30 November 2010

NORTHUMBRIAN WATER GROUP PLC

HALF-YEARLY FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

Northumbrian Water Group plc (NWG or the Group) presents its half-yearly report for the six months ended 30 September 2010.

HIGHLIGHTS 2010

Financial highlights	**Six months to 30.9.2010 £m**	Six months to 30.9.2009 £m	Change £m	Change %
Continuing operations				
Revenue	**369.4**	351.2	18.2	5.2
Profit on ordinary activities before interest	**151.3**	139.3	12.0	8.6
Profit before tax	**89.7**	87.0	2.7	3.1
Profit for the period	**87.8**	63.1	24.7	39.1
Net debt	**2,266.5**	2,250.0	16.5	0.7
Pro forma Group RCV (mid-year value)[1]	**3,507.3**	3,339.2	168.1	5.0
Continuing operations	**p**	p	p	%
Basic earnings per ordinary share	**16.96**	12.15	4.81	39.6
Adjusted EPS[2]	**12.50**	12.15	0.35	2.9
Ordinary dividend proposed	**4.72**	4.39	0.33	7.5

1 Pro forma Group 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
2 Excludes deferred tax credit of £23.1 million (2009 restated: £nil) relating to corporation tax rate reduction (see note 5)

- Good financial performance and strong funding position at 30 September (£176.7 million)
- Excellent levels of water and waste water compliance
- Continued high levels of customer satisfaction and 28% reduction in customer complaints
- Ongoing high level of regulated business investment (£103.6 million)
- Expansion of Abberton reservoir on target for completion in 2013 which will secure supplies for the Essex region
- Bran Sands advanced anaerobic digestion plant now operational; planning permission obtained and contract awarded for a second plant at Howdon on Tyneside
- Ordinary interim dividend of 4.72 pence (2009: 4.39 pence) per share to be paid on 28 January 2011

Chief Executive Officer Heidi Mottram said, “The Group continues to produce strong financial and operational results providing a platform from which to fulfil its regulatory and contractual obligations over the next five years.

The next year will be important in providing greater clarity on the future legislative and regulatory framework for the industry, with the review of Ofwat and CC Water by Defra, a proposed White Paper on water and Ofwat’s own review of its activities. It is important that investor confidence is maintained throughout this period of review and consultation, which should aim to clarify responsibilities, simplify the regulatory framework and achieve benefits for customers.”

For further information contact:

Northumbrian Water	
Heidi Mottram, Chief Executive Officer	
Chris Green, Finance Director	**0191 301 6419**
Alistair Baker, Communications & PR Manager	**0191 301 6851**
Pelham Bell Pottinger	
Archie Berens	**020 7861 3112**
Zoe Sanders	**020 7861 3887**

Interim management report

NWG's financial performance

Revenue for the six months to 30 September 2010 was £369.4 million (2009: £351.2 million), an increase of 5.2%. Water and sewerage charges at the Group's principal subsidiary, Northumbrian Water Limited (NWL), increased in line with the recent price review (final determination) allowance of 5.0% plus the November 2009 Retail Price Index (RPI) of 0.3%. Demand at NWL from both domestic and industrial customers has remained steady, with increases in measured water volumes, and income from the Group's water and waste water contracts increased by 3.7%.

Operating costs increased by £6.2 million (2.9%) to £218.1 million, principally reflecting increases in depreciation, rates, hired services and pension costs, partially offset by savings on power.

Profit on ordinary activities before interest for the six months was £151.3 million (2009: £139.3 million), an increase of 8.6%. Net finance costs have increased by £9.5 million largely reflecting the following non-cash movements: inflation of the principal on the index linked bonds (£14.3 million) and an increase in the interest cost of pension plan obligations (£3.7 million), partially offset by an increase in the expected return on pension assets (£6.8 million) and a one-off credit (£4.6 million) in respect of the acquisition of the remaining 25% subordinated loan stock in Caledonian Environmental Services (CES) not already held by the Group. Interest receivable in the period was also lower by £3.4 million due to lower interest rates available on cash deposits.

Profit on ordinary activities before tax for the six months increased to £89.7 million (2009: £87.0 million). The higher current tax charge of £21.6 million (2009: £20.3 million) mainly reflects the increase in Group profitability and reductions in capital allowances, partially offset by the timing of relief for pension contributions.

