NORTHUMBRIAN WATER GROUP

HALF-YEARLY FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

27 November 2008

NORTHUMBRIAN WATER GROUP PLC

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Northumbrian Water Group plc (NWG or the Group) presents its half-yearly report for the six months ended 30 September 2008.

HIGHLIGHTS 2008

Financial highlights	**Six months to 30.9.2008 £m**	Six months to 30.9.2007 (restated)[1] £m	Change £m	Change %
Continuing operations				
Revenue	**347.7**	333.8	13.9	4.2
Profit on ordinary activities before interest[1]	**138.6**	141.2	(2.6)	(1.8)
Profit before tax	**77.1**	88.0	(10.9)	(12.4)
(Loss)/profit for the period[2]	**(64.5)**	98.2	(162.7)	(165.7)
Net debt	**2,174.0**	2,128.1	45.9	2.2
RCV (mid-year value)	**3,015.0**	2,879.0	136.0	4.7
Continuing operations				
Basic (loss)/earnings per ordinary share[2]	**(12.45p)**	18.94p	(31.39p)	(165.7%)
Adjusted EPS[3]	**10.84p**	13.19p	(2.35p)	(17.8%)
Ordinary dividend proposed[4]	**4.29p**	4.00p	0.29p	7.2%

Notes:
1 At 31 March 2008, the Group changed its presentation in respect of its defined benefit pension cost (see note 2 to the interim financial statements)
2 Includes deferred tax charge £123.5 million (2007: credit, £26.8 million)
3 Excludes deferred tax charge £123.5 million (2007: credit, £26.8 million) and amortisation of debt fair value £2.8 million (2007: £3.0 million)
4 Ordinary dividend: interim proposed 4.29p (2007: 4.00p)

- Energy costs are over 50% higher than last year, well above the level assumed by Ofwat at the last price review
- Funds in place through to 2011
- Regulated capital investment in the period of £109.3 million (2007: £116.3 million) is meeting regulatory targets and includes an extended sewer flooding programme
- Planning permission for Abberton Reservoir recommended for approval
- Continued high levels of customer satisfaction
- Draft business plan sets out a clear programme to 2015 and forecasts bills rising by 1.3% p.a. above inflation from 2010
- Ordinary interim dividend of 4.29 pence (2007: 4.00 pence) per share to be paid on 30 January 2009

Managing Director John Cuthbert said, "Over the last six months, the Group has produced good financial and operational results, in spite of a difficult economic climate and the continued volatility in energy markets. The Group is seeing the benefit of low cost debt secured to fund the capital programme through to 2011.

Northumbrian Water Limited submitted its draft five year business plan to Ofwat in August, following consultation with the Environment Agency, Drinking Water Inspectorate, CCWater and other stakeholders. The plan proposes a £1.3bn capital programme, a 22% increase over the past five years, and forecasts that bills will rise by an annual average of 1.3% above inflation, reflecting an increase of 0.7% in the northern region and 2.8% in Essex and Suffolk."

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INTERIM MANAGEMENT REPORT

NWG's financial performance

Revenue for the six months to 30 September 2008 was £347.7 million (2007: £333.8 million). This 4.2% increase is mainly due to the inflationary uplift in water and sewerage tariffs at Northumbrian Water Limited (NWL), the Group's principal subsidiary.

The difficult economic climate has had some impact on water and sewerage volumes for NWL and there is some evidence of a marginal slowing in customer payments. As far as operating costs are concerned, it is volatile energy prices that have had the most noticeable impact with 2008/09 costs some 50% higher than those in 2007/08. The Group is, however, not exposed to the current significant increase in financing costs in the capital markets having put facilities in place over the last three years to fund the capital programme through to 2011.

Profit on ordinary activities before interest for the six months was £138.6 million (2007: £141.2 million). Operating costs increased by £16.5 million (8.6%) to £209.1 million largely reflecting the impact of inflation, depreciation and higher energy prices.

Profit on ordinary activities before tax for the six months fell to £77.1 million (2007: £88.0 million). Interest charges have increased by £8.3 million of which £1.1 million relates to cash interest costs. The non-cash elements of the increase reflect inflation on the index linked bonds (£3.0 million), a reduction in the expected return on pension assets (£2.2 million) and an increase in the interest cost of pension plan obligations (£1.7 million).

