NORTHUMBRIAN WATER GROUP

Preliminary results for the year ended 31 March 2010

2 June 2010

NORTHUMBRIAN WATER GROUP PLC

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2010

Northumbrian Water Group plc (NWG or the Group) presents its preliminary results for the year ended 31 March 2010.

HIGHLIGHTS 2010

Financial highlights

	Year to 31.3.2010 £m	Year to 31.3.2009 £m	Change £m	Change %
Continuing operations				
Revenue	**704.7**	694.1	10.6	1.5%
Profit on ordinary activities before interest (excluding restructuring costs)	**281.5**	273.6	7.9	2.9%
Profit on ordinary activities before interest	**275.8**	273.6	2.2	0.8%
Profit before tax	**170.2**	152.7	17.5	11.5%
Profit/(loss) for the period [1]	**122.9**	(11.9)	134.8	n/a
Net debt	**2,262.4**	2,229.7	32.7	1.5%
Pro forma RCV [2]	**3,420.5**	3,324.4	96.1	2.9%
Continuing operations				
Basic earnings/(loss) per ordinary share [1]	**23.67p**	(2.45p)	26.12p	n/a
Adjusted EPS [3]	**25.51p**	22.05p	3.46p	15.7%
Ordinary dividends [4]	**13.24p**	12.79p	0.45p	3.5%

Notes:
1 Includes deferred tax charge £9.5 million (2009: £132.5 million largely reflecting the abolition of Industrial Buildings Allowances)
2 Pro forma RCV comprises Northumbrian Water Limited's (NWL) Regulatory Capital Value (RCV) plus the net debt in respect of the PFI contracts and the Kielder securitisation
3 Excludes deferred tax charge £9.5 million (2009: £132.5 million)
4 Ordinary dividends: interim paid 4.39p (2009: 4.29p); final proposed 8.85p (2009: 8.50p)

- Revenue increase mainly reflects the uplift in tariffs to support ongoing high capital investment
- Continued high levels of customer satisfaction
- Decreased interest charges reflecting lower RPI on index linked bonds (£29.0 million), offset by increased pension financing costs (£10.3 million) and higher net interest payable (£3.1 million)
- Entire electricity requirement procured through to March 2015
- Funds in place to meet all the requirements of the business to the end of 2011 (Cash and short term deposits at 31 March 2010 £189.1 million)
- Capital investment in the period of £207.6 million (2009: £228.9 million) on regulatory outputs, including an extended sewer flooding programme
- Started work to increase capacity at Abberton reservoir in Essex

- Proposed final dividend of 8.85 pence (2009: 8.50 pence) per share to be paid on 10 September 2010, giving a full year ordinary dividend of 13.24 pence (2009: 12.79 pence) per share, an increase of 3.5%

- The conclusion and acceptance of the price review to March 2015; current progressive dividend policy with annual real growth of 3% continues over next regulatory period

Chief Executive Officer Heidi Mottram said “The Group continues to produce good financial and operational results. Income increased slightly despite the impact of the economic downturn; business closures amongst our customers appear to have stabilised.

The Group has financing in place to cover all its requirements through to the end of 2011. We have accepted the outcome of the price review for the period to March 2015 and have begun the programme of delivering the agreed outputs and increasing our already high standards of customer service. There is a sound base from which to create more efficient operations.”

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BUSINESS REVIEW

NWG's financial performance

Revenue for the year to 31 March 2010 was £704.7 million (2009: £694.1 million). Water and sewerage charges at the Group's principal subsidiary, Northumbrian Water Limited (NWL), were increased by 3% (in line with the November 2008 Retail Price Index) but that increase was partially offset by reductions in non-household revenue as a consequence of the current economic downturn.

Profit on ordinary activities before interest for the year was £275.8 million (2009: £273.6 million). Operating costs increased by £8.4 million (2%) to £428.9 million, principally reflecting the impact of increases in salaries, abstraction and rates plus one-off charges for bad debt relating to the closure of a major customer (£1.7 million) and a provision for early retirement and severance costs (£5.7 million). These increases have been partially offset by efficiencies, including the benefit of reduced power prices and the commissioning of the advanced anaerobic digestion plant at Bran Sands on Teesside during the year.

Interest charges decreased by £15.2 million within which net cash interest charges increased by £3.1 million. The non-cash elements of the decrease reflect deflation of the principal on the index linked bonds (£29.0 million), a reduction in the expected return on pension assets (£12.7 million), a decrease in the interest cost of pension plan obligations (£2.4 million) and an increase in other non-cash movements of £0.4 million.

Profit on ordinary activities before tax for the year was £170.2 million, 11% higher than the previous year (2009: £152.7 million). The current tax charge of £37.8 million (2009: £32.1 million) reflects increased profitability and the timing of relief for prepaid pension contributions.

The deferred tax charge of £9.5 million (2009: £132.5 million) is significantly lower due to the one-off charge of £117.2m in 2009, following the withdrawal of industrial buildings allowances in the Finance Act 2008.

The effective tax rate for the period was 28% (2009: 31% – excluding the one-off deferred tax charge of £117.2 million).