The deferred tax credit of £19.7 million (2009: £3.6 million charge) includes a decrease in the Group's deferred tax liability of £23.1 million following the enactment of a reduction in the UK corporation tax rate from 28% to 27% with effect from 1 April 2011.

The effective tax rate for the period was 2% (2009: 28%) reflecting the impact of the deferred tax rate change. In the absence of the rate change, the effective rate would have been 28%.

Capital structure

The Group has not entered into any new debt facilities during the period and its capital structure and gearing ratios remain largely unchanged from those reported in the March 2010 annual report and financial statements.

The pro forma Group RCV includes £219.1 million (March 2010: £218.8 million) and £104.7 million (March 2010: £106.7 million) for the Kielder securitisation and PFI contracts respectively. Adding these to NWL's estimated mid-year RCV of £3,183.5 million (March 2010: £3,095.0 million), results in a pro forma Group RCV of £3,507.3 million (March 2010: £3,420.5 million).

The Group's gearing on this pro forma RCV basis has decreased from 66% to 65%, with net debt increasing by £4.1 million to £2,266.5 million over the six months.

Gearing at NWL has decreased from 61% to 58%, with a reduction for the regulated business from 60% to 57%. This is due to the impact of high RPI on the RCV and a reduction in net debt over the period of £40.8 million to £1,856.0 million due to the timing of intra-Group dividends.

The Group and NWL's regulated business debt structure also 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 six months to 30 September 2010 was 5.56% and 5.62% (2009: 5.32%, 5.17%), respectively.

Total cash and short term cash deposits amounted to £176.7 million at 30 September 2010. This is sufficient to meet the needs of the business to March 2012, taking account of planned new financing. As part of its normal financing arrangements, discussions with the European Investment Bank for a new loan facility are at an advanced stage. Additionally, the Board has approved plans to refinance £125.0 million of debt at Northumbrian Services Limited and is confident of arranging new facilities in advance of the May 2011 maturity date.

Cash interest covers at both the Group and NWL are expected to remain stable over the year as are the credit ratings for NWL of BBB+ stable (Fitch and S&P) and Baa1 stable (Moody's).

Definitions of gearing, net debt and cash interest cover are disclosed in the March 2010 annual report and financial statements, a copy of which is available on the Group's website at www.nwg.co.uk

Northumbrian Water Limited

Revenue was £346.1 million for the six months to 30 September 2010 (2009: £328.5 million). The 5.4% increase is mainly due to the application of the final determination increase of 5%, and 0.3% in respect of the November 2009 RPI, on water and sewerage charges. Demand from both domestic and industrial customers has remained steady, with increases in measured water volumes.

Operating costs have increased by £6.0 million (3.1%), from £192.2 million to £198.2 million, principally reflecting increases in depreciation, rates, hired services and pension costs, partially offset by savings on power, for which prices have been fixed to March 2015.

Profit on ordinary activities before interest for the period was £147.9 million (2009: £136.3 million).

Capital investment in the regulated business for the period was £103.6 million (2009 restated: £111.5 million) and is progressing in line with the final determination. Both pipeline contracts (c. £22.0 million) associated with the Abberton reservoir expansion scheme have now been awarded. Contracts for the remaining pumping stations will be awarded in 2011, according to programme requirements. In addition, we have recently tendered our procurement arrangements 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, subject to performance, commencing 1 April 2011.

We continue to focus on our service to customers and our independent research confirms that satisfaction levels remain high at 90% for overall satisfaction and 85% for value for money. This is consistent with CCWater's Annual Tracking Survey which again identified that customers in the Northumbria region are the most likely to say that they are satisfied with value for money from their water and sewerage services. CCWater also reported a 28% reduction in complaints for NWL in 2009/10, from an already low number.

The culture of getting things “right first time every time” is embedded in the business, the objective being to help prevent unwanted contact or, when customers do contact us, to deal with their issues immediately. This approach will be important in performing well under Ofwat’s newly introduced Service Incentive Mechanism (SIM), which includes a more qualitative review of customer service.

The Overall Performance Assessment (OPA) for 2009/10 published by Ofwat in October was disappointing but we are addressing the critical areas which affected our score, specifically the security of supply index, unplanned interruptions and sewer flooding.