The current tax charge of £18.1 million (2007: £16.6 million) has risen, despite a reduction in profitability, mainly due to the timing of relief for prepaid pension contributions, offset by a 2% reduction in the corporation tax rate.

The deferred tax charge of £123.5 million (2007: credit, £26.8 million) includes a one-off charge of £117.2 million reflecting the Group's current estimate of the impact of the withdrawal of industrial buildings allowances by the Finance Act 2008, as reported in the annual report and financial statements for March 2008. NWL will factor the impact of reduced allowances into the Final Business Plan for the period 2010-15 which will be submitted to Ofwat in April 2009. The deferred tax credit in 2007 arose mainly as a consequence of the change in the tax rate from 30% to 28%. Deferred tax was, accordingly, restated and gave rise to a one-off credit of £35.4 million.

Excluding the one-off charge of £117.2 million due to the change introduced in the Finance Act, the effective tax rate for the period was 32% (2007: 29% excluding the one-off credit of £35.4 million).

Capital structure

On 19 September 2008, the latest EIB facility of £120 million was drawn by NWL. The loan was advanced on a fixed rate basis with a 17 year maturity and an amortising principal repayment profile.

On 29 September 2008, a £50 million lease facility was fully drawn by way of a further tranche of £20.8 million. The lease was for renewed infrastructure assets and is at a variable rate linked to RPI with a final maturity in March 2043.

The Group's capital structure and gearing ratios remain largely unchanged from those reported in our preliminary results on 4 June 2008. Based on an estimated mid-year

Regulated Capital Value (RCV) of £3,015 million (March 2008: £2,976 million), gearing for the Group remained stable at 72% of RCV at 30 September 2008. Gearing at NWL (including the Kielder securitisation) and for the regulated business also remained stable at 64% and 58%, respectively.

Net debt in NWL's regulated business increased over the period by £24.4 million to £1,734.5 million, resulting in an increase in the Group's overall net debt of £23.6 million since March 2008 to £2,174.0 million.

The Group's and NWL's regulated business debt structure also remain largely unchanged with 64% (NWL: 62%) fixed at an average rate of 6.11% (NWL: 6.08%), 18% (NWL: 22%) index linked at an average real rate of 1.85% (all NWL) and 18% (NWL: 16%) on a variable rate basis.

Current funding is sufficient to meet all of the Group's requirements through to 2011.

Cash interest cover for the Group improved significantly from 3.1x at March 2008 to 4.2x. However, this reflects the timing of specific interest payments and receipts and is expected to reduce by 31 March 2009.

Definitions of gearing, net debt and cash interest cover are disclosed in the March 2008 annual report and financial statements, a copy of which is available on the Company's website at www.nwg.co.uk.

Northumbrian Water Limited
Revenue was £326.1 million for the six months to 30 September 2008 (2007: £313.5 million). The 4.0% increase is mainly due to an inflationary increase in water and sewerage charges, partially offset by small reductions in demand for both water and sewerage services and other services related to the housing market.

Operating costs increased from £174.8 million to £190.1 million, principally reflecting the impact of inflation and increases in energy costs, bad debt charges and depreciation from further capital investment. These have been partially offset by efficiencies including lower manpower costs following the changes made to our defined benefit pension scheme.

Energy costs for 2008/09 are over 50% higher than both last year and the level assumed by the regulator at the last price review. Although energy prices have softened recently, we expect them to remain highly volatile for the foreseeable future. NWL has already procured the electricity it needs for 2008/09 together with over 63% of its requirements for 2009/10 and 27% for the following year. This has been acquired in small tranches, in accordance with its risk management policy, to mitigate against energy price movements.

Profit on ordinary activities before interest for the period was £136.0 million (2007: £138.7 million).

Capital investment for the regulated business for the period was £109.3 million (2007: £116.3 million). Capex outperformance on the quality programme is more than offset by increased investment on non-infrastructure for waste water, including the advanced anaerobic digestion plant at Bran Sands on Teesside. The capital programme has also been extended in response to extensive sewer flooding in recent years.

NWL customers continue to give the company high rankings for customer service in independent market research. Our latest independent research shows a 90.4% customer satisfaction rating and, in addition, 85.0% of NWL's customers consider the company provides value for money. These results are in line with those from CCWater's Annual Tracking Survey for 2007/08 which gave NWL the highest ranking in England and Wales. By 2009/10, we expect bills in the south to continue to be relatively low while in our northern operating area we believe they will be among the lowest in the country.

