the acquisition of AWL.

Prior to flotation on AIM on 23 May 2003, the credit ratings for NSL and NWL were reassessed by Standard & Poor's ("S&P's") and Fitch Ratings. S&P's lowered its ratings on NSL and NWL to BB+ and BBB respectively, whereas Fitch Ratings placed the existing ratings for the two companies on Ratings Watch with a negative outlook. The ratings agencies' actions were largely due to the increase in the net debt of NWG and the amounts falling due within five years. Both the IDoK and the Kielder refinancing should strengthen the credit quality of NSL and NWL.

NWG's net debt (prior to adjusting for fair value) increased to £1,730.9 million at 30 September 2003 (2002: £1,092.0 million), mainly due to the increase in borrowings which was required to finance the purchase of AWL. The remaining increase reflects the underlying increase in net debt at NWL due to the ongoing investment programme. The Group's gearing, based on its net debt (before fair value) divided by an estimated Regulatory Asset Value of £2,242m at 30 September, is 77%. Cash and EBIT interest cover for the Group are 2.02 and 1.31 respectively.

WATER

Turnover was £166.4 million for the trading period from 23 May to 30 September 2003 (2002: £156.2 million). The increased turnover in the current period is mainly due to RPI increases at NWL (£4.0 million) and the commencement of operations at CES (£3.3 million). The pro forma turnover for the six month period to 30 September 2003 was £237.9 million, representing a 5.3% increase on the six month period to 30 September 2002 (2002: £226.0 million).

Operating profit was £60.5 million for the trading period from 23 May to 30 September 2003 (2002: £59.1 million), which reflects an increase in operating costs of £8.8 million. The pro forma operating profit for the six month period to 30 September 2003 was £79.9 million (2002: £77.5 million). The new operations at CES account for £2.5 million of the increase in operating costs.

NWL accounts for the remainder of the cost increase, and this is largely due to a higher charge for leakage management, increased sludge treatment and disposal costs, and new operating costs relating to higher standards of sewage treatment. Insurance costs have also increased reflecting higher premiums, more claims and a more prudent provisioning policy. Manpower costs have increased following the annual pay award and increases in national insurance, and abstraction charges have increased following price increases above RPI in April 2003. Depreciation has also increased by £1.1 million, reflecting the commissioning of further investment.

Direct operating costs at NWL for the last regulatory year ended 31 March 2003 were £200.9 million, which compares favourably with £208.4 million which was forecast for the same period by Ofwat in the 1999 Final Determination. This efficiency has been achieved after absorbing various additional unanticipated costs not allowed for by Ofwat. Capital expenditure at NWL for the three years to 31 March 2003 was £615.5 million, £45.6 million lower than the amount forecast by Ofwat for the same period. The lower capital expenditure reflects a mixture of capital efficiencies on investment required to meet quality objectives, lower expenditure relating to the supply demand balance and some phasing differences. However, expenditure on capital maintenance is in line with the Ofwat forecast.

During the period, NWL continued to provide its customers with high levels of service. However, the exceptional floods experienced in its northern area during August 2002 meant that NWL was unable to achieve the highest levels of service in Ofwat's sewer flooding categories. The drinking water supplied in the company's northern and southern areas continued to be of the highest quality in the country.

Despite one of the driest summers on record, NWL was able to meet its customers' water requirements without the need for restrictions, a clear demonstration of the benefits of the company's investment in water resources and leakage detection in recent years. One such investment, the Langford Recycling Plant, has increased the available water in Essex by almost 10%, by returning water to the river and reservoir network that used to be lost to sea. A new water treatment works being constructed at Wearhead in County Durham to safeguard the quality of water supplied to the Wear Valley and Sunderland areas is close to completion. It has been carefully designed and constructed considering environmental and social issues and to enable it to blend in to its surroundings, which are designated as an Area of Outstanding Natural Beauty.

