1 June 2011

NORTHUMBRIAN WATER GROUP PLC

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2011

Northumbrian Water Group plc (NWG or the Group) presents its preliminary results for the year ended 31 March 2011.

HIGHLIGHTS 2011

	Year to 31.3.2011 £m	Year to 31.3.2010 £m	Change £m	Change %
Continuing operations				
Revenue	**738.1**	704.7	33.4	4.7%
Profit on ordinary activities before interest	**304.2**	275.8	28.4	10.3%
Profit before tax	**181.0**	170.2	10.8	6.3%
Profit for the year (excluding deferred tax credit) [1]	**132.1**	122.9	9.2	7.5%
Profit for the year	**178.4**	122.9	55.5	45.2%
Net debt	**2,303.5**	2,262.4	41.1	1.8%
Pro forma Group RCV [2]	**3,643.1**	3,420.5	222.6	6.5%
Continuing operations				
Basic earnings per ordinary share	**34.44p**	23.67p	10.77p	45.5%
Adjusted earnings per ordinary share [3]	**25.50p**	23.67p	1.83p	7.7%
Ordinary dividends [4]	**14.29p**	13.24p	1.05p	7.9%

Notes:
1 Excludes deferred tax credit of £46.3 million (2010: £nil) relating to the corporation tax rate reduction (see note 4)
2 Pro forma Group RCV comprises Northumbrian Water Limited's Regulatory Capital Value (RCV) plus the net debt in respect of the PFI contracts and the Kielder securitisation
3 Excludes deferred tax credit of £46.3 million (2010 restated: £nil) relating to the corporation tax rate reduction (see note 5)
4 Ordinary dividends: interim paid 4.72p (2010: 4.39p); final proposed 9.57p (2010: 8.85p)

Financial highlights

- Strong financial performance with a 6.3% increase in profit before tax
- Regulated business operating costs are better than target reflecting good progress on our efficiency programme and fixing of power prices to March 2015
- Net interest charges increased by £17.4 million, largely reflecting RPI increases on index linked bonds; net cash interest charges increased by £2.6 million
- Capital investment in the period of £219.9 million for the Group; capital investment for the regulated business, excluding IFRS adjustments, of £221.5 million
- New loan facilities in place; £100.0 million US private placement completed for NWG in April 2011 and £150.0 million approved by the European Investment Bank for the regulated business
- Funding and approved facilities in place to meet the requirements of the business to March 2014; cash and short term deposits at 31 March 2011 £141.7 million

- Proposed final dividend of 9.57 pence (2010: 8.85 pence) per share to be paid on 9 September 2011, giving a full year ordinary dividend of 14.29 pence (2010: 13.24 pence) per share, an increase of 7.9%

Operational highlights

- Continued high levels of customer satisfaction

- Excellent levels of drinking water quality

- Water resource situation is good with no plans for restrictions; expansion of Abberton reservoir to secure supplies for the Essex region for 25 years is progressing well

- Industry-leading waste water compliance

- Construction commenced on advanced anaerobic digestion plant at Howdon, on Tyneside, a further step towards our target of generating 20% of our energy from renewable sources by 2015

- Achievement of Government's Skills Pledge with 90% of the workforce trained to at least National Qualification Framework Level 2

Chief Executive Officer Heidi Mottram said "This has been my first year as Chief Executive Officer of the Group and also the first year of a new five year regulatory period. We have taken this opportunity to review our strategy, vision and values and have reaffirmed our goal to be the national leader in the provision of sustainable water and waste water services. We will continue to deliver value to our stakeholders by focusing on our core competencies of water and waste water management, underpinned by our five strategic themes of customer, competitiveness, people, environment and communities. I am pleased with the progress we have made this year towards achieving that goal.

The Group continues to produce strong financial and operational results and has funding in place to meet our requirements for the next three years. We expect to perform well against our regulatory and contractual targets over the next four years."

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BUSINESS REVIEW

Financial Performance

NWG

Revenue for the year ended 31 March 2011 increased by 4.7% to £738.1 million (2010: £704.7 million). Water and sewerage charges at the Group's principal subsidiary, Northumbrian Water Limited (NWL), increased in line with the price review (final determination) allowance of 5.0% plus the November 2009 Retail Price Index (RPI) of 0.3%. Income from the Group's water and waste water contracts increased by 4.4%.

Operating costs increased by £5.0 million (1.2%) to £433.9 million, principally reflecting movements at NWL, which are detailed below, and the one-off recovery of claim costs by Caledonian Environmental Services (CES) in the prior year. Profit on ordinary activities before interest for the year was £304.2 million (2010: £275.8 million), an increase of 10.3%.

Net interest charges increased by £17.4 million within which net cash interest charges increased by £2.6 million. The non-cash element of the increase principally reflects inflation of the principal on the index linked bonds (£28.5 million) and an increase in the interest cost of pension plan obligations (£7.2 million). These were partially offset by better than expected returns on pension assets (£13.9 million) and one-off credits in respect of the acquisition of the remaining 25% subordinated loan stock in CES not already held by the Group (£4.6 million) and a termination discount on the transfer of a finance lease to a new counterparty (£2.9 million).

Profit on ordinary activities before tax for the year was £181.0 million, 6.3% higher than the previous year (2010: £170.2 million). The current tax charge has reduced to £33.1 million (2010: £37.8 million), principally reflecting increased profitability, more than offset by adjustments in respect of prior periods.