Capital structure and liquidity

The current pressures within financial markets have been well documented and the credit crunch has resulted in reduced availability of certain types of finance. It is highly unlikely there will be a return to the exceptionally low cost of debt experienced from late 2005 to early 2007. Although market conditions have improved in recent months, some uncertainty remains. With the financing we have already put in place, we are sheltered from this uncertainty in the short term as we will not need to raise any new debt before the end of 2011.

The Group has not entered into any new debt facilities during the period and its capital structure and gearing ratios remain largely unchanged.

The pro forma Group RCV includes £218.8 million (2009: £215.6 million) and £106.7 million (2009: £110.8 million) for the Kielder securitisation and PFI contracts, respectively. Adding these to NWL's RCV of £3,095.0 million (2009: £2,998.0 million), results in a pro forma Group RCV of £3,420.5 million (2009: £3,324.4 million).

The Group's gearing on this pro forma basis has decreased from 67% to 66%, with net debt increasing by £32.7 million to £2,262.4 million over the year.

Gearing at NWL, and for the regulated business, is also stable at 61% and 60%, respectively. NWL net debt increased over the period by £52.5 million to £1,896.8 million.

The Group and NWL's regulated business debt structure also remain largely unchanged with 75% (NWL: 71%) fixed at an average rate of 5.80% (NWL: 5.96%), 19% (NWL: 22%) index linked at an average real rate of 1.85% (all NWL) and 6% (NWL: 7%) on a variable rate basis. The blended average rate for the Group and NWL's regulated business for the year ended 31 March 2010 was 4.62% and 4.45% (2009: 5.91%, 6.05%), respectively.

Cash interest cover has remained stable for the year as have the credit ratings for NWL at BBB+ stable (Fitch and S&P) and Baa1 stable (Moody's).

Total cash and short term cash deposits available to meet the requirements of the business through to the end of 2011 amounted to £189.1 million at 31 March 2010.

Northumbrian Water Limited

Revenue was £657.8 million for the year to 31 March 2010 (2009: £647.0 million). The 1.6% increase is mainly due to a 3.0% inflationary increase in water and sewerage charges partially offset by reductions in demand for both services. In particular, non-household revenue has been affected by the economic downturn including closures by a number of major customers on Teesside.

Operating costs increased by £8.8 million (2.3%) to £388.9 million. This increase principally reflects the impact of increases in salaries, abstraction and rates plus one-off charges for bad debt relating to the closure of a major customer (£1.7 million) and a provision for early retirement and severance costs (£5.4 million). These increases have been partially offset by efficiencies, including the benefit of reduced power prices and the commissioning of the advanced anaerobic digestion plant at Bran Sands on Teesside during the year.

Energy costs at NWL for the year to 31 March 2010 were £36.4 million (2009: £38.8 million) and are expected to reduce by around £4 million for the following year. This reflects the full year impact of the Bran Sands advanced digestion plant and lower commodity prices. These savings will be sustained as NWL has now procured its entire electricity requirement through to March 2015 at prices below the level funded in the final determination.

Profit on ordinary activities before interest for the year was £268.9 million (2009: £266.9 million).

Capital investment in the regulated business for the period was £207.6 million (2009: £228.9 million). Investment for the five year AMP4 period has exceeded the funding allowed in the 2004 final determination by £92 million, as outperformance on the quality programme has been more than offset by increased investment on capital maintenance. This includes £64 million investment in our new sludge strategy, including the Bran Sands advanced digestion plant, and additional investment in response to extensive sewer flooding in recent years.

Regulatory update

Ofwat published a final determination of price limits for the period 2010-15 on 26 November 2009. The NWL board confirmed, on 15 December 2009, that it would not ask Ofwat to refer its decision to the Competition Commission.

The final determination established a tough settlement for the period 2010-15. However, we are well placed to deliver the required objectives and to meet our commitments to providing safe and secure water supplies and protecting the environment. There is a change in emphasis in the quinquennial £1.2 billion investment programme, from achieving new quality standards to maintaining the high standards already achieved. We will also be working to tackle the challenges posed by climate change, reducing our operational carbon emissions and improving the resilience of our assets.

We welcome the passing of the Flood and Water Management Act 2010 which clarifies responsibilities in relation to flooding and sustainable drainage as well as tidying up and updating other water related legislation. The introduction of a duty on landlords to provide water companies with relevant details so that accurate bills can be issued to tenants is particularly welcome and should assist in collecting income from the private rented sector where bad debts have been relatively high.

The full implementation of Operator Self Monitoring was completed in January 2010. This involves NWL taking on responsibility for sampling and analysing the final effluent at sewage treatment works for compliance purposes. This task was previously undertaken by the Environment Agency (EA) and the transfer is consistent with the Better Regulation principles.

We are pleased that the final ‘River Basin Management Plans’ published by the EA for the rivers in our regions proposed an appropriate balance between challenging environmental targets and a clear evidence base for action. We support the emphasis on tackling diffuse pollution at source rather than end of pipe solutions.

NWL intends to increase the emphasis given to catchment management across its operating areas and will increase the number of staff dedicated to promoting catchment management solutions. This work is progressing well and will help tackle emerging challenges from water soluble pesticides and also bring a range of other benefits in terms of habitat protection, biodiversity and carbon management.

Water

The quality of water is critical to our customers and samples are taken on a daily basis for analysis under regulations monitored by the Drinking Water Inspectorate. The quality in all areas served remained high and incidents fell during the year.