NWL's sewage treatment works continued to deliver high levels of performance. The company's care for the environment was reflected in it being the only company unplaced in the EA's pollution prosecution league for water and sewerage companies. The coast of the north east of England continued to enjoy the high levels of sea water quality that came with the commissioning of the company's new state of the art coastal sewage treatment works two years ago. The results of the EA's bathing water tests for the summer of 2003 confirmed that 100% of the region's bathing waters achieved the required mandatory EU standard and 70% met the much stricter guideline standard.

NWL submitted its draft business plan for the years 2005–2010 to Ofwat in August 2003. The company proposed to raise prices in real terms by 37% over the five year period, taking average household water and sewerage bills in the north from £206 in 2003 to £286 plus inflation in 2010. In the south, average household water bills would increase from £113 in 2003 to £153 plus inflation in 2010. These proposed increases will be modified in the light of the final outcome of the IDoK application.

Northumbrian Water International (formerly known as Northumbrian Lyonnaise International), a trading division of NSL, is now operating the waste water treatment plants at Levenmouth (CES) and Ayrshire for Scottish Water. NWG has a 50% interest in the Ayrshire project company, and therefore accounts for the results of this company on an equity basis. NWG's share of the operating profits of Ayrshire in the current period was £1.2 million (2002: £nil).

Operations at a new treatment plant built for Cork City Council in the Republic of Ireland will commence early in 2004. Lyonnaise des Eaux (Gibraltar) Limited, soon to be renamed AquaGib Limited, has achieved certification to the new ISO 9001:2000 standard for its water supply, sewage pumping and billing activities – a standard also achieved by NWL. Certification was achieved six months ahead of schedule.

RELATED SERVICES

The Group's non-water companies' turnover was £27.7 million for the trading period from 23 May to 30 September 2003 (2002: £28.4 million). The pro forma turnover for the six month period to 30 September 2003 was £39.6 million, representing a 2.9% decrease on the six month period to 30 September 2002 (2002: £40.8 million). Operating profit was £1.3 million for the trading period from 23 May to 30 September 2003 (2002: £1.7 million). The pro forma operating profit for the six month period to 30 September 2003 was £1.5 million (2002: £1.4 million).

The sale of Imass Limited, a subsidiary of NSL until December 2002, reduced turnover in the trading period to 30 September 2003 by £2 million, though this has been largely offset by a net increase in turnover from the other Group companies.

The Group’s environmental and engineering consultancy, Entec UK Limited, successfully continues to build its third party activity with an excellent client base and high levels of repeat business, resulting in increased turnover of £2 million in the current period.

Fastflow Pipeline Services Limited, the Group's specialist underground asset management company, has continued to make steady progress. It has developed its range of services as well as increasing its customer base to include other water companies and industrial clients.

Analytical and Environmental Services Limited continues to grow its external client base and, as part of a consortium, it recently won a contract with the Irish Department of Environment to audit drinking water laboratories throughout the Republic of Ireland.

Northumbrian Water Technical Centre Limited (NWTC) carries out research and development in water and sewerage networks management and operation. It has recently provided assistance to companies in Hungary, Indonesia and Chile and has supported NWL on a range of water and waste water projects. NWTC is also strengthening its relationship with universities and industrial partners to develop research programmes covering the challenges facing the water industry in the future.

DIVIDEND

The Board has declared an interim dividend in respect of the four month trading period ended 30 September 2003 of 2.32p per share. This dividend will be paid on 7 January 2004 to shareholders on the register at the close of business on 12 December 2003.

BOARD APPOINTMENT

Derek Wanless will be appointed as a Non-executive Director of the Group with effect from 1 December 2003. Newcastle-born Mr Wanless is a Non-executive Director of Northern Rock plc and of Business in the Community and was formerly Group Chief Executive of National Westminster Bank plc.