Security of supply in our Essex and Suffolk area depends on increasing the capacity of Abberton reservoir. This work is on target and will secure supplies for the Essex region for the foreseeable future when it becomes operational in 2013. Our reservoir levels are normal for this time of year, except for Abberton where we have actively managed lower levels to accommodate construction work.

Unplanned interruptions have been low in the year to date as we have adopted new technologies and approaches to improve response times and reduce the impact of interruptions on customers. We have also identified improvements to network monitoring and alarms, allowing a more rapid response to asset failure. These steps should also help to return serviceability on our water infrastructure network to a stable position.

We have continued to invest in solutions for sewer flooding and aim to remove an additional 175 properties from the risk registers this year. In addition, we are rolling out an enhanced programme of mitigation measures to provide protection whilst options for further intervention are considered. The weather radar station, which we installed last year, together with the Hawkeye monitoring technology in sewers, is helping us to understand the impact of heavy rainfall on our network. As a result, we are improving our operation of the network to reduce pollution incidents and to target additional sewer rehabilitation investment. These steps form part of an action plan to restore stable serviceability on our waste water infrastructure network.

We continue to meet our key three-year rolling leakage targets, although we were slightly above the one-year targets for 2009/10 which reflected the impact of the harshest winter weather for 30 years on our network. We expect to meet all leakage targets for 2010/11.

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 current year. We are now working with landowners and farmers to improve catchment management in parts of our areas which are affected by pesticides, albeit at low levels, and have agreed this process with the Drinking Water Inspectorate.

Customers have responded well to our ‘Bad Habits cost the Earth’ campaign which encourages them to reduce their water consumption and we are making good progress in reaching our target of reducing demand by one litre per property per day each year.

Our advanced anaerobic digestion (AAD) plant at Bran Sands on Teesside is now fully operational and we have obtained planning permission to introduce a second such plant at Howdon in North Tyneside. From 2013, when Howdon becomes operational, the combined output from these plants will produce nearly 20% of our power usage through renewable energy. Construction is underway on a new hydro-electric power plant, at Selset reservoir in County Durham, with a capacity of 4Gw per year when operational in early 2011.

All sewage treatment works continued to perform well and met their required standards. In the north east, 33 out of 34 bathing waters met the required mandatory standard and 29 met the more demanding guideline standard for 2010.

Water and waste water contracts

Revenue for the Group's water and waste water contracts was £19.6 million for the six months to 30 September 2010 (2009: £18.9 million) and profit on ordinary activities before interest was £4.8 million (2009: £4.4 million). All contracts are performing well, in line with expectations.

In April, 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.

Principal risks and uncertainties

There are some significant reviews and consultations currently underway giving rise to uncertainty about the future regulatory structure of the water industry.

The Government intends to publish a White Paper on the Natural Environment in 2011 which will have implications for the water sector. Later that year, it intends to publish a further White Paper specifically on water which will consider matters not incorporated in the Floods and Water Management Act and give consideration to the Walker Review (on charging and metering) and the Cave Review (on competition).

Defra has launched a review, led by David Gray, of Ofwat and CC Water which is expected to conclude in spring 2011. Our submission to the call for evidence highlighted the need to achieve clarity regarding the respective roles of Defra, Ofwat and other regulatory bodies, the importance of maintaining equity and debt investor confidence, the need for simplified regulation and the requirement for a strong independent consumer representation body.

Ofwat is also undertaking a fundamental review of its activities in its Future Regulation project including consideration of how to set price limits, how it might adopt a more risk based approach to regulatory compliance and reviewing options for market reform. Ofwat proposes to publish a framework paper in late 2011 which will start to bring this work together and to set the scene for the next periodic review price setting methodology and longer term regulatory landscape.

We strongly support Ofwat's stated intent to reduce the regulatory burden and adopt a more risk based regulatory approach and believe that a positive start can be made with the 2011 June Return. We are also engaging constructively with Ofwat on its future price limits and market reform workstreams.

We consider 2011 to be an important year in providing greater clarity on the future legislative and regulatory framework for water. In our view, the debate about water reform needs to become more evidence based and should be focused on achieving benefits for customers 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.

Defra issued a consultation paper in August on their proposals to transfer private drains and sewers into water and sewerage company ownership. If plans go ahead as scheduled, ownership of an estimated 13,500 km of drainage network will transfer from householders and businesses to become our responsibility from 1 October 2011. This would represent an increase to the size of our existing network of around 85%. Ofwat has indicated that it is unlikely that additional operating costs would be reflected in prices until April 2014.