The deferred tax credit of £30.5 million (2010: charge of £9.5 million) reflects a decrease in the Group's deferred tax liability of £46.3 million following the enactment of a reduction in the UK corporation tax rate from 28% to 26% with effect from 1 April 2011.

The effective tax rate for the period was 1% (2010: 28%) reflecting the impact of the deferred tax rate change. In the absence of the rate change, and other prior year items, the effective rate would have been 29%.

Capital investment for the Group was £219.9 million (2010: £236.3 million restated), including recognition of £13.9 million for assets adopted at £nil cash consideration, as required under IFRIC 18 Transfers of Assets from Customers (2010: £14.0 million).

NWL

Revenue was £689.4 million for the year ended 31 March 2011 (2010: £657.8 million). The increase is mainly due to the application of the final determination uplift of 5.0%, and 0.3% in respect of RPI, on water and sewerage charges. Demand from both domestic and industrial customers has remained steady.

Operating costs increased by £2.9 million (0.7%) to £391.8 million, principally reflecting increases in depreciation, pension charges and water efficiency costs, partially offset by savings on power (£6.1 million), other efficiencies and one-off charges in the prior year both for restructuring costs (£5.4 million) and for bad debt relating to the closure of a major customer (£1.7 million).

Profit on ordinary activities before interest for the year was £297.6 million (2010: £268.9 million).

Capital investment in the regulated business for the period was £221.5 million, under regulatory accounting guidelines (2010: £218.3 million). This is slightly lower than the final determination profile, deflated by the Construction Industry Price Index (COPI), due to some delays in maintenance investment as a result of the severe winter weather, but this should be recovered in future years. It is difficult to assess any potential outperformance over the AMP5 period at this early stage given the volatile nature of COPI but we remain focused on delivering our regulatory programme.

We have recently tendered our major procurement arrangements for AMP5 covering water treatment, waste water treatment and waste water networks and have appointed 19 contractors and consultants to framework agreements covering an estimated £1.5 billion of investment over the next ten years, commencing 1 April 2011. In addition, we are currently undertaking a tender process to appoint additional contractors in readiness for the transfer of responsibility for private drains and sewers on 1 October 2011.

Early in the year, we instigated an efficiency programme focused on identifying and implementing sustainable operating cost efficiencies in order to achieve our medium term goal of being in the top efficiency band for both water and sewerage, as measured by Ofwat, by 2013/14. This programme has progressed well and, as a result, we are ahead of our final determination profile. Examples of some of the changes underway include: consolidating all chemical analysis for our northern operating region at one laboratory; the implementation of site-specific energy management plans to reduce energy usage; increasing the capability of our web-site to enable improved customer self-service; investigating opportunities for co-digestion of external waste streams at our advanced anaerobic digestion plant at Bran Sands; and insourcing activities where it is more efficient and effective to do so. These efficiencies are additional to the benefits previously secured through procuring our full energy requirements to March 2015.

Water and waste water contracts
Our water and waste water contracts in Scotland, Ireland and Gibraltar are all performing well and are in line with expectations. Revenue for the contracts increased to £40.0 million for the year ended 31 March 2011 (2010: £38.3 million), principally as a result of the settlement of outstanding claims and indexation on revenue tariffs, both at CES. Profit on ordinary activities before interest was £9.5 million (2010: £10.2 million), reducing as a result of a one-off recovery of claim costs in the prior year, partially offset by the increased revenues.

In April 2010, the Group acquired the remaining 25% non-controlling equity interest in CES for a nominal sum resulting in an increase of £0.6 million in equity shareholders' funds. It also purchased the remaining 25% subordinated loan stock for a consideration of £0.4 million which, when compared to the book value of the loan stock of £5.0 million, resulted in a £4.6 million gain that has been recognised in net finance costs in the period.

Capital structure and liquidity
As at 31 March 2011, the Group and NWL's regulated business debt structure remain largely unchanged from the previous year end date.

In February 2011, the Group agreed a new £100.0 million US private placement with a 10 year maturity at a coupon of 5.82%, for which proceeds were received on 14 April 2011. On the same date, this and existing cash reserves were used to refinance £125.0 million of holding company debt maturing in May 2011. NWL has also received approval for a new £150.0 million facility from the European Investment Bank (EIB) which will be drawn in three £50.0 million tranches, in the calendar years 2011 to 2013, at interest rates to be determined at the time of drawdown.

The pro forma Group Regulatory Capital Value (RCV) includes £219.1 million (2010: £218.8 million) and £105.6 million (2010: £106.7 million) for the Kielder securitisation and Scottish PFI contracts, respectively. Adding these to NWL's RCV of £3,318.4 million (2010: £3,095.0 million), results in a pro forma Group RCV of £3,643.1 million (2010: £3,420.5 million).

The Group's gearing on this pro forma basis has decreased from 66% to 63%, with net debt increasing by £41.1 million (1.8%) to £2,303.5 million over the year, while pro forma Group RCV has increased by 6.5% due principally to the increase in RPI.

Gearing at NWL, and for the regulated business, has reduced to 56% from 61% and 60% respectively. This is due to the impact of the high RPI increase on the RCV and a reduction in net debt over the period of £28.5 million to £1,868.3 million, due to the timing of intra-Group dividends which were paid after the balance sheet date.