A new code of practice 'Our promise to customers – right first time, every time' was launched in August. This is designed to further enhance service standards to customers and maintain our leading position in the sector.

The quality of drinking water continues to be excellent and again we achieved 99.9 per cent compliance with the Drinking Water Inspectorate's (DWI) targets in both our northern and southern operating areas.

We submitted our Water Safety Plan to the DWI in October. This is a comprehensive risk assessment of water quality from its source through to the customer's tap. It also describes the work we are doing to support our customers to care for water in the home to ensure they have a safe, secure supply of high quality drinking water.

We continue to meet the leakage targets agreed with Ofwat. As a result of our long-standing and continued efforts, the leakage levels in Essex and Suffolk remain among the lowest in the country. NWL remains at the forefront of continuing work with the Environment Agency (EA) and Ofwat on leakage management.

The southern operating areas are in the driest part of the country and, in addition to reducing leakage, NWL is working with customers to manage demand for water. Customers have responded positively to our water efficiency promotions over the last 11 years and, with this support, we have avoided hosepipe bans and restrictions on the use of water.

We have prepared draft Water Resources Management Plans for both the northern and southern operating areas, each building on previous plans. The southern plan addresses the existing deficit of supply compared to demand and also the forecast increase in demand. The project to increase the capacity of Abberton Reservoir by around 60 per cent is central to the plan for our southern operating area. We had already received planning permission from three out of four local authorities and, on 11 November, the application to raise the reservoir was unanimously recommended for approval by Colchester Borough Council. Subject to finalising the necessary legal agreement, planning permission should be formally granted in due course.

The investment to improve our water treatment works, and the mains cleaning and rehabilitation of the network, continues to make good progress and is in line with our plans and regulatory obligations. During the last six months, we began construction work to make major process improvements at Walpole Water Treatment Works in Suffolk and we have made a good start with the major project to clean the trunk mains supplying South Northumberland and Newcastle.

All 34 bathing waters in the north east passed the required mandatory standard this year. However, adverse weather during the summer contributed to twelve failing the higher Guideline standard. Our waste water operational performance is in line with regulatory targets, except for sewer flooding which has continued at high levels as a consequence of prolonged and intense rainfall this summer. We have increased investment to reduce the risk of sewer flooding and this will also improve local water courses, enhance their visual appearance and reduce pollution incidents.

We have co-funded, with The Meteorological Office and the EA, the construction of a £1 million weather radar station at High Moorsley near Sunderland. When fully commissioned in early 2009, the station will provide much needed detailed information and improve the response to severe storms and inform the design of new flood relief schemes.

The advanced anaerobic sludge digestion facility at Bran Sands is due to be commissioned in the spring. The £33 million plant will treat the sludge arising from effluent treatment and the methane gas produced will generate around five mega-watts of electricity for the site, enough renewable energy to power over half the treatment works on the 52 acre site. This will significantly reduce operating costs and put us well on the way to achieve our target of having 20% of our energy produced from self-generated renewable resources by 2015, well ahead of the Government 2020 target.

Our northern contact centre won the 'North East Call Centre of the Year' award in November against competition from a wide variety of sectors. The judges were especially impressed with the people they spoke to in the contact centre and with their passion for customer service. Our philosophy of 'right first time, every time' struck a chord with them as did our high standards of service. This is a significant achievement and builds on our success last year when our complaints team won the 'Dream Team' award.

Water and waste water contracts

Revenue for the Group's water and waste water contracts was £19.1 million for the six months to 30 September 2008 (2007: £16.9 million) and profit on ordinary activities before interest was £3.9 million (2007: £3.4 million). The increase is principally due to a credit in respect of gas indexation (£1.2 million) on tariffs at Caledonian Environmental Services offset slightly by increased power and sludge disposal costs.

In Gibraltar, two new reverse osmosis plants for producing potable water from seawater have been installed at a cost of £3.4 million.

All contracts are performing well, in line with expectations.

Financial Calendar

2008

17 December	Ex-dividend date
19 December	Record date

2009

30 January	Interim dividend payment
9 February (provisional)	Interim Management Statement
3 June	Preliminary results announcement
30 July	Interim Management Statement
30 July	AGM
12 August	Ex-dividend date
14 August	Record date
11 September	Final dividend payment

Principal risks and uncertainties
Our treasury policies limit the amount of cash we deposit with particular banks and financial institutions. The minimum investment criteria cover credit rating and asset size, including sovereign and political risk. Current market conditions have resulted in closer monitoring of counterparties and the suspension and cancellation of credit lines.