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. The Government's comprehensive spending review (CSR) in October set out an unprecedented level of cuts in public spending. The north east is identified as an area which has a high dependency on the public sector and, while it is difficult to anticipate the impact of the CSR on the Group, debt recovery will remain a very important area to monitor.

The CSR also announced that revenue raised through the Carbon Reduction Commitment Energy Efficiency Scheme will be used to support the public finances rather than be 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 criteria used in our assessments 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 and these were disclosed in the March 2010 annual report and financial statements. However, their impact is not considered to be material to the business over the next six months.

Pensions

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

The deficit (under IAS19) of the defined benefit scheme has decreased from £133.1 million, at 31 March 2010, to £106.6 million at 30 September 2010. This is due to a reduction in the liabilities of the scheme (£52.9 million) which has more than offset a reduction in the value of scheme assets (£26.4 million). The valuation of the scheme liabilities has taken account of the government's stated intention to use the Consumer Prices Index (CPI) rather than RPI to set the inflation measure to determine the minimum pension increases to be applied to the statutory index linked features of retirement benefits. This has given rise to a reduction in the actuarial valuation of the liabilities of around £36.0 million.

The next triennial actuarial valuation of the defined benefit scheme will be as at 31 December 2010. Future contributions will incorporate the deficit funding allowed by Ofwat in the final determination.

Dividend
The Board has declared an interim dividend for the period of 4.72 pence per share (2009: 4.39 pence), an increase of 7.5%. This dividend will be paid on 28 January 2011 to shareholders on the register at the close of business on 17 December 2010.

The dividend is consistent with the policy announced by the Board in December 2009 to maintain a progressive dividend policy with real increases of 3.0% per annum during the current regulatory period. The interim dividend includes an assumption of average inflation of 4.5% (2009: nil%) based on the six months actual RPI to September 2010 and the forecast movement to March 2011.

Board Appointments
As previously announced, the following Board changes have occurred since 31 March 2010:

- Heidi Mottram succeeded John Cuthbert as Chief Executive Officer of both NWG and NWL on 1 April 2010, following John's retirement;
- Margaret Fay was appointed as a non-executive director of NWG and NWL on 1 June 2010;
- Jenny Williams retired as a non-executive director of NWG and NWL on 29 July 2010; and
- Paul Rew was appointed as a non-executive director of NWG and NWL on 1 October 2010.

Outlook
The Group continues to emphasise high standards of customer service and operational performance while making good progress on delivering tough efficiency targets and other regulatory outputs set out in the final determination. We are also making good progress with key projects and investments: work is well underway on site for the expansion of Abberton reservoir, our AAD plant at Bran Sands is performing well and we have awarded the contract for our second AAD plant on Tyneside.

Our funding position is strong and plans are in place for additional long term borrowing facilities which will ensure sufficient funds to meet the ongoing needs of the business. While economic conditions continue to be challenging we are well placed to maintain a strong financial performance.

Heidi Mottram
Chief Executive Officer
29 November 2010

Financial Calendar

2010

30 November	Half-yearly announcement
15 December	Ex-dividend date
17 December	Record date
2011	
28 January	Interim dividend payment
1 February	Interim Management Statement
1 June	Preliminary results announcement
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

Interim consolidated income statement
Six months ended 30 September 2010

	Notes	**Six months to 30.9.2010 £m**	Six months to 30.9.2009 £m	Year to 31.3.2010 £m
Continuing operations				
Revenue	2	**369.4**	351.2	704.7
Operating costs		**(218.1)**	(211.9)	(428.9)
Profit on ordinary activities before interest	2	**151.3**	139.3	275.8
Finance costs payable	3	**(90.1)**	(72.6)	(143.7)
Finance income receivable	3	**28.2**	20.2	37.2
Share of profit after tax of jointly controlled entities		**0.3**	0.1	0.9
Profit on ordinary activities before taxation	2	**89.7**	87.0	170.2
- current taxation	4	**(21.6)**	(20.3)	(37.8)
- deferred taxation	4	**19.7**	(3.6)	(9.5)
Profit for the period		**87.8**	63.1	122.9
Attributable to:				
Equity shareholders of the parent Company		**87.8**	62.9	122.5
Non-controlling interests		**-**	0.2	0.4
		87.8	63.1	122.9