OUTLOOK

The outlook for the business remains positive. The draft IDoK from Ofwat will be finalised by 11 December 2003 and should improve the revenue and profitability of the business. In addition, the proceeds from the Kielder refinancing will replace the remaining short term debt arising from the purchase of AWL with a long term facility secured on the Kielder operating contract. Both the IDoK and the refinancing should strengthen the credit quality of NWG, NSL and NWL.

Whilst the outcome of the Periodic Review of prices cannot be predicted, the IDoK does remove some of the uncertainty around the review. NWL believes its draft business plan submission reflects a well balanced proposal and remains confident that the Ofwat approach to the review will result in an acceptable outcome.

The Group will continue to focus on its core competencies, improving efficiency levels, driving down operating costs, maintaining high standards of customer service, developing the skills and effectiveness of its employees and integrating environmental management into its decision-making processes.

John Cuthbert
Managing Director

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	NWG 12.5.03 to 30.9.03 £m (unaudited)	NSL 23.5.02 to 30.9.02 £m (unaudited)	NSL 1.4.03 to 30.9.03 £m Pro forma (unaudited)	NSL 1.4.02 to 30.9.02 £m (unaudited)
Turnover: group and share of joint ventures	**184.7**	174.6	264.4	252.7
Less share of joint ventures' turnover	**(2.0)**	(1.9)	(3.0)	(2.9)
Group turnover	**182.7**	172.7	261.4	249.8
Operating costs				
- operating costs before exceptional costs	**(122.8)**	(112.8)	(180.6)	(172.4)
- exceptional costs (see note 4)	**(2.2)**	-	(2.2)	-
Operating profit	**57.7**	59.9	78.6	77.4
Share of associated undertakings' operating profit	**1.3**	0.1	1.7	0.1
Share of joint ventures' operating profit	**0.3**	0.3	0.5	0.6
Investment income	**0.2**	-	0.2	-
Interest and similar charges				
- exceptional amortisation of financing costs (see note 4)	**(5.2)**	-	(5.2)	
- net interest payable and similar charges	**(38.8)**	(25.5)	(51.7)	(37.3)
Profit on ordinary activities Before taxation	**15.5**	34.8	24.1	40.8
Taxation on profit on ordinary activities				
- current taxation	**2.1**	(2.6)	2.2	(2.6)
- deferred taxation	**2.5**	(6.5)	2.1	(6.2)
Profit on ordinary activities after taxation	**20.1**	25.7	28.4	32.0
Minority interests	**(0.2)**	(0.7)	(0.7)	(0.4)
Profit attributable to shareholders	**19.9**	25.0	27.7	31.6
Dividends paid and proposed	**(12.0)**	(31.1)	(12.0)	(31.1)
Retained profit/(loss) for the period	**7.9**	(6.1)	15.7	0.5
Basic earnings per share	**3.8p**	5.4p	5.3p	6.8p
Adjusted earnings per share (excluding deferred tax, goodwill and exceptionals)	**5.0p**	6.8p	6.6p	8.1p
Diluted earnings per share	**3.8p**	5.4p	5.3p	6.8p
Dividends per share	**2.32p**	6.68p	2.32p	6.68p

All results are attributable to continuing operations arising from acquisitions.

CONSOLIDATED BALANCE SHEET

	NWG 30.9.03 £m (unaudited)	NSL 30.9.02 £m (unaudited)
Fixed assets		
Intangible assets – goodwill	**55.9**	-
Tangible fixed assets	**2,642.3**	2,528.6
Investments	**6.0**	4.8
	2,704.2	2,533.4
Current assets		
Stocks	**6.5**	6.5
Debtors: amounts receivable within one year	**112.6**	294.1
Debtors: amounts receivable after more than one year	**29.1**	18.5
Investments	**0.1**	0.1
Cash at bank and in hand	**90.1**	48.8
	238.4	368.0
Creditors: amounts falling due within one year	**(251.7)**	(270.7)
Net current (liabilities)/assets	**(13.3)**	97.3
Total assets less current liabilities	**2,690.9**	2,630.7
Creditors: amounts falling due after more than one year	**(1,877.9)**	(1,285.3)
Accruals and deferred income	**(131.2)**	(124.4)
Provisions for liabilities and charges	**(173.3)**	(178.4)
Net assets	**508.5**	1,042.6
Capital and reserves		
Called up share capital	**51.9**	466.2
Share premium account	**446.3**	217.9
Group reconstruction relief reserve	**-**	107.6
Profit and loss account	**7.9**	247.6
Shareholders' funds: equity interests	**506.1**	1,039.3
Minority equity interests	**2.4**	3.3
	508.5	1,042.6
Net debt (including provisional fair value adjustment)	**1,835.2**	1,092.0
Provisional fair value adjustment less amortisation	**(104.3)**	-
Net debt (excluding provisional fair value adjustment)	**1,730.9**	1,092.0