The Group and NWL's regulated business debt structure remain largely unchanged with 74% (NWL: 70%) fixed at an average rate of 5.80% (NWL: 5.96%), 20% (NWL: 23%) 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 2011 was 5.80% and 5.93% (2010: 4.62%, 4.45%), respectively, reflecting increased RPI.

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, cash equivalents and short term cash deposits available at 31 March 2011 amounted to £141.7 million. This, and the new EIB facility, is sufficient to meet the requirements of the business through to the end of March 2014.

Pensions

The Group operates both a defined benefit pension scheme, which is closed to new entrants, and an occupational defined contribution arrangement.

The deficit (under IAS 19 Retirement Benefits) of the defined benefit scheme has decreased from £133.1 million at 31 March 2010 to £46.0 million at 31 March 2011. This is due to a reduction in the liabilities of the scheme (£37.2 million) and an increase in the value of scheme assets (£49.9 million). The valuation of the scheme liabilities has taken account of legislative changes which mean that future statutory deferred revaluations and pension increases will be linked to the Consumer Price Index (CPI). As a consequence, CPI increases have been applied for deferred pensions in all sections of the scheme and to those sections where the scheme rules link increases to the Government's pension increase orders. This has given rise to a reduction in the actuarial valuation of the liabilities of around £36.0 million.

Following the 2004 actuarial valuation, the Group prepaid contributions for the period to 31 December 2010. In place of recommencing regular contributions from 1 January 2011, the Group agreed to pay further advance contributions to the scheme totalling £70.0 million for the period to 31 March 2015. Amounts totalling £22.9 million were paid in the period to 31 March 2011 and a further £47.1 million was paid in April 2011. These payments comprise employers' contributions and the deficit recovery funding assumed in the final determination.

A full actuarial valuation of the scheme as at 31 December 2010 is underway.

Earnings per share and dividends

Basic and diluted earnings per share (EPS) for the year were 34.44 pence and 34.38 pence respectively (2010: 23.67 pence and 23.62 pence).

The directors consider that EPS adjusted for the volatility inherent in some deferred tax items gives a better indication of the Group's underlying performance. In previous years, an adjustment has been made for total deferred tax. However, the directors have concluded that the ongoing deferred tax charge forms part of underlying performance and it is more appropriate to only adjust for significant non-recurring deferred tax items. For the current period, EPS from continuing operations, adjusted for the deferred tax credit relating to the corporation tax rate reduction, were 25.50 pence (2010 restated: 23.67 pence).

A final dividend of 9.57 pence per share for the year ended 31 March 2011 will be recommended by the Board to shareholders at the AGM on 28 July 2011 and, if approved, will be paid on 9 September 2011 to shareholders on the Company's Register of Members at the close of business on 12 August 2011. Together with the ordinary interim dividend of 4.72 pence per share, the ordinary dividends paid and proposed for the year will be 14.29 pence per share (2010: 13.24 pence per share). This represents an increase of 7.9%, based on average inflation over the year of 4.9%, on the ordinary dividends for the previous year and is consistent with the Board's decision to maintain a progressive dividend policy with real increases of 3% per annum. The dividend cover for the year, excluding non-recurring deferred tax, was 1.9x (2010: 1.8x).

The board of our main subsidiary, NWL, has proposed a dividend policy consistent with the underlying growth assumptions adopted by Ofwat at its price review in 2009.

Regulatory and legislative update

The Government has signalled its intention to proceed with the transfer of certain private drains and sewers into water company ownership on 1 October 2011, which will increase the network owned and maintained by NWL by about 85%. Our plans to manage this transfer are well advanced and our early estimates suggest that this will generate additional costs in the order of £20.0 million per annum in the first year, of which 40% represents operating expenditure. The capital expenditure is projected to increase by 50% within two years. The additional costs are expected to be recovered through tariffs by 2014/15.

We welcome the conclusions of the Defra review of Ofwat and CCWater conducted by David Gray. We also welcome the view that the overall regulatory framework, including the continued role for a separate customer body, is generally fit for purpose. We support the call for regulatory simplification and a reduced reporting burden which is already being championed enthusiastically by Ofwat. A useful start was made in the simplified 2011 June Return reporting requirements but we support the proposal for more radical change in 2012.

We also support further clarification of the respective roles of Government and regulators and a call for more transparency in consultation processes.

Ofwat has published a series of consultation and discussion papers on the subject of 'Future price limits'. We have responded to these papers and also engaged in a range of workshops, meetings and informal discussions with Ofwat. We believe the more focused approach to regulation should be reflected in the approach to future price reviews as well as the annual reporting cycle. We welcome Ofwat's intention to adopt a more outcome-focused approach to price setting and have made suggestions as to how the price setting methodology could be simplified and made more transparent. We look forward to responding to Ofwat's formal consultation paper outlining its proposals for future price reviews later in the year.

We look forward to publication of the Government's White Papers on Water and the Natural Environment later this year. The former should bring greater clarity in areas such as water resource planning, metering, social tariffs and broader market reform. We have worked with the industry, through Water UK, to set out a vision of how the Government can achieve many of its objectives without legislation or with only minor legislative changes. NWL has held frequent meetings with Defra and contributed ideas on water trading and abstraction reform including a joint project ('Trading theory for Practice') with Anglian Water, Cambridge Water and Veolia. We remain committed to any moves that can deliver clear and demonstrable improvements for customers, other stakeholders and the wider environment.