A long running formal programme, which began just after privatisation, to rehabilitate older parts of the water distribution network has come to an end, contributing to improved water quality results over recent years. Work using new cleaning techniques to refurbish more than 150 kilometres of the large diameter pipe network is well advanced. The network supplies drinking water to over half a million customers in south east Northumberland and parts of Tyneside. More than half of the programme has been completed successfully and work will be completed in 2011, significantly reducing customer complaints of discoloured water.

Water resources

Work started in January 2010 on increasing the capacity of Abberton Reservoir near Colchester by 58%. The one remaining part of the overall Abberton Scheme that requires permissions is the variation of abstraction licences at Denver and Blackdyke in Norfolk. We are working closely with the EA on progressing this. Once this Scheme is operating in 2014, we do not expect to have to develop further major resources in Essex for the next 25 years.

We believe it is important to manage the demand for water so that it does not exceed levels that can be supplied in a sustainable way. Metering has an important role to play in this regard. For several years we have been installing water meters upon change of occupier in properties in the Essex area. This is in addition to the optional metering scheme available to all customers. Around 45% of domestic households in Essex and 58% in Suffolk are now metered. In the north east, where supplies are more plentiful, 22% of households are metered.

In addition, Essex & Suffolk Water have run an award winning water efficiency campaign which, together with the good response from customers, has helped control demand for water. New water efficiency targets have been introduced in 2010/11 to reduce per capita consumption across the company and a number of initiatives have been piloted during the year. A new campaign will also be launched across the company to promote water efficiency ranging from water saving kits to activity in schools and development of our website.

Our assets proved very resilient during the harshest winter for 30 years and we were able to maintain supplies to customers during the period, thanks to the efforts of our employees. The severe freeze, followed by the thaw, did result in a significant increase in burst pipes and leakage which meant we, along with other companies, did not meet our annual targets this year although our three year rolling targets have been met.

Environment
NWL's exceptional performance for sewage treatment works continued with all consented works remaining compliant over the year. Two major schemes, to further improve performance at Sunderland and Darlington sewage treatment works, were completed.

The advanced anaerobic digestion plant at Bran Sands is now fully operational and generating the expected volumes of biogas and electricity. The re-organisation, to operate the plant at much lower manning levels than previously, has been successfully implemented. Plans to provide a similar plant on Tyneside to process the remainder of the company's sludge, and also replace older technology, are progressing well.

All 34 bathing waters in the north east again passed the required Mandatory Standard and 30 of these met the more demanding Guideline Standard.

Intense summer storms again caused extensive property flooding. Incidents of internal property flooding were the highest ever reported, many due to a single storm over two days in July which affected the whole north east region. Capital schemes to remove 277 properties from flooding registers were successfully completed. Planning to identify schemes for coming years forms a key part of our investment programme and is well advanced, with a further 250 properties to be addressed in 2010/11. The five year programme to improve the visual appearance of discharges from nearly 500 combined sewer overflows was successfully completed, with engineering works taking place at 106 locations in the year.

Climate change
The water industry is one of the largest users of energy in the UK and we aim to play a full part in support of Government's plans to reduce emissions. We have been working hard over recent years to reduce our carbon footprint while preparing ourselves for the future challenges of a change in climate and the weather events we may face as a consequence. We agreed, last year, a plan to reduce our emissions by 35% by 2020, when compared with a 2008 baseline. If the emissions associated with electricity production also fall, in line with Government predictions, this should mean that our emissions will be halved by the 2020 milestone date.

Customers
Our relationship with customers is core to the success of our business and it is essential that they trust our service. Customer service is at the heart of the company and all employees have a clear focus on getting things 'right first time every time'. Although we are required to meet regulated standards for customer service, the quality of our service goes beyond that.

For the third year, we only increased our prices by the rate of inflation and did not use the real increase allowed by Ofwat. This decision benefited customers directly.

We measure the views of our customers with quarterly tracking research alongside qualitative work in focus groups. This helps us to understand their views on service, value for money and other issues as well as their general perception of the company. In addition, the survey carried out by CCWater for the fourth consecutive year, shows high levels of satisfaction, and concluded, once again, that our customers are the most satisfied in the country in terms of water and sewerage services and also fairness of charges.

NWG is actively involved in the business community in both of its operating areas through direct membership and involvement in the councils/boards of the CBI, Chambers of Commerce and other similar organisations.

NWL has longstanding relationships with its key industrial and commercial customers in the areas it serves. The north east, in particular, has a significant industrial base and existing customers and potential investors in the region value the availability of not only high quality potable and raw water but also access to reliable effluent treatment services.

Domestic customers
For 2010/11, Ofwat has introduced the Service Incentive Mechanism (SIM) and, amongst other things, this will monitor the quality of our service rather than the quantitative results.

This year, improvements to customer service include a reduction in written complaint numbers by 22%, from 13,050 to 10,185. Our complaint handling and billing query service has been subject to audit by CCWater and they have commented favourably on how we performed; 96% of the 50 cases reviewed in both areas being classed as ‘good’.