There are further risks and uncertainties which may affect the Group from time to time and these were disclosed in the March 2008 annual report and financial statements. However, their impact is not considered to be material to the business over the next six months.

Pensions
The Group operates both a defined benefit pension scheme, which closed to new entrants on 31 December 2007, and an occupational defined contribution arrangement which began on 1 January 2008.

The surplus (under IAS19) of the defined benefit scheme has decreased from £90.5 million, at 31 March 2008, to a deficit of £5.0 million at 30 September 2008. This is mainly due to material falls in the market value of the scheme's assets since March 2008 and a reduction in the discount rate assumption to 6.5% (March 2008: 6.8%) to match the average duration of the schemes liabilities.

The triennial actuarial valuation of the final salary scheme as at 31 December 2007 is complete and the formal report and certificates signed in November 2008. The valuation resulted in a surplus of £42 million (6%) on an 'ongoing' basis, which takes into account the prepaid contributions (in 2006 and 2007) for the period up to 31 December 2010. While the actuarial valuation incorporates longer term forecasts and assumptions, the prevailing market conditions are difficult and we will continue to monitor carefully.

Dividend
The Board has declared an interim dividend for the period of 4.29 pence per share (2007: 4.00 pence). This dividend will be paid on 30 January 2009 to shareholders on the register at the close of business on 19 December 2008. The Group's dividend cover for the period, excluding deferred tax and the amortisation of debt fair value, was 2.5x. The interim dividend includes average inflation of 3.6% based on the six months actual Retail Price Index to September and the forecast movement to March 2009.

The dividend is consistent with the policy announced by the Board in June 2005 to maintain a progressive dividend policy with real increases of around 3% p.a. during the current regulatory period.

Outlook
The Group has a continued emphasis on high operational and service standards. It is well placed to withstand the impact of the economic downturn in the short term and our strategies to respond to its long term effects will be set out in NWL's Final Business Plan which it will submit to Ofwat in April 2009. We will also continue to contribute to the current debate on extending competition in the sector where decisions should be based on protecting the interests of customers and improving outcomes on their behalf.

John Cuthbert
Managing Director
26 November 2008

Interim consolidated income statement
Six months ended 30 September 2008

	Notes	**Six months to 30.9.2008 £m**	Six months to 30.9.2007 (restated) £m	Year to 31.3.2008 £m
Continuing operations				
Revenue	2	**347.7**	333.8	670.4
Operating costs		**(209.1)**	(192.6)	(392.6)
Profit on ordinary activities before interest	2	**138.6**	141.2	277.8
Finance costs payable	3	**(91.8)**	(86.5)	(173.5)
Finance income receivable	3	**30.1**	33.1	65.5
Share of profit after tax of associates and jointly controlled entities		**0.2**	0.2	0.5
Profit on ordinary activities before taxation	2	**77.1**	88.0	170.3
- current taxation	4	**(18.1)**	(16.6)	(25.4)
- deferred taxation	4	**(123.5)**	26.8	13.6
- overseas taxation	4	**-**	-	(0.2)
(Loss)/profit for the period		**(64.5)**	98.2	158.3
Attributable to:				
Equity shareholders of the parent Company		**(64.5)**	98.1	158.1
Minority interests		**-**	0.1	0.2
		(64.5)	98.2	158.3
Basic earnings per share for (loss)/profit attributable to ordinary equity holders of the parent Company	5	**(12.45p)**	18.94p	30.52p
Diluted earnings per share for (loss)/profit attributable to ordinary equity holders of the parent Company	5	**(12.44p)**	18.92p	30.48p
Adjusted earnings per share for profit attributable to ordinary equity holders of the parent Company (excluding deferred tax and amortisation of debt fair value)	5	**10.84p**	13.19p	26.72p
Ordinary dividend proposed per share	6	**4.29p**	4.00p	8.07p
Dividend paid per share	6	**8.07p**	7.52p	11.52p

Consolidated statement of recognised income and expense
Six months ended 30 September 2008