The Water White Paper will be an opportunity to end unhelpful uncertainty and speculation around the future regulatory regime and provide a clear vision for the future of the water industry that retains the confidence of customers and investors alike.

The Office of Fair Trading (OFT) has announced a market study looking at whether the market for treatment of organic waste is working effectively to deliver the best outcomes for customers. NWL was an early investor in advanced anaerobic digestion technology for the treatment of sewage sludge to reduce costs and provide a renewable source of energy. We, therefore, welcome the OFT review as it should provide the clarity required to inform investment decisions and NWL is participating fully in the process.

Customers

Customer service is at the heart of the company and the culture of getting things "right first time every time" is embedded in the business. Ofwat introduced the Service Incentive Mechanism (SIM) in the year, which monitors both quantitative and qualitative aspects of customer service, and our aim is to be the leading company for SIM. On the quantitative assessment our score improved from 331 to 211, a lower score indicating better performance. On the qualitative assessment of customer satisfaction we scored 4.14 out of 5, an improvement on the previous year's score of 4.10.

Our independent customer research confirms that satisfaction levels remain high at 89% for overall satisfaction and 85% for value for money, although we were disappointed that, this year, this was not reflected at the same level in the research by CCWater.

The collection of income remains a key focus for us particularly in the difficult economic climate. We know that affordability continues to be a genuine concern for many customers and we continue to be considerate of their circumstances, ensuring they can choose suitable payment options and that our recovery techniques are appropriate and effective. However, customers who deliberately avoid paying charges are actively pursued and we are working closely with Ofwat and Defra to seek changes to legislation which will assist the industry to identify those responsible for charges more easily.

While economic conditions remain challenging, industrial demand has stabilised this year following, for example, the development of the former Artenius site by Lotte Chemical UK Limited and we were particularly pleased with the signing of the agreement by Sahaviriya Steel Industries, from Thailand, to secure the future of the Corus plant on Teesside.

Environment

Water resource availability is a key issue in our Essex and Suffolk areas. Work continued throughout the year on increasing the capacity of Abberton reservoir by 58% and the project remains on programme. In early 2011, construction of two new pipelines to bring water from Norfolk commenced. The one remaining part of the overall Abberton Scheme that requires permissions is the variation of abstraction licences at Denver and Blackdyke, in Norfolk, and we are working closely with the Environment Agency 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.

In addition to improving the supply of water, 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. New water efficiency targets were introduced in 2010/11 to reduce per capita consumption across the company and a number of initiatives resulted in NWL meeting its targets before the end of the year.

We continue to monitor the weather patterns and the early part of 2011 has proved to be dry with little rainfall. Our resource situation is still good with adequate resources in storage to meet demand. There are no plans for restrictions although the company will continue to use awareness campaigns to encourage customers to control demand in dry periods.

Our assets, once again, proved very resilient during the most severe December weather for more than 100 years and we were able to maintain supplies to customers largely due to the exemplary efforts of our employees who worked tirelessly in difficult conditions. However, the severe freeze and subsequent thaw inevitably resulted in a significant increase in burst pipes and leakage, both on our own network and customer premises. As a result, in our northern operating region, the water lost over the winter period meant we did not meet our annual leakage target, though we did achieve our leakage target in our southern operating region. We have recovered from the effects of the winter through implementing an action plan which will position us well to meet this year's leakage target.

The quality of drinking water continues to be excellent with compliance levels over 99.9% in both our northern and southern operating areas for the year. Compliance at water treatment works has improved significantly in 2010 with fewer microbiological failures than any previous year.

Work has commenced on the construction of reed beds at Hanningfield in Essex, our largest water treatment works, to dispose of water treatment sludge. This is a lower whole-life cost alternative than traditional mechanical treatment and a world first for a project of this scale. Natural England strongly supports the project because it will provide a sustainable, energy and carbon-efficient solution to the problem of water sludge.

Our exceptional performance for sewage treatment works continued with all consented works again remaining compliant over the year. In the north east, 33 out of 34 bathing waters met the required mandatory standard, for 2010, and 29 met the more demanding guideline standard.

The advanced anaerobic digestion plant at Bran Sands on Teesside is now fully operational and generating the expected volumes of biogas and electricity. Construction is now underway on a similar plant at Howdon, on Tyneside, to process the remainder of NWL's sludge.

NWL has published its carbon management plan to meet its target of a 35% reduction in operational emissions by 2020, from a 2008 base. The plan includes energy efficiency, renewable energy generation and water efficiency and supports our activities to help us adapt to a changing climate. We have successfully achieved the Carbon Trust Standard, which provides an objective benchmark against which our commitment and success in addressing our climate change impact was assessed.

People

The active involvement and engagement of everyone across the business is an important part of delivering performance and NWL continues to seek the views of employees through an annual employee engagement survey. This year's survey had the largest response rate ever, at 75%, and all employees were invited to workshops to consider the results and identify areas for improvement in their working practices and environment. In addition, 80% of respondents told us they are proud to work for the company, 81% would recommend working for the company and 77% believe that NWL is a great organisation to work for. For the first time, NWL also took part in the Sunday Times Best Companies survey and achieved 'one to watch' status, an excellent achievement on first time entry.