Debt recovery remains an important area, especially in the current economic climate, where, despite having some of the lowest charges in England and Wales, affordability is becoming an increasing concern for some customers. We continue to be mindful of their circumstances ensuring our recovery techniques are appropriate and effective. Customers who deliberately avoid paying charges are actively pursued and we continue to work with Ofwat and Defra to seek changes to legislation to assist the industry to impose and collect charges.

Business customers
The economic situation has had a significant impact on some business sectors which are important in our operating regions and NWL has been working closely with major customers in those sectors to mitigate the impact where possible. The closures at Corus and Artenius in the Tees Valley have been well publicised. Details of a contract with the new owner of the Artenius site and of a contract extension by one Corus business are given below. Furthermore, working with the regional economic agencies, NWL has secured existing and encouraged new business.

Employees
The active involvement and engagement of everyone across the business is an important part of delivering performance and NWL continues to formally seek the views of employees through an annual employee engagement survey. This year’s survey had the largest response rate ever at 71% and the feedback covered working life, training, communications, managers and the company. All employees were invited to workshops to consider the results and identify areas for improvement in their working practices and environment; the outputs contributed to the development of departmental action plans. Overall, employee satisfaction levels remain very high with the company achieving its Engagement & Satisfaction Index targets this year. In addition, 80% of respondents told us they are

proud to work for the company, 82% would recommend working for the company and 77% believe that NWL is a great organisation to work for.

Corporate responsibility
NWL supports the communities we serve in a number of different ways. As well as providing financial support and facilities, we encourage employees to volunteer their time, skills and expertise through our ‘Just an hour’ scheme. These activities generally support projects that make the areas we serve better places in which to live, work or invest. The programme focuses on key themes throughout these communities but, increasingly, we are developing initiatives designed to tackle lasting and sustainable change in specific areas.

Water and waste water contracts
Revenue for the Group’s water and waste water contracts was £38.3 million for the year to 31 March 2010 (2009: £39.8 million) and profit on ordinary activities before interest was £10.2 million (2009: £9.1 million). The increase is principally due to decreased power costs and the settlement of outstanding claims offset slightly by a reduction in respect of gas indexation on revenue tariffs at Caledonian Environmental Services. All contracts are performing well and are in line with expectations.

The Group is a member of two consortiums delivering long term private finance initiative contracts with Scottish Water for waste water treatment. At Levenmouth, the Group has a 75% shareholding in both project and operating companies and the benefit of a 40 year contract. Funding was provided through a 37 year fixed interest rate corporate bond with the principal amortising from 2008.

On 12 April 2010, the Group settled the outstanding claim against Caledonian Environmental Services plc with the Design and Construction Consortium, with the costs being capitalised in the year. The Group also, on this date, purchased the remaining 25% minority stake and the outstanding subordinated loan stock in Caledonian Environmental Services for a consideration of £0.4 million.

In Ayrshire, the Group has a 75% shareholding in the project company and a 100% shareholding in the company that operates the three effluent treatment plants that comprise this 30 year contract. Finance was provided through a 27 year loan on a fixed interest basis with the principal amortising from 2003.

In Ireland, the Group is part of a contractual consortium that designed and built a waste water treatment plant for Cork City Council. Under the consortium agreement, the Group has responsibility for a 20 year contract for the operation and maintenance of the plant.

AquaGib Limited, two thirds owned by the Group in a joint venture with the Government of Gibraltar, operates Gibraltar’s dual drinking water and sea water distribution systems under its 30 year contract with the Government of Gibraltar.

Principal risks and uncertainties
The current economic climate is having an impact on revenues, particularly those from industrial and commercial customers and those associated with the housing market. We continue to monitor the uncertain situation very carefully and, in particular, the recovery of domestic revenue. We welcome the passing of the Flood and Water Management Act 2010, which will require landlords to disclose details of their tenants which will help improve debt collection.

Overall, industrial revenues are currently expected to be close to those assumed by Ofwat when setting prices for 2010/15. Our largest single customer, Artenius UK Limited, ceased production in 2009 and Ofwat assumed this plant would remain closed. However, in February 2010, it was bought by a Korean company, KP Chemicals, whose subsidiary Lotte Chemical UK Limited brought the plant back into operation in April 2010 (although NWL revenue will be slightly lower than under the previous Artenius contract). By contrast, a number of plants have closed which Ofwat had assumed would remain open. The most significant is Corus Cast Products where the blast furnace was mothballed in January 2010, although Corus has also announced that the South Bank Coke Ovens, which was also under threat of closure, will remain open for at least a further three years.

The directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The challenging, but acceptable, outcome to PR09 reduces the main source of regulatory risk.

The Flood and Water Management Act 2010 also includes provisions to implement the recommendations of the ‘Pitt Review’ on flooding as well as a range of other measures to tidy up aspects of water related legislation. The flooding measures primarily relate to local authorities and the EA but also have implications for water companies, particularly with regard to how they interact and co-operate with these bodies.

The General Election has delayed Government measures in response to the ‘Cave Review’ (on competition) and the ‘Walker Review’ (on charges and metering). The results are now known and the new coalition government has made some early statements about its desire to consider the Cave, Walker and Pitt reviews. We expect this to provide greater clarity to the future direction of the industry. If and when changes are proposed, NWL will work constructively to ensure that new legislation takes account of the practical needs of the industry.

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.