	Six months to 30.9.2008 £m	Six months to 30.9.2007 (restated) £m	Year to 31.3.2008 £m
Actuarial (losses)/gains	**(94.5)**	9.2	27.3
Tax on items charged or credited to equity	**26.6**	(2.6)	(7.8)
Translation differences	**-**	-	0.3
Total income and expense recognised in equity	**(67.9)**	6.6	19.8
Transferred to the income statement on cash flow hedges	**(0.1)**	-	-
(Loss)/profit for the period	**(64.5)**	98.2	158.3
Total recognised income and expense	**(132.5)**	104.8	178.1
Attributable to:			
Equity shareholders of the parent Company	**(132.5)**	104.7	177.9
Minority interests	**-**	0.1	0.2
	(132.5)	104.8	178.1

Interim consolidated balance sheet
As at 30 September 2008

	Note	30.9.2008 £m	30.9.2007 £m	31.3.2008 £m
Non-current assets				
Goodwill		**3.6**	3.6	3.6
Other intangible assets		**64.2**	64.2	64.2
Property, plant and equipment		**3,318.0**	3,189.4	3,256.3
Investments in jointly controlled entities		**3.4**	3.4	3.8
Financial assets		**14.7**	17.2	16.4
Pension asset		**-**	74.0	90.5
Other receivables		**1.7**	1.7	-
Other investments		**-**	0.2	-
		3,405.6	3,353.7	3,434.8
Current assets				
Inventories		**3.5**	3.4	3.4
Trade and other receivables		**121.1**	125.6	125.1
Cash and cash equivalents	7	**396.0**	265.8	294.2
		520.6	394.8	422.7
Total assets		**3,926.2**	3,748.5	3,857.5
Non-current liabilities				
Interest bearing loans and borrowings		**2,473.7**	2,376.9	2,326.4
Provisions		**2.6**	2.8	2.8
Deferred income tax liabilities		**622.4**	507.0	525.4
Other payables		**8.7**	9.5	9.0
Pension liability		**5.0**	-	-
Grants		**212.8**	203.1	209.0
		3,325.2	3,099.3	3,072.6
Current liabilities				
Interest bearing loans and borrowings		**112.5**	36.0	136.3
Provisions		**0.2**	0.2	0.2
Trade and other payables		**161.6**	163.6	152.9
Income tax payable		**9.0**	10.2	3.7
		283.3	210.0	293.1
Total liabilities		**3,608.5**	3,309.3	3,365.7
Net assets		**317.7**	439.2	491.8
Capital and reserves				
Issued capital		**51.9**	51.9	51.9
Share premium reserve		**446.5**	446.5	446.5
Cash flow hedge reserve		**0.9**	1.0	1.0
Treasury shares		**(0.8)**	(1.3)	(0.8)
Currency translation		**0.1**	(0.2)	0.1
Retained earnings		**(182.6)**	(60.5)	(8.6)
Equity shareholders' funds		**316.0**	437.4	490.1
Minority interests		**1.7**	1.8	1.7
Total capital and reserves	8	**317.7**	439.2	491.8

Interim consolidated cash flow statement
Six months ended 30 September 2008

	Note	**Six months to 30.9.2008**	Six months to 30.9.2007 (restated)	Year to 31.3.2008
		£m	£m	£m
Operating activities				
Reconciliation of profit before interest to net cash flows from operating activities				
Profit on ordinary activities before interest		**138.6**	141.2	277.8
Depreciation and other similar non-cash charges		**50.4**	44.8	98.3
Other non-cash (credits)/charges		**(3.5)**	0.2	(5.0)
Net charge for provisions, less payments		**(0.2)**	(0.1)	(0.1)
Difference between pension contributions paid and amounts recognised in the income statement		**4.0**	7.4	15.3
(Increase)/decrease in inventories		**(0.1)**	0.3	0.3
Decrease/(increase) in trade and other receivables		**2.1**	(3.1)	(1.0)
Increase/(decrease) in trade and other payables		**0.2**	(0.9)	(3.8)
Cash generated from operations		**191.5**	189.8	381.8
Advanced contributions in respect of retirement benefits		**-**	(22.6)	(22.6)
Interest paid		**(51.1)**	(57.1)	(131.3)
Income taxes paid		**(12.7)**	(10.8)	(26.3)
Net cash flows from operating activities		**127.7**	99.3	201.6
Investing activities				
Interest received		**8.2**	6.4	18.2
Capital grants received		**6.4**	12.1	20.5
Proceeds on disposal of property, plant and equipment		**1.0**	1.3	1.8
Dividends received from jointly controlled entities		**0.6**	0.4	0.5
Purchase of property, plant and equipment		**(112.9)**	(120.3)	(236.8)
Net cash flows from investing activities		**(96.7)**	(100.1)	(195.8)
Financing activities				
New borrowings		**141.1**	3.5	31.4
Maturity of investments		**0.9**	0.9	1.8
Dividends paid to minority interests		**-**	-	(0.2)
Dividends paid to equity shareholders		**(41.8)**	(38.7)	(59.7)
Repayment of borrowings		**(11.0)**	(12.0)	(22.1)
Payment of principal under hire purchase contracts and finance leases		**(4.6)**	(3.9)	(6.4)
Net cash flows from financing activities		**84.6**	(50.2)	(55.2)
Increase/(decrease) in cash and cash equivalents		**115.6**	(51.0)	(49.4)
Cash and cash equivalents at start of period		**266.4**	315.8	315.8
Cash and cash equivalents at end of period	7	**382.0**	264.8	266.4