We are committed to helping employees to reach their full potential. In 2007, we signed the Government's Skills Pledge, publicly committing to develop 90% of the workforce, around 2,600 employees, to at least National Qualification Framework Level 2 by the end of 2010. This was achieved by July 2010. In addition, we continue to operate our apprentice and graduate development programmes and to implement our management development framework, working in partnership with Newcastle Business School.

Communities

NWL supports the communities we serve in a number of different ways. We have been widely recognised as leaders in our support for projects that make the areas we serve better places in which to live, work or invest. The company has been re-accredited by FTSE4Good and is awaiting re-accreditation as a Platinum Plus company by Business in the Community. This year, we were also recognised by Ethisphere, an American-based international think-tank, as one of the 110 most ethical companies in the world and one of only five UK-based companies.

We have contributed resources with a value equivalent to at least 1% of our annual pre-tax profits. This is achieved, for example, by participation through employee involvement, education of our communities about their environment, supporting healthy communities and supporting developing communities through WaterAid.

Principal risks and uncertainties

We consider 2011 to be an important year in providing greater clarity on the future legislative and regulatory framework for water. There are some significant reviews and consultations currently underway giving rise to uncertainty about the future regulatory structure of the water industry. Defra is expected to produce a White Paper later this year including views on market reform. Ofwat has produced a series of papers concerning future price limits. In our view, the debate about water reform should be evidence-based and focused on achieving benefits for customers and the environment and maintaining the confidence of investors. The conclusion of the reviews referred to above needs to result in clear and workable proposals so that the level of uncertainty surrounding the sector can be reduced. We note the paper published recently by the credit rating agency Moody's ('Ofwat's Future Price Limits') which highlighted potential credit risks which may arise as a result of implementing the proposals outlined in Ofwat's paper, 'Future price limits – a preliminary model: informal consultation'.

The transfer of private drains and sewers into water company ownership later this year will significantly increase the network owned and maintained by NWL which will bring operational challenges. The significant additional costs were not included in the 2009 price review because of the uncertainty regarding the timing and scope of the transfer at the time. The sewerage companies have had a constructive dialogue with Ofwat regarding the process for seeking adjustments to price limits which should result in clarification in the near future, notably whether any interim adjustment to sewerage prices will take effect in 2013 or 2014.

The water cycle and changing weather patterns have a direct influence on the provision of water and waste water services. We continue to manage the short term effects and to anticipate, and plan for, the long term impact of climate change.

The current economic climate remains challenging and, as we have seen over the past two years, industrial demand has been affected by the economic climate and further decline remains a risk. Affordability is also a concern for many domestic customers and debt recovery will remain a very important area to monitor.

The Comprehensive Spending Review in October 2010 announced that revenue raised through the Carbon Reduction Commitment Energy Efficiency Scheme will be used to support the public finances rather than recycled to participants as previously planned. This is expected to increase energy costs by around £3.0 million next year with further increases of up to £1.5 million by 2014/15.

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. Market conditions have resulted in closer monitoring of counterparties including sovereign and political risk.

There are further risks and uncertainties which may affect the Group from time to time. These were disclosed in the March 2010 annual report and financial statements and continue to be monitored.

Board Appointments

The following Board changes have been announced since our interim results announcement on 30 November 2010:

- Simon Lyster, who has been a director of NWL since 26 September 2006, was appointed as a non-executive director of NWG on 1 April 2011; and
- Claude Lamoureux will retire as a non-executive director of NWG and NWL at the end of this year's AGM.

Outlook

This has been a good year for NWG, with improved delivery across our range of key operational and financial performance indicators. The focus on our vision, values and business plan will continue in the coming year and we are confident of further success.

The next year should provide greater certainty about the future regulatory structure of the industry, with the publication of White Papers on Water and the Natural Environment. In addition, the transfer of private drains and sewers into NWL's ownership will be a significant change for the business.

Although we have only completed the first year of the current regulatory cycle, this year we will begin a review of our plans for the long term to 2040 and also start our planning for the next periodic review. To support this, we will begin extensive consultation with customers and other stakeholders to ensure that we reflect their priorities whilst understanding any impact on bills.

With funding in place to meet our operational and capital investment requirements for the next three years, we are well positioned to maintain a strong financial performance.

Financial Calendar

2011	
28 July	Interim Management Statement
28 July	AGM
10 August	Ex-dividend date
12 August	Record date
9 September	Final dividend payment
30 November	Half-yearly announcement
14 December	Ex-dividend date
16 December	Record date
2012	
27 January	Interim dividend payment

Cautionary statement

These preliminary results contain certain statements with respect to the future operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those forecast. Such statements reflect knowledge and information available at the date of preparation of these results and the Group undertakes no obligation to update such statements. Nothing in this preliminary results statement should be construed as a profit forecast.