There are further risks and uncertainties which may affect the Group from time to time. These were disclosed in the March 2009 annual report and financial statements and continue to be monitored. However, their impact is not considered to be significant to the business.

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 deficit (under IAS 19) of the defined benefit scheme of £119.4 million, at 31 March 2009, has increased to £133.1 million at 31 March 2010. This is mainly due to a reduction in the discount rate assumption to 5.5% (2009: 6.1%), partially offset by an increase in the market value of the scheme’s assets since March 2009.

The triennial actuarial valuation of the defined benefit scheme as at 31 December 2007 resulted in a surplus of £42 million (6%) on an 'ongoing' basis, which took 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 than the IAS 19 valuation, the prevailing market conditions are difficult and we will continue to monitor carefully. Furthermore, the final determination to March 2015 reflected NWL’s request to fund £6 million per annum in respect of the defined benefit pension deficit from 1 January 2012.

Earnings per share and dividend cover

Basic and diluted earnings per share (EPS) for the year were 23.67 pence and 23.62 pence respectively. In 2009, the basic and diluted loss per share was 2.45 pence. EPS from continuing operations, adjusted for deferred tax, were 25.51 pence (2009: 22.05 pence). From 2009/10, the Group has not adjusted for the credit in respect of the amortisation of debt fair value as this is no longer considered material and has now reached a stable level. The credit for the year ended 31 March 2010 is £5.3m (2009: £5.6m) and would have an impact on the adjusted EPS of 1.02 pence per share (2009: 1.08 pence per share).

A final dividend of 8.85 pence per share for the year ended 31 March 2010 will be recommended by the Board to shareholders at the AGM on 29 July 2010 and, if approved, will be paid on 10 September 2010 to shareholders on the Company's Register of Members at the close of business on 13 August 2010. Together with the ordinary interim dividend of 4.39 pence per share, the ordinary dividends paid and proposed for the year will be 13.24 pence per share (2009: 12.79 pence per share). This represents an increase of 3.5%, based on average inflation over the year of 0.5%, on the ordinary dividend for the previous year and is consistent with the Board's decision to maintain a progressive dividend policy with real increases of around 3% per annum. The board of our main subsidiary, NWL, has proposed a dividend policy consistent with the underlying growth assumptions adopted by Ofwat at its price reviews in 2004 and 2009.

As announced on 15 December 2009, the Group Board confirmed that it expects to be able to maintain its current progressive dividend policy with annual real growth of 3% (before inflation) over the next regulatory period.

The dividend cover for the year, excluding deferred tax, was 2.0x (2009: 1.8x). The cover level has increased principally as a consequence of the application of lower RPI to the index linked bonds.

Outlook
Now that the periodic review of prices to March 2015 has been agreed, we are already beginning to deliver the agreed outputs. The most notable of these is the commencement of works to expand Abberton reservoir, in Essex, by 58%. This will significantly increase available water resources in one of the driest parts of the country.

Customer satisfaction scores remain high and plans are underway to address the new Ofwat Service Incentive Mechanism. We also remain focused on the efficient delivery of high operational standards.

The Group is in a good position to continue to maintain sound financial performance, with funding in place to meet our operational and capital investment requirements through to the end of 2011.

Consolidated income statement
For the year ended 31 March 2010

	Notes	Year to 31.3.2010 £m	Year to 31.3.2009 £m
Continuing operations			
Revenue	2	**704.7**	694.1
Operating costs		**(428.9)**	(420.5)
Profit on ordinary activities before interest	2	**275.8**	273.6
Finance costs payable	3	**(143.7)**	(183.5)
Finance income receivable	3	**37.2**	61.8
Share of profit after tax of jointly controlled entities		**0.9**	0.8
Profit on ordinary activities before taxation	2	**170.2**	152.7
- current taxation	4	**(37.8)**	(32.1)
- deferred taxation	4	**(9.5)**	(132.5)
Profit/(loss) for the year		**122.9**	(11.9)
Attributable to:			
Equity shareholders of the parent Company		**122.5**	(12.7)
Minority interests		**0.4**	0.8
		122.9	(11.9)

Basic earnings/(loss) per share attributable to ordinary equity holders of the parent Company	5	**23.67p**	(2.45p)
Diluted earnings/(loss) per share attributable to ordinary equity holders of the parent Company	5	**23.62p**	(2.45p)
Adjusted earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent Company (excluding deferred tax)	5	**25.51p**	22.05p
Ordinary final dividend proposed per share	6	**8.85p**	8.50p
Dividend paid per share	6	**12.89p**	12.36p

Consolidated statement of comprehensive income
For the year ended 31 March 2010

	Year to 31.3.2010 £m	Year to 31.3.2009 £m
Profit/(loss) for the year	**122.9**	(11.9)
Other comprehensive income		
Actuarial gains/(losses)	**1.1**	(207.8)
Losses on cash flow hedges taken to equity	**(0.8)**	(11.7)
Translation differences	**(0.3)**	0.9
Transferred to the income statement on cash flow hedges	**-**	(0.1)
Tax on items charged or credited to equity	**(0.1)**	61.5
Total other comprehensive loss	**(0.1)**	(157.2)
Total comprehensive income/(loss) for the year	**122.8**	(169.1)
Attributable to:		
Equity shareholders of the parent Company	**122.4**	(169.9)
Minority interests	**0.4**	0.8
	122.8	(169.1)