Notes to the interim financial statements

1. Basis of preparation

The interim financial statements for the six months to 30 September 2008 have been prepared in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting'. The interim financial statements do not include all the information and disclosures required in the annual report and financial statements and should be read in conjunction with the Group's annual report and financial statements as at 31 March 2008. The annual report and financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The accounting policies and methods of computation adopted are the same as those applied in the annual report and financial statements for the year ended 31 March 2008, except for the adoption of those standards and interpretations listed below which are required to be followed in the Group's annual report and financial statements for the year ending 31 March 2009:

- *IFRIC 12 Service Concession Arrangements (not endorsed by EU)*
- *IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The adoption of these Standards and Interpretations do not have any effect on the financial position or performance of the Group.

The results for the year ended 31 March 2008 have been extracted from the annual report and financial statements which have been delivered to the Registrar of Companies. The independent auditors' report on those financial statements was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985. The financial information contained in the interim financial statements does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985.

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 2008 and their report is set out in the independent review report.

The operations of the Group are not subject to material seasonality or cyclicality. There have been no changes in related party transactions since the last annual report and financial statements for the year ended 31 March 2008 that have a material effect on the Group's financial position or performance for the period.

This report was approved by the Board of Directors on 26 November 2008.

2. Segmental analysis of revenue and profit on ordinary activities before interest

At 31 March 2008, the Group changed its presentation in respect of its defined benefit pension cost. The service cost is disclosed in employment costs and the interest cost on obligations and the expected interest income have been disclosed within finance costs payable/(income receivable) as the directors believe this is more comparable to other companies in the industry. Operating costs, finance costs payable and finance income receivable have been restated for the six months ended 30 September 2007 by £6.9 million, £17.7 million and £24.6 million, respectively. There is no effect on profit on ordinary activities before tax or profit for the year. The impact at the NWL and Other segments is a reduction on profit on ordinary activities before interest for the year ended 30 September 2007 of £1.7 million and £5.2 million, respectively.

Revenue

	Northumbrian Water Limited £m	Water and waste water contracts £m	Other £m	Total £m
Six months ended 30 September 2008				
Segment revenue	**326.1**	**19.1**	**5.5**	**350.7**
Inter-segment revenue	**-**	**-**	**(3.0)**	**(3.0)**
Revenue to external customers	**326.1**	**19.1**	**2.5**	**347.7**
Six months ended 30 September 2007				
Segment revenue	313.5	16.9	6.2	336.6
Inter-segment revenue	-	-	(2.8)	(2.8)
Revenue to external customers	313.5	16.9	3.4	333.8
Year ended 31 March 2008				
Segment revenue	628.0	35.5	12.6	676.1
Inter-segment revenue	-	-	(5.7)	(5.7)
Revenue to external customers	628.0	35.5	6.9	670.4

All revenue represents services provided.