Consolidated income statement

For the year ended 31 March 2011

	Notes	**Year to 31.3.2011 £m**	Year to 31.3.2010 £m
Continuing operations			
Revenue	2	**738.1**	704.7
Operating costs		**(433.9)**	(428.9)
Profit on ordinary activities before interest	2	**304.2**	275.8
Finance costs payable	3	**(178.8)**	(143.7)
Finance income receivable	3	**54.9**	37.2
Share of profit after tax of jointly controlled entities		**0.7**	0.9
Profit on ordinary activities before taxation	2	**181.0**	170.2
- current taxation	4	**(33.1)**	(37.8)
- deferred taxation	4	**30.5**	(9.5)
Profit for the year		**178.4**	122.9
Attributable to:			
Equity shareholders of the parent Company		**178.3**	122.5
Non-controlling interests		**0.1**	0.4
		178.4	122.9

Basic earnings per share attributable to ordinary equity holders of the parent Company	5	**34.44p**	23.67p
Diluted earnings per share attributable to ordinary equity holders of the parent Company	5	**34.38p**	23.62p
Adjusted earnings per share attributable to ordinary equity holders of the parent Company	5	**25.50p**	23.67p
Adjusted diluted earnings per share attributable to ordinary equity holders of the parent Company	5	**25.45p**	23.62p
Ordinary final dividend proposed per share	6	**9.57p**	8.85p
Dividends paid per share	6	**13.57p**	12.89p

Consolidated statement of comprehensive income

For the year ended 31 March 2011

	Year to 31.3.2011 £m	Year to 31.3.2010 £m
Profit for the year	**178.4**	122.9
Other comprehensive income		
Actuarial gains	**74.0**	1.1
Gains/(losses) on cash flow hedges taken to equity	**2.6**	(0.8)
Translation differences	**0.2**	(0.3)
Tax on items charged or credited to equity	**(23.1)**	(0.1)
Total other comprehensive gain/(loss)	**53.7**	(0.1)
Total comprehensive income for the year	**232.1**	122.8
Attributable to:		
Equity shareholders of the parent Company	**232.0**	122.4
Non-controlling interests	**0.1**	0.4
	232.1	122.8

Consolidated statement of changes in equity

For the year ended 31 March 2011

	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	Non-controlling interests £m	Total £m
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 net comprehensive income 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 1 April 2010	51.9	446.5	(8.2)	(2.0)	0.7	(177.8)	311.1	2.8	313.9
Profit for the year	-	-	-	-	-	178.3	178.3	0.1	178.4
Other comprehensive income	-	-	1.6	-	0.2	51.9	53.7	-	53.7
Total net comprehensive income for the year	-	-	1.6	-	0.2	230.2	232.0	0.1	232.1
Share-based payment	-	-	-	-	-	0.1	0.1	-	0.1
Exercise of LTIP awards	-	-	-	0.3	-	(0.3)	-	-	-
Deferred tax related to share-based payment	-	-	-	-	-	0.1	0.1	-	0.1
Acquisition of non-controlling interest in subsidiaries	-	-	-	-	-	0.6	0.6	(0.6)	-
Equity dividends paid	-	-	-	-	-	(70.3)	(70.3)	-	(70.3)
At 31 March 2011	**51.9**	**446.5**	**(6.6)**	**(1.7)**	**0.9**	**(17.4)**	**473.6**	**2.3**	**475.9**

Consolidated balance sheet

As at 31 March 2011

	Notes	Year to 31.3.2011 £m	Year to 31.3.2010 restated[1] £m
Non-current assets			
Goodwill		**3.6**	3.6
Other intangible assets		**64.2**	64.2
Property, plant and equipment		**3,626.8**	3,518.9
Investments in jointly controlled entities		**4.0**	4.1
Financial assets		**12.0**	12.9
Amounts receivable relating to consortium relief		**1.7**	1.7
		3,712.3	3,605.4
Current assets			
Inventories		**3.3**	3.3
Trade and other receivables		**153.9**	136.4
Short term cash deposits	7	**1.4**	15.8
Cash and cash equivalents	7	**141.7**	174.8
		300.3	330.3
Total assets		**4,012.6**	3,935.7
Non-current liabilities			
Interest bearing loans and borrowings		**2,295.8**	2,433.9
Provisions		**2.4**	2.2
Deferred income tax liabilities		**598.7**	606.1
Pension liability		**46.0**	133.1
Other payables		**6.8**	7.8
Grants and deferred income		**255.1**	233.5
		3,204.8	3,416.6
Current liabilities			
Interest bearing loans and borrowings		**163.7**	33.1
Provisions		**0.2**	0.2
Trade and other payables		**155.6**	151.2
Interest rate swaps		**9.8**	12.5
Income tax payable		**2.6**	8.2
		331.9	205.2
Total liabilities		**3,536.7**	3,621.8
Net assets		**475.9**	313.9
Capital and reserves			
Issued capital		**51.9**	51.9
Share premium reserve		**446.5**	446.5
Cash flow hedge reserve		**(6.6)**	(8.2)
Treasury shares		**(1.7)**	(2.0)
Currency translation		**0.9**	0.7
Retained earnings		**(17.4)**	(177.8)
Equity shareholders' funds		**473.6**	311.1
Non-controlling interests		**2.3**	2.8
Total capital and reserves		**475.9**	313.9

1 The prior year balance sheet has been restated to reflect the impact of IFRIC 18 Transfers of Assets from Customers

Approved by the Board on 31 May 2011 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 2011