Consolidated statement of changes in equity

For the year ended 31 March 2010

	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 2008	51.9	446.5	1.0	(0.8)	0.1	(8.6)	490.1	1.7	491.8
Loss for the year	-	-	-	-	-	(12.7)	(12.7)	0.8	(11.9)
Other comprehensive income	-	-	(8.6)	-	0.9	(149.5)	(157.2)	-	(157.2)
Total comprehensive income and expense for the year	-	-	(8.6)	-	0.9	(162.2)	(169.9)	0.8	(169.1)
Shares purchased	-	-	-	(1.7)	-	-	(1.7)	-	(1.7)
Share-based payment	-	-	-	-	-	0.5	0.5	-	0.5
Exercise of LTIP awards	-	-	-	0.2	-	(0.2)	-	-	-
Equity dividends paid	-	-	-	-	-	(64.0)	(64.0)	(0.1)	(64.1)
At 1 April 2009	51.9	446.5	(7.6)	(2.3)	1.0	(234.5)	255.0	2.4	257.4
Profit for the year	-	-	-	-	-	122.5	122.5	0.4	122.9
Other comprehensive income	-	-	(0.6)	-	(0.3)	0.8	(0.1)	-	(0.1)
Total comprehensive income and expense for the year	-	-	(0.6)	-	(0.3)	123.3	122.4	0.4	122.8
Share-based payment	-	-	-	-	-	0.4	0.4	-	0.4
Exercise of LTIP awards	-	-	-	0.3	-	(0.3)	-	-	-
Equity dividends paid	-	-	-	-	-	(66.7)	(66.7)	-	(66.7)
At 31 March 2010	**51.9**	**446.5**	**(8.2)**	**(2.0)**	**0.7**	**(177.8)**	**311.1**	**2.8**	**313.9**

Consolidated balance sheet

As at 31 March 2010

	Notes	**Year to 31.3.2010 £m**	Year to 31.3.2009 £m
Non-current assets			
Goodwill		**3.6**	3.6
Other intangible assets		**64.2**	64.2
Property, plant and equipment		**3,504.9**	3,388.2
Investments in jointly controlled entities		**4.1**	3.8
Financial assets		**12.9**	14.0
Amounts receivable relating to consortium relief		**1.7**	1.7
		3,591.4	3,475.5
Current assets			
Inventories		**3.3**	3.2
Trade and other receivables		**136.4**	131.7
Short term cash deposits	7	**15.8**	160.6
Cash and cash equivalents	7	**174.8**	108.8
		330.3	404.3
Total assets		**3,921.7**	3,879.8
Non-current liabilities			
Interest bearing loans and borrowings		**2,433.9**	2,465.3
Provisions		**2.2**	2.5
Deferred income tax liabilities		**606.1**	596.5
Pension liability		**133.1**	119.4
Other payables		**7.8**	8.1
Grants and deferred income		**219.5**	215.6
		3,402.6	3,407.4
Current liabilities			
Interest bearing loans and borrowings		**33.1**	49.2
Provisions		**0.2**	0.2
Trade and other payables		**151.2**	147.8
Interest rate swaps		**12.5**	11.7
Income tax payable		**8.2**	6.1
		205.2	215.0
Total liabilities		**3,607.8**	3,622.4
Net assets		**313.9**	257.4
Capital and reserves			
Issued capital		**51.9**	51.9
Share premium reserve		**446.5**	446.5
Cash flow hedge reserve		**(8.2)**	(7.6)
Treasury shares		**(2.0)**	(2.3)
Currency translation		**0.7**	1.0
Retained earnings		**(177.8)**	(234.5)
Equity shareholders' funds		**311.1**	255.0
Minority interests		**2.8**	2.4
Total capital and reserves		**313.9**	257.4

Approved by the Board on 1 June 2010 and signed on its behalf by:

Sir Derek Wanless
Chairman

Heidi Mottram
Chief Executive Officer

Consolidated cash flow statement
For the year ended 31 March 2010

	Notes	**Year to 31.3.2010 £m**	Year to 31.3.2009 £m
Operating activities			
Reconciliation of profit before interest to net cash flows from operating activities			
Profit on ordinary activities before interest		**275.8**	273.6
Depreciation		**105.5**	100.7
Other non-cash charges and credits		**(5.7)**	(4.3)
Net credit for provisions, less payments		**(0.3)**	(0.3)
Difference between pension contributions paid and amounts recognised in the income statement		**10.3**	7.9
(Increase)/decrease in inventories		**(0.1)**	0.2
Increase in trade and other receivables		**(5.0)**	(8.6)
Increase/(decrease) in trade and other payables		**0.4**	(0.3)
Cash generated from operations		**380.9**	368.9
Interest paid		**(114.8)**	(120.6)
Income taxes paid		**(35.7)**	(29.6)
Net cash flows from operating activities		**230.4**	218.7
Investing activities			
Interest received		**8.8**	12.0
Capital grants received		**10.1**	11.2
Proceeds on disposal of property, plant and equipment		**0.3**	1.2
Dividends received from jointly controlled entities		**0.6**	0.8
Short term cash deposits		**144.8**	(160.6)
Maturity of investments		**1.4**	1.7
Purchase of property, plant and equipment		**(220.6)**	(231.8)
Net cash flows from investing activities		**(54.6)**	(365.5)
Financing activities			
New borrowings		**-**	141.4
Purchase of treasury shares		**-**	(1.7)
Dividends paid to minority interests		**-**	(0.1)
Dividends paid to equity shareholders		**(66.7)**	(64.0)
Repayment of borrowings		**(20.9)**	(95.9)
Payment of principal under hire purchase contracts and finance leases		**(7.2)**	(7.0)
Net cash flows from financing activities		**(94.8)**	(27.3)
Increase/(decrease) in cash and cash equivalents		**81.0**	(174.1)
Cash and cash equivalents at start of year	7	**92.3**	266.4
Cash and cash equivalents at end of year	7	**173.3**	92.3
Cash and cash equivalents at end of year	7	**173.3**	92.3
Short term cash deposits	7	**15.8**	160.6
Total cash and cash equivalents and short term cash deposits		**189.1**	252.9