2. Segmental analysis of revenue and profit on ordinary activities before interest (continued)

Profit on ordinary activities before interest

	Northumbrian Water Limited £m	Water and waste water contracts £m	Other £m	Total £m
Six months ended 30 September 2008				
Segment profit on ordinary activities before interest	**136.0**	**3.9**	**(1.3)**	**138.6**
Net finance costs				**(61.7)**
Share of profit from associates and jointly controlled entities				**0.2**
Profit on ordinary activities before taxation				**77.1**
Taxation				**(141.6)**
Loss for the period from continuing operations				**(64.5)**
Six months ended 30 September 2007 (restated)				
Segment profit on ordinary activities before interest	138.7	3.4	(0.9)	141.2
Net finance costs				(53.4)
Share of profit from associates and jointly controlled entities				0.2
Profit on ordinary activities before taxation				88.0
Taxation				10.2
Profit for the period from continuing operations				98.2
Year ended 31 March 2008				
Segment profit on ordinary activities before interest	272.0	8.4	(2.6)	277.8
Net finance costs				(108.0)
Share of profit from associates and jointly controlled entities				0.5
Profit on ordinary activities before taxation				170.3
Taxation				(12.0)
Profit for the year from continuing operations				158.3

3. Finance costs payable/(income receivable)

	Six months to 30.9.2008 £m	Six months to 30.9.2007 £m	Year to 31.3.2008 £m
Finance costs payable on debentures, bank and other loans and overdrafts	**72.7**	70.1	141.5
Amortisation of discount, fees, loan issue costs and other financing items	**(2.4)**	(2.7)	(5.6)
Interest cost on pension plan obligations	**19.4**	17.7	35.2
Finance costs payable on hire purchase contracts and finance leases	**2.1**	1.4	2.4
Total finance costs payable	**91.8**	86.5	173.5
Expected return on pension plan assets	**(22.4)**	(24.6)	(48.4)
Finance income receivable	**(7.7)**	(8.5)	(17.1)
Net finance costs payable	**61.7**	53.4	108.0

4. Taxation

	Six months to 30.9.2008 £m	Six months to 30.9.2007 £m	Year to 31.3.2008 £m
Current tax:			
Current tax charge at 28% (2007, 2008: 30%)	**18.0**	16.6	28.1
Income tax reported in equity on cash flow hedges	**0.1**	-	-
Adjustment in respect of prior periods	**-**	-	(2.7)
UK corporation tax	**18.1**	16.6	25.4
Overseas tax	**-**	-	0.2
Total current tax	**18.1**	16.6	25.6
Deferred tax:			
Impact of opening rate reduction	**-**	(35.4)	(35.4)
Impact of Industrial Buildings Allowance abolition	**117.2**	-	-
Origination and reversal of temporary differences in the year at 28%	**5.7**	8.5	15.1
Adjustment in respect of prior periods	**0.6**	0.1	6.7
Total deferred tax	**123.5**	(26.8)	(13.6)
Tax charge/(credit) in the income statement	**141.6**	(10.2)	12.0

5. Earnings per share

Basic earnings per share (EPS) is calculated by dividing the (loss)/profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the period. Treasury shares held are excluded from the weighted average number of shares for basic EPS.

Six months to:	**Earnings 30.9.2008 £m**	**Weighted average number of shares 30.9.2008 million**	**Earnings per share 30.9.2008 pence**	Earnings 30.9.2007 £m	Weighted average number of shares 30.9.2007 million	Earnings per share 30.9.2007 pence
Basic (loss)/earnings per share	**(64.5)**	**518.2**	**(12.45)**	98.1	517.9	18.94
Diluted (loss)/earnings per share	**(64.5)**	**518.6**	**(12.44)**	98.1	518.6	18.92

The weighted average number of shares for diluted EPS is calculated by including the treasury shares held.

5. Earnings per share (continued)

Adjusted EPS is considered by the directors to give a better indication of the Group's underlying performance and is calculated as follows:

Six months to:	**Earnings 30.9.2008 £m**	**Weighted average number of shares 30.9.2008 million**	**Earnings per share 30.9.2008 pence**	Earnings 30.9.2007 £m	Weighted average number of shares 30.9.2007 million	Earnings per share 30.9.2007 pence
Basic (loss)/earnings per share	**(64.5)**	**518.2**	**(12.45)**	98.1	517.9	18.94
Deferred tax	**123.5**		**23.83**	(26.8)		(5.17)
Amortisation of debt fair value	**(2.8)**		**(0.54)**	(3.0)		(0.58)
Adjusted EPS	**56.2**	**518.2**	**10.84**	68.3	517.9	13.19

Year to:	Earnings 31.3.2008 £m	Weighted average number of shares 31.3.2008 million	Earnings per share 31.3.2008 pence
Basic EPS	158.1	518.0	30.52
Diluted EPS	158.1	518.6	30.48
Basic EPS	158.1	518.0	30.52
Deferred tax	(13.6)		(2.62)
Amortisation of debt fair value	(6.1)		(1.18)
Adjusted EPS	138.4	518.0	26.72

6. Dividends paid and proposed

The Board has declared an ordinary interim dividend for the period of 4.29 pence per share (2007/08: 4.00 pence). The dividend will be paid on 30 January 2009 to shareholders on the register at the close of business on 19 December 2008.