	Notes	**Year to 31.3.2011 £m**	Year to 31.3.2010 £m
Operating activities			
Reconciliation of profit before interest to net cash flows from operating activities			
Profit on ordinary activities before interest		**304.2**	275.8
Depreciation		**111.6**	105.5
Other non-cash charges and credits		**(8.9)**	(5.7)
Net credit for provisions, less payments		**0.2**	(0.3)
Difference between pension contributions paid and amounts recognised in the income statement		**11.5**	10.3
Increase in inventories		**-**	(0.1)
Increase in trade and other receivables		**(14.7)**	(5.0)
Increase in trade and other payables		**5.2**	0.4
Cash generated from operations		**409.1**	380.9
Advanced contributions in respect of retirement benefits		**(22.4)**	-
Interest paid		**(116.1)**	(114.8)
Income taxes paid		**(38.7)**	(35.7)
Net cash flows from operating activities		**231.9**	230.4
Investing activities			
Interest received		**4.7**	8.8
Capital grants received		**13.2**	10.1
Proceeds on disposal of property, plant and equipment		**1.3**	0.3
Dividends received from jointly controlled entities		**0.8**	0.6
Short term cash deposits		**14.4**	144.8
Maturity of investments		**1.1**	1.4
Purchase of property, plant and equipment		**(202.9)**	(220.6)
Net cash flows from investing activities		**(167.4)**	(54.6)
Financing activities			
Dividends paid to equity shareholders		**(70.3)**	(66.7)
Repayment of borrowings		**(19.5)**	(20.9)
Payment of principal under hire purchase contracts and finance leases		**(7.3)**	(7.2)
Acquisition of externally held loan stock issued by a subsidiary		**(0.4)**	-
Net cash flows from financing activities		**(97.5)**	(94.8)
(Decrease)/increase in cash and cash equivalents		**(33.0)**	81.0
Cash and cash equivalents at start of year	7	**173.3**	92.3
Cash and cash equivalents at end of year	7	**140.3**	173.3
Cash and cash equivalents at end of year	7	**140.3**	173.3
Short term cash deposits	7	**1.4**	15.8
Total cash, cash equivalents and short term cash deposits		**141.7**	189.1

Notes to the financial statements
The Board approved the preliminary financial statements covering the year ended 31 March 2011 on 31 May 2011. The financial information set out above does not constitute the Group's statutory financial statements for the year ended 31 March 2011, or for the year ended 31 March 2010, 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 2011, upon which the auditors have issued an unqualified audit opinion.

The financial statements for the year ended 31 March 2010 have been delivered to the Registrar of Companies. The financial statements for the year ended 31 March 2011 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 2011 and in accordance with the Companies Act 2006.

The Group has adopted the following standards and interpretations during the year:
- IFRS 3 Business Combinations (Revised)
- IAS 27 Consolidated and Separate Financial Statements (Amendment)
- IAS 32 Financial Instruments: Classification of Rights Issues (Amendment)
- IAS 39 Financial Instruments: Recognition and Measurement - Eligible hedged items (Amendment)
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers
- Improvements to IFRS 2009

The adoption of IAS 27 Consolidated and Separate Financial Statements (Amendment) has required the reclassification of minority interests as non-controlling interests. Also, any transactions with non-controlling interests that do not result in gaining or losing control will be accounted for as equity transactions.

IFRIC 18 Transfers of Assets from Customers was adopted in the period. IFRIC 18 is effective for accounting periods beginning on or after 31 October 2009, applicable to transactions occurring on or after 1 July 2009. This has required the prior year balance sheet to be restated resulting in the balances of property, plant and equipment, and grants and deferred income, each increasing by £14.0 million at 31 March 2010. The impact on profit for both the current period and the prior period is £nil.

The adoption of the other standards and interpretations listed above do not have a material impact on the Group.

The guidance provided in the Urgent Issues Task Force Draft Abstract: Accounting Implications of the Replacement of the Retail Prices Index with the Consumer Prices Index for Retirement Benefits has also been applied in the period.

2. Segmental analysis

For management purposes, the Group is organised into business units according to the nature of its 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, trading as Northumbrian Water, and in the south east of England, trading 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 and profit includes transfers between business segments. These transfers are eliminated on consolidation.

Revenue	Northumbrian Water Limited £m	Water and waste water contracts £m	Other £m	Total £m
Year ended 31 March 2011				
Segment revenue	**689.4**	**40.0**	**14.1**	**743.5**
Inter-segment revenue	**-**	**-**	**(5.4)**	**(5.4)**
Revenue from external customers	**689.4**	**40.0**	**8.7**	**738.1**
Year ended 31 March 2010				
Segment revenue	657.8	38.3	14.8	710.9
Inter-segment revenue	-	-	(6.2)	(6.2)
Revenue from external customers	657.8	38.3	8.6	704.7

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 2011				
Segment profit on ordinary activities before interest	**297.6**	**9.5**	**(2.9)**	**304.2**
Net finance costs				**(123.9)**
Share of profit from jointly controlled entities				**0.7**
Profit on ordinary activities before taxation				**181.0**
Taxation				**(2.6)**
Profit for the year from continuing operations				**178.4**
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

3. Finance costs payable/(income receivable)

	Year to 31.3.2011 £m	Year to 31.3.2010 £m
Finance costs payable on debentures, bank and other loans and overdrafts	**112.9**	114.7
Amortisation of discount, fees, loan issue costs and other financing items	**(4.4)**	(4.5)
Accretion on index linked bonds	**21.9**	(6.6)
Interest cost on pension plan obligations	**43.3**	36.1
Finance costs payable on hire purchase contracts and finance leases	**5.1**	4.0
Total finance costs payable	**178.8**	143.7
Expected return on pension plan assets	**(45.5)**	(31.6)
Finance income receivable	**(1.9)**	(5.6)
Acquisition of CES loan stock	**(4.6)**	-
Finance lease termination discount	**(2.9)**	-
Net finance costs payable	**123.9**	106.5

During the period, the Group acquired the subordinated loan stock issued by CES from an external party. This was acquired at below book value leading to a gain of £4.6 million. In addition, the Group transferred a finance lease to a new counterparty with a termination discount valued at £2.9 million.