CONSOLIDATED CASH FLOW STATEMENT

	NWG 12.5.03 to 30.9.03 £m (unaudited)	NSL 23.5.02 to 30.9.02 £m (unaudited)
Reconciliation of total operating profit to net cash inflow from operating activities		
Total operating profit	**57.7**	59.9
Depreciation	**31.0**	30.1
Profit on disposal of tangible fixed assets	**(0.4)**	(0.4)
Other non-cash movements	**0.2**	(0.1)
Movement in provisions	**(0.5)**	6.4
Amortisation of capital grants	**(0.8)**	(0.7)
Amortisation of fair value adjustment to debt	**(2.1)**	-
Amortisation of goodwill	**1.0**	-
Increase in stocks	**(0.5)**	(0.8)
Decrease in debtors	**12.9**	19.9
Decrease in creditors	**(9.3)**	(24.9)
Net cash inflow from operating activities	**89.2**	89.4
Cash flow statement		
Net cash inflow from operating activities	**89.2**	89.4
Net cash outflow from returns on investments and servicing of finance	**(38.2)**	(26.0)
Tax paid	**-**	(1.6)
Net cash outflow on capital expenditure	**(59.3)**	(69.3)
Acquisition of business (net of expenses) (see note 7b)	**(889.8)**	-
Net cash outflow before use of liquid resources and financing	**(898.1)**	(7.5)
Management of liquid resources	**364.1**	(5.5)
Issue of new shares	**368.5**	-
Other financing net cash inflow	**194.7**	8.8
Net cash inflow from financing	**563.2**	8.8
Increase/(decrease) in cash in the period	**29.2**	(4.2)
Reconciliation of net cash flow to movement in net debt		
Increase/(decrease) in cash in the period	**29.2**	(4.2)
Cash inflow from increase in net borrowings	**(194.7)**	(8.8)
Less unamortised financing costs	**2.7**	-
Cash (inflow)/outflow from management of liquid resources	**(364.1)**	5.5
Loans and finance leases acquired with subsidiaries net of short term deposits	**(1,304.2)**	-
Inception of new finance leases	**(4.1)**	(2.2)
Movement in net debt in the period	**(1,835.2)**	(9.7)
Opening net debt	**-**	(1,082.3)
Closing net debt	**(1,835.2)**	(1,092.0)

Notes to the accounts

1 Basis of preparation

(a) The interim period covers the period from incorporation of NWG (12 May 2003) to 30 September 2003, and includes the trading results of NSL for the four month period from the date of the acquisition by NWG (23 May 2003) to 30 September 2003. NWG did not trade in the period from 12 May to 23 May 2003.

(b) In order to show consistent comparative figures, the results of NSL for the four month period from 23 May to 30 September 2002 have also been included as NWG did not exist at this time.

(c) The pro forma figures for the six months ended 30 September 2003 include the six months trading results of NSL to 30 September 2003 with the addition of the NWG acquisition accounting from 23 May 2003. These pro forma results are presented to provide a comparative for the equivalent period next year. The pro forma figures include 8 weeks of pre acquisition profits.