Notes to the financial statements

The Board approved the preliminary financial statements covering the year ended 31 March 2010 on 1 June 2010. The financial information set out above does not constitute the Group's statutory financial statements for the year ended 31 March 2010, or for the year ended 31 March 2009, within the meaning of Section 435 of the Companies Act 2006. The financial information is based on the audited statutory financial statements for the year ended 31 March 2010, upon which the auditors have issued an unqualified audit opinion.

The financial statements for the year ended 31 March 2009 have been delivered to the Registrar of Companies. The financial statements for the year ended 31 March 2010 will be sent to shareholders and delivered to the Registrar of Companies in due course. They will also be available at the Registered Office of the Company, Northumbrian Water Group plc, Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ.

1. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as it applies to the financial statements of the Group for the year ended 31 March 2010 and in accordance with the Companies Act 2006.

The Group has adopted the following standards and interpretations during the year:

- IAS 1 Presentation of Financial Statements (revised)
- IAS 32 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
- IAS 23 Borrowing Costs (revised)
- Improvements to IFRS May 2008
- IFRS 2 Share-based Payments – Vesting Conditions and Cancellations
- IFRS 8 Operating Segments
- IFRIC 15 Agreements for the Construction of Real Estate

The adoption of IAS 1 Presentation of Financial Statements (revised) has required the 'Reconciliation of movements in equity', previously disclosed in note 22 to the annual report and financial statements for the year ended 31 March 2009, to be presented as a primary statement entitled 'Consolidated statement of changes in equity'. In addition, the 'Consolidated statement of recognised income and expense' has been replaced with the 'Consolidated statement of comprehensive income'.

In adopting IFRS 8 Operating Segments, the Group concluded that the operating segments and the measures of revenue, segment profit, segment assets and liabilities were the same as the business segments determined in accordance with IAS 14 Segment Reporting.

In adopting IAS 23 Borrowing Costs (Revised), the Group has amended its accounting policy and, from 1 April 2009, capitalises borrowing costs on qualifying assets. The Group has capitalised £1.2 million for the year to 31 March 2010.

IFRIC 18 Transfers of assets from customers has not been applied in the financial statements as it is effective for accounting periods beginning on or after 31 October 2009. The Group will, therefore, apply IFRIC 18 in preparing the annual report and financial statements for the year ending 31 March 2011.

The adoption of IAS 32 Presentation of Financial Statements, Improvements to IFRS May 2008, IFRS 2 Share-based Payments and IFRIC 15 Agreements for the Construction of Real Estate do not have a material impact on the Group.

2. Segmental analysis

For management purposes, the Group is organised into business units according to the nature of the products and services and has three reportable operating segments. Profit is measured at profit on ordinary activities before interest.

Northumbrian Water Limited

NWL is one of the ten regulated water and sewerage businesses in England and Wales. NWL operates in the north east of England, where it trades as Northumbrian Water, and in the south east of England, where it trades as Essex & Suffolk Water. NWL also has non-regulated activities closely related to its principal regulated activity.

Water and waste water contracts

NWG owns a number of special purpose companies for specific water and waste water contracts in Scotland, Ireland and Gibraltar.

Other

Agrer provides overseas aid funded project work in developing countries through a number of funding agencies. Central unallocated costs and provisions are also included.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated on consolidation.

Revenue	Northumbrian Water Limited £m	Water and waste water contracts £m	Other £m	Total £m
Year ended 31 March 2010				
Segment revenue	**657.8**	**38.3**	**14.8**	**710.9**
Inter segment revenue	**-**	**-**	**(6.2)**	**(6.2)**
Revenue to external customers	**657.8**	**38.3**	**8.6**	**704.7**
Year ended 31 March 2009				
Segment revenue	647.0	39.8	13.0	699.8
Inter segment revenue	-	-	(5.7)	(5.7)
Revenue to external customers	647.0	39.8	7.3	694.1

All revenue above represents services provided.