4. Taxation

Tax on profit on ordinary activities

	Year to 31.3.2011 £m	Year to 31.3.2010 £m
Current tax:		
Current income tax charge at 28%	**42.3**	38.9
Income tax reported in equity on cash flow hedges	**0.1**	-
Adjustment in respect of prior periods	**(9.5)**	(1.3)
UK corporation tax	**32.9**	37.6
Overseas tax	**0.2**	0.2
Total current tax charge	**33.1**	37.8
Deferred tax:		
Origination and reversal of temporary differences in the year at 26% (2010: 28%)	**9.0**	9.2
Effect of changes in tax rates and laws:		
– Impact of reduction in rate of UK corporation tax	**(46.3)**	-
Adjustment in respect of prior periods	**6.8**	0.3
Total deferred tax (credit)/charge	**(30.5)**	9.5
Tax charge in the income statement	**2.6**	47.3

The rate of UK corporation tax was reduced from 28% to 27% by the Finance (No. 2) Act 2010 with effect from 1 April 2011. The rate was further reduced to 26%, with effect from the same date, on the passing of a resolution under the Provisional Collection of Taxes Act 1968 on 23 March 2011 at which point the new rate was substantively enacted. As a result, deferred tax was re-measured at 1 April 2010 at the rate at which timing differences are expected to reverse. Adjustments in respect of prior periods arise from revisions to UK tax returns.

The Government has stated its intention to reduce the UK rate of corporation tax to 23% by 1 April 2014. Had that rate applied in 2010/11 the closing deferred tax liability would have been reduced by £69.1 million to £529.6 million and the current year's corporation tax charge would have been reduced by £7.6 million to £34.7 million.

5. Earnings per share

Basic earnings per share (EPS) is calculated by dividing the profit 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.

The weighted average number of shares for diluted EPS is calculated by adding the weighted average number of ordinary shares in issue during the year and the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

	Profit 31.3.2011 £m	**Weighted average number of shares 31.3.2011 million**	**Earnings per share 31.3.2011 pence**	Profit 31.3.2010 £m	Weighted average number of shares 31.3.2010 million	Earnings per share 31.3.2010 pence
Basic EPS	**178.3**	**517.8**	**34.44**	122.5	517.6	23.67
Diluted EPS	**178.3**	**518.6**	**34.38**	122.5	518.6	23.62

The directors consider that EPS adjusted for the volatility inherent in some deferred tax items gives a better indication of the Group's underlying performance. In previous years, an adjustment had been made for total deferred tax. However, the directors have concluded that the ongoing deferred tax charge forms part of underlying performance and it is more appropriate to only adjust for significant non-recurring deferred tax items. For the current period, the deferred tax credit relating to the corporation tax rate reduction has been adjusted and the prior year adjusted EPS has been restated with no element of deferred tax removed. The deferred tax charge now included in adjusted EPS for the current period is £15.8 million (2010: £9.5 million).

	Profit 31.3.2011 £m	**Weighted average number of shares 31.3.2011 million**	**Earnings per share 31.3.2011 pence**	Profit 31.3.2010 restated £m	Weighted average number of shares 31.3.2010 million	Earnings per share 31.3.2010 restated pence
Basic EPS	**178.3**	**517.8**	**34.44**	122.5	517.6	23.67
Deferred tax - effect of changes in tax rates	**(46.3)**		**(8.94)**	-		-
Adjusted EPS	**132.0**	**517.8**	**25.50**	122.5	517.6	23.67
Adjusted diluted EPS	**132.0**	**518.6**	**25.45**	122.5	518.6	23.62

6. Dividends paid and proposed

	Year to 31.3.2011 £m	Year to 31.3.2010 £m
Declared and paid during the year:		
Equity dividends on ordinary shares:		
Final dividend for 2009/10: 8.85 pence (2008/09: 8.50 pence)	**45.8**	44.0
Interim dividend for 2010/11: 4.72 pence (2009/10: 4.39 pence)	**24.5**	22.7
Dividends paid	**70.3**	66.7
Proposed for approval by shareholders at the AGM		
Final dividend for 2010/11: 9.57 pence (2009/10: 8.85 pence)	**49.6**	45.8

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:

	31.3.2011 £m	31.3.2010 £m
Cash at bank and in hand	**76.7**	66.1
Cash equivalents	**65.0**	108.7
	141.7	174.8
Bank overdrafts	**(1.4)**	(1.5)
Cash and cash equivalents	**140.3**	173.3

	31.3.2011 £m	31.3.2010 £m
Short term cash deposits >3 months	**1.4**	1.1
Short term cash deposits <3 months	**-**	14.7
Short term cash deposits	**1.4**	15.8

Short term cash deposits of £nil (2010: £14.7 million), with a maturity of less than three months, represent amounts on deposit at fixed rates with the Northumbrian Water Pension Scheme.