(d) The results of NSL for the six months ended 30 September 2002 are presented to provide a trading comparison for the prior period, but do not include any adjustment for the NWG acquisition on a pro forma basis. The comparative figures provided in the consolidated balance sheet and cash flow statement are in respect of NSL, prior to its acquisition by NWG.

The figures for the above periods are unaudited and do not constitute statutory accounts. However, the auditors have carried out a review of the figures to 30 September 2003 and their report is set out in the independent review report.

The interim statement was approved by the Board of Directors on 18 November 2003.

2 Accounting policies

The Group has adopted the accounting policies set out in the 2002 statutory accounts of NSL, with the exception of the accounting for court costs and solicitors fees which, in accordance with the Group accounting policy, are written off. The impact of this change on the consolidated profit after tax of NSL for the four months to 30 September 2002 and the six months to 30 September 2002 was a net reduction of £0.1 million and £nil respectively and the impact on the consolidated shareholders' funds of NSL, as at 30 September 2002, was a reduction of £4.3 million.

The interim financial information has been prepared on the basis of these accounting policies.

3 Segmental analysis of turnover and operating profit

	NWG 12.5.03 to 30.9.03 £m (unaudited)	NSL 23.5.02 to 30.9.02 £m (unaudited)	NSL 1.4.03 to 30.9.03 £m Pro forma (unaudited)	NSL 1.4.02 to 30.9.02 £m (unaudited)
Turnover				
UK water	**158.0**	151.5	226.4	218.5
International water	**8.4**	4.7	11.5	7.5
	166.4	156.2	237.9	226.0
Related services	**27.7**	28.4	39.6	40.8
Joint ventures	**2.0**	1.9	3.0	2.9
Total turnover	**196.1**	186.5	280.5	269.7
Less: inter segment	**(11.4)**	(11.9)	(16.1)	(17.0)
External turnover	**184.7**	174.6	264.4	252.7
Group	**182.7**	172.7	261.4	249.8
Joint ventures	**2.0**	1.9	3.0	2.9
	184.7	174.6	264.4	252.7
Operating profit				
UK water	**59.0**	58.3	78.3	78.0
International water	**1.5**	0.8	1.6	(0.5)
	60.5	59.1	79.9	77.5
Related services	**1.3**	1.7	1.5	1.4
	61.8	60.8	81.4	78.9
Central unallocated costs and provisions	**(4.1)**	(0.9)	(2.8)	(1.5)
Group operating profit	**57.7**	59.9	78.6	77.4
Share of associated undertakings' profit	**1.3**	0.1	1.7	0.1
Share of joint ventures' profit	**0.3**	0.3	0.5	0.6
Net interest payable and investment income	**(43.8)**	(25.5)	(56.7)	(37.3)
Profit on ordinary activities before taxation	**15.5**	34.8	24.1	40.8

4 Exceptional costs

The exceptional operating costs comprise additional severance costs of £1.1 million and the costs associated with the uplift to the main market. Financing costs arising on the debt required for the acquisition have been apportioned between debt that has been repaid and debt that is still outstanding. Finance costs relating to the debt that has been repaid have been written off. Due to the magnitude of these costs they have been disclosed as exceptional.

5 Earnings per share

Basic and diluted earnings per share are calculated using a weighted average number of shares of 518.6 million for the periods 12 May to 30 September 2003 and 1 April to 30 September 2003. The weighted average number of shares for the periods 23 May to 30 September 2002 and 1 April to 30 September 2002 was 466.2 million.

Adjusted EPS is considered by the directors to give a better indication of the Group's underlying performance. Adjusted earnings per share is based on earnings of £25.8 million, being the earnings for the period 12 May to 30 September 2003 excluding deferred tax, goodwill and exceptional charges. The impact of these adjustments on the basic earnings per share is a 0.5p decrease, a 0.2p increase and a 1.5p increase respectively.

6 Dividends

An interim dividend of 2.32p per share has been declared and will be paid on 7 January 2004 to shareholders on the register on 12 December 2003.