	Six months to 30.9.2008 £m	Six months to 30.9.2007 £m	Year to 31.3.2008 £m
Declared and paid during the period:			
Equity dividends on ordinary shares:			
Interim dividend for 2007/08: 4.00p	**-**	-	20.7
Final dividend for 2007/08: 8.07p (2006/07: 7.52p)	**41.8**	38.9	39.0
Dividends paid	**41.8**	38.9	59.7
Proposed dividend for the period:			
Interim dividend for 2008/09: 4.29p (2007/08: 4.00p)	**22.2**	20.7	-
Final dividend for 2007/08: 8.07p	**-**	-	41.8

7. Cash and cash equivalents

	Six months to 30.9.2008 £m	Six months to 30.9.2007 £m	Year to 31.3.2008 £m
Cash at bank and in hand	**41.4**	23.7	92.3
Short term deposits	**354.6**	242.1	201.9
	396.0	265.8	294.2

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the following:

Cash at bank and in hand	**41.4**	23.7	92.3
Short term deposits	**354.6**	242.1	201.9
Bank overdrafts	**(14.0)**	(1.0)	(27.8)
	382.0	264.8	266.4

8. Reconciliation of movements in equity

	Equity share capital £m	Share premium reserve £m	Cash flow hedge reserve £m	Treasury shares £m	Currency translation £m	Retained earnings £m	Total equity £m	Minority interests £m	Total £m
At 1 April 2007	51.9	446.5	1.0	(1.3)	(0.2)	(126.5)	371.4	1.7	373.1
Total recognised income and expense for the year	-	-	-	-	0.3	177.6	177.9	0.2	178.1
Share-based payment	-	-	-	-	-	0.5	0.5	-	0.5
Exercise of LTIP awards	-	-	-	0.5	-	(0.5)	-	-	-
Equity dividends paid	-	-	-	-	-	(59.7)	(59.7)	(0.2)	(59.9)
At 31 March 2008	51.9	446.5	1.0	(0.8)	0.1	(8.6)	490.1	1.7	491.8
Total recognised income and expense for the period	-	-	(0.1)	-	-	(132.4)	(132.5)	-	(132.5)
Share-based payment	-	-	-	-	-	0.2	0.2	-	0.2
Equity dividends paid	-	-	-	-	-	(41.8)	(41.8)	-	(41.8)
At 30 September 2008	**51.9**	**446.5**	**0.9**	**(0.8)**	**0.1**	**(182.6)**	**316.0**	**1.7**	**317.7**
At 31 March 2007	51.9	446.5	1.0	(1.3)	(0.2)	(126.5)	371.4	1.7	373.1
Total recognised income and expense for the period	-	-	-	-	-	104.7	104.7	0.1	104.8
Share-based payment	-	-	-	-	-	0.2	0.2	-	0.2
Equity dividends paid	-	-	-	-	-	(38.9)	(38.9)	-	(38.9)
At 30 September 2007	51.9	446.5	1.0	(1.3)	(0.2)	(60.5)	437.4	1.8	439.2

Responsibility Statements

We confirm that to the best of our knowledge:

a) the interim financial statements have been prepared in accordance with IAS 34;

b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

John Cuthbert	Chris Green
Managing Director	Finance Director

26 November 2008

INDEPENDENT REVIEW REPORT TO NORTHUMBRIAN WATER GROUP PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2008 which comprises Consolidated Income Statement, Consolidated Statement of Recognised Income and Expense, Consolidated Balance Sheet, Consolidated Cash Flow Statement and the related notes 1 to 8. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements (ISRE) 2410 (UK and Ireland) 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' 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 half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRS as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with ISRE 2410 (UK and Ireland), 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Ernst & Young LLP
Registered Auditor
Newcastle upon Tyne
26 November 2008