Profit on ordinary activities before interest	Northumbrian Water Limited £m	Water and waste water contracts £m	Other £m	Total £m
Year ended 31 March 2010				
Segment profit on ordinary activities before interest	**268.9**	**10.2**	**(3.3)**	**275.8**
Net finance costs				**(106.5)**
Share of profit from jointly controlled entities				**0.9**
Profit on ordinary activities before taxation				**170.2**
Taxation				**(47.3)**
Profit for the year from continuing operations				**122.9**
Year ended 31 March 2009				
Segment profit on ordinary activities before interest	266.9	9.1	(2.4)	273.6
Net finance costs				(121.7)
Share of profit from jointly controlled entities				0.8
Profit on ordinary activities before taxation				152.7
Taxation				(164.6)
Loss for the year from continuing operations				(11.9)

3. Finance costs payable/(income receivable)

	Year to 31.3.2010 £m	Year to 31.3.2009 £m
Finance costs payable on debentures, bank and other loans and overdrafts	**114.7**	122.8
Amortisation of discount, fees, loan issue costs and other financing items	**(4.5)**	(4.9)
Accretion on index linked bonds	**(6.6)**	22.4
Interest cost on pension plan obligations	**36.1**	38.5
Finance costs payable on hire purchase contracts and finance leases	**4.0**	4.7
Total finance costs payable	**143.7**	183.5
Expected return on pension plan assets	**(31.6)**	(44.3)
Finance income receivable	**(5.6)**	(17.5)
Net finance costs payable	**106.5**	121.7

4. Taxation

Tax on profit on ordinary activities

	Year to 31.3.2010 £m	Year to 31.3.2009 £m
Current tax:		
Current income tax charge at 28%	**38.9**	33.0
Income tax reported in equity on cash flow hedges	**-**	0.1
Adjustment in respect of prior periods	**(1.3)**	(1.1)
UK corporation tax	**37.6**	32.0
Overseas tax	**0.2**	0.1
Total current tax	**37.8**	32.1
Deferred tax:		
Origination and reversal of temporary differences in the year at 28%	**9.2**	13.8
Effect of changes in tax rates and laws:		
- Impact of Industrial Buildings Allowances abolition	**-**	117.2
Income tax reported in equity on cash flow hedges	**-**	(0.1)
Adjustment in respect of prior periods	**0.3**	1.6
Total deferred tax	**9.5**	132.5
Tax charge in the income statement	**47.3**	164.6

5. Earnings per share

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

	Profit 31.3.2010 £m	**Weighted average number of shares 31.3.2010 million**	**Profit per share 31.3.2010 pence**	Loss 31.3.2009 £m	Weighted average number of shares 31.3.2009 million	Loss per share 31.3.2009 pence
Basic EPS	**122.5**	**517.6**	**23.67**	(12.7)	518.0	(2.45)

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

	Profit 31.3.2010 £m	**Weighted average number of shares 31.3.2010 million**	**Profit per share 31.3.2010 pence**	Loss 31.3.2009 £m	Weighted average number of shares 31.3.2009 million	Loss per share 31.3.2009 pence
Diluted EPS	**122.5**	**518.6**	**23.62**	(12.7)	518.6	(2.45)

Adjusted EPS is considered by the directors to give a better indication of the Group's underlying performance due to the volatile and non-cash nature of deferred tax. From 2009/10, the Group has not adjusted for the credit in respect of the amortisation of debt fair value as this is no longer considered material and has now reached a stable level. The credit for the year ended 31 March 2010 is £5.3m (2009: £5.6m) and would have an impact on the adjusted EPS of 1.02 pence per share (2009: 1.08 pence per share).

	Earnings 31.3.2010 £m	**Weighted average number of shares 31.3.2010 million**	**Earnings per share 31.3.2010 pence**	(Loss)/ earnings 31.3.2009 £m	Weighted average number of shares 31.3.2009 million	(Loss)/ earnings per share 31.3.2009 pence
Basic EPS	**122.5**	**517.6**	**23.67**	(12.7)	518.0	(2.45)
Deferred tax	**9.5**		**1.84**	132.5		25.58
Amortisation of debt fair value	**-**		**-**	(5.6)		(1.08)
Adjusted EPS	**132.0**	**517.6**	**25.51**	114.2	518.0	22.05

6. Dividends paid and proposed

	Year to 31.3.2010 £m	Year to 31.3.2009 £m
Declared and paid during the year:		
Equity dividends on ordinary shares:		
Final dividend for 2008/09: 8.50 pence (2007/08: 8.07 pence)	**44.0**	41.8
Interim dividend for 2009/10: 4.39 pence (2008/09: 4.29 pence)	**22.7**	22.2
Dividends paid	**66.7**	64.0
Proposed for approval by shareholders at the AGM		
Final dividend for 2009/10: 8.85 pence (2008/09: 8.50 pence)	**45.8**	44.0

7. Cash and cash equivalents and short term deposits

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the following at 31 March:

	31.3.2010	31.3.2009
	£m	£m
Cash at bank and in hand	**66.1**	40.0
Short term deposits	**108.7**	68.8
	174.8	108.8
Bank overdrafts	**(1.5)**	(16.5)
Cash and cash equivalents	**173.3**	92.3

	31.3.2010	31.3.2009
	£m	£m
Short term cash deposits > 3 months	**1.1**	120.8
Short term cash deposits < 3 months	**14.7**	39.8
Short term cash deposits	**15.8**	160.6

Short term cash deposits of £14.7 million (2009: £39.8 million), with a maturity of less than three months, represent amounts on deposit at fixed rates with the Northumbrian Water Pension Scheme.