7 Acquisition of subsidiaries

On 23 May 2003 the Group purchased the whole of the issued share capital of AWL which at that time held 100% of NSL. The consideration was satisfied by the payment of £880m in cash and the allotment of 129,655,961 fully paid ordinary shares representing 25% of the enlarged share capital of NWG.

(a) AWL has been accounted for under the acquisition method of accounting. The assets and liabilities of NSL which were acquired are set out below:

Reconciliation of book value to provisional fair value at 23 May 2003	Book value	Provisional fair value adjustment	Accounting policy alignment	**Total provisional fair value 23.5.03**
	£m	£m	£m	**£m**
Fixed assets	2,612.3	-	-	**2,612.3**
Stocks	6.0	-	-	**6.0**
Cash at bank and in hand	431.6	-	-	**431.6**
Debtors: receivable within one year (see note (i))	139.9	(3.2)	(6.0)	**130.7**
Debtors: receivable after more than one year (see note (ii))	17.4	12.7	-	**30.1**
Creditors: amounts falling due within one year (see note (iii))	(228.7)	(4.3)	-	**(233.0)**
Creditors: amounts falling due after more than one year (see note (iii))	(1,602.1)	(102.1)	-	**(1,704.2)**
Provisions for liabilities and charges (see note (iv))	(171.6)	(5.1)	-	**(176.7)**
Accruals and deferred income	(128.0)	-	-	**(128.0)**
Less minority interests	(2.9)	-	-	**(2.9)**
Net assets	1,073.9	(102.0)	(6.0)	**965.9**
Goodwill				**56.9**
Consideration (including acquisition costs)				**1,022.8**
Satisfied by:				
129,655,961 shares				**129.7**
Cash to ordinary shareholders				**880.0**
Costs of acquisition				**13.1**
				1,022.8

(b) Net cash outflows in respect of the acquisition comprised:

	NWG 12.5.03 to 30.9.03 £m
Cash consideration	**880.0**
Cash at bank and in hand acquired	**(25.3)**
Bank overdrafts acquired	**22.0**
Expenses paid in connection with acquisition	**13.1**
Net cash outflow in respect of acquisition	**889.8**

Explanatory notes to the provisional fair value adjustments table:

(i) Debtors: receivable within one year
Fair value adjustment to restate balances at their estimated recoverable value. Accounting policy alignment to write off debt recovery costs as incurred.

(ii) Debtors: receivable after more than one year
In accordance with FRS 7, a surplus in the defined benefit pension scheme has been recognised as an asset.

(iii) Creditors: amounts falling due within one year and creditors: amounts falling due after more than one year
The carrying values of fixed rate debt have been adjusted to reflect the market rate of interest on the date of acquisition.

(iv) Provision for liabilities and charges
Deferred tax has been adjusted to reflect the discount rates effective at date of acquisition. A further adjustment has been made to reflect the deferred tax on the fair value adjustments.

8 Taxation

There is no current tax charge in the period to 30 September 2003 due to the existence of tax losses in the parent company. The current tax credit of £2.1 million arises principally from the reversal of tax provided in the pre-acquisition period from 1 January to 23 May 2003.

The deferred tax credit in the period to 30 September 2003 of £2.5 million arises principally due to a credit of £8.1 million relating to discount resulting from increases in government gilt interest rates since 23 May 2003.

Tax on exceptional operating and financing costs is £0.3 million deferred and £1.9 million current tax respectively.

INDEPENDENT REVIEW REPORT TO NORTHUMBRIAN WATER GROUP PLC

Introduction

We have been instructed by the company to review the financial information for the period from incorporation on 12 May 2003 to 30 September 2003 which comprises the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Consolidated Cash Flow Statement, and the related notes 1 to 8. Further details of the financial information provided are given in note 1. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information’ issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 ‘Review of interim financial information’ issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the period from 12 May to 30 September 2003.

Ernst & Young LLP
Newcastle upon Tyne
19 November 2003