Basic earnings per share attributable to ordinary equity holders of the parent Company	5	**16.96p**	12.15p	23.67p
Diluted earnings per share attributable to ordinary equity holders of the parent Company	5	**16.93p**	12.13p	23.62p
Adjusted earnings per share attributable to ordinary equity holders of the parent Company	5	**12.50p**	12.15p	23.67p
Ordinary dividend proposed per share	6	**4.72p**	4.39p	8.85p
Dividend paid per share	6	**8.85p**	8.50p	12.89p

Interim consolidated statement of comprehensive income
Six months ended 30 September 2010

	Six months to 30.9.2010 £m	Six months to 30.9.2009 £m	Year to 31.3.2010 £m
Profit for the period	**87.8**	63.1	122.9
Other comprehensive income			
Actuarial gains	**31.6**	22.8	1.1
(Losses)/profit on cash flow hedges taken to equity	**(4.0)**	1.3	(0.8)
Translation differences	**-**	-	(0.3)
Tax on items charged or credited to equity	**(9.0)**	(6.8)	(0.1)
Total other comprehensive income/(loss)	**18.6**	17.3	(0.1)
Total net comprehensive income for the period	**106.4**	80.4	122.8
Attributable to:			
Equity shareholders of the parent Company	**106.4**	80.2	122.4
Non-controlling interests	**-**	0.2	0.4
	106.4	80.4	122.8

Interim consolidated statement of changes in equity
Six months ended 30 September 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	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 period	-	-	-	-	-	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 31 March 2010	51.9	446.5	(8.2)	(2.0)	0.7	(177.8)	311.1	2.8	313.9
Profit for the period	-	-	-	-	-	87.8	87.8	-	87.8
Other comprehensive income	-	-	(3.1)	-	-	21.7	18.6	-	18.6
Total net comprehensive income for the period	-	-	(3.1)	-	-	109.5	106.4	-	106.4
Share-based payment	-	-	-	-	-	0.2	0.2	-	0.2
Acquisition of non-controlling interest in subsidiaries	-	-	-	-	-	0.6	0.6	(0.6)	-
Equity dividends paid	-	-	-	-	-	(45.8)	(45.8)	-	(45.8)
At 30 September 2010	**51.9**	**446.5**	**(11.3)**	**(2.0)**	**0.7**	**(113.3)**	**372.5**	**2.2**	**374.7**
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 period	-	-	-	-	-	62.9	62.9	0.2	63.1
Other comprehensive income	-	-	0.9	-	-	16.4	17.3	-	17.3
Total net comprehensive income for the period	-	-	0.9	-	-	79.3	80.2	0.2	80.4
Share-based payment	-	-	-	-	-	0.3	0.3	-	0.3
Equity dividends paid	-	-	-	-	-	(44.0)	(44.0)	-	(44.0)
At 30 September 2009	51.9	446.5	(6.7)	(2.3)	1.0	(198.9)	291.5	2.6	294.1

Interim consolidated balance sheet
As at 30 September 2010

	Note	**30.9.2010**	30.9.2009 restated[1]	31.3.2010 restated[1]
		£m	£m	£m
Non-current assets				
Goodwill		**3.6**	3.6	3.6
Other intangible assets		**64.2**	64.2	64.2
Property, plant and equipment	7	**3,560.4**	3,456.0	3,518.9
Investments in jointly controlled entities		**4.1**	3.3	4.1
Financial assets		**12.4**	13.4	12.9
Amounts receivable relating to consortium relief		**1.7**	1.7	1.7
		3,646.4	3,542.2	3,605.4
Current assets				
Inventories		**3.2**	3.2	3.3
Trade and other receivables		**144.8**	129.7	136.4
Short term cash deposits	8	**12.1**	43.8	15.8
Cash and cash equivalents	8	**164.6**	171.7	174.8
		324.7	348.4	330.3
Total assets		**3,971.1**	3,890.6	3,935.7
Non-current liabilities				
Interest bearing loans and borrowings		**2,306.5**	2,456.6	2,433.9
Provisions		**2.1**	2.4	2.2
Deferred tax liabilities		**595.3**	606.9	606.1
Pension liability	9	**106.6**	103.1	133.1
Other payables		**7.0**	7.7	7.8
Grants and deferred income		**244.8**	219.6	233.5
		3,262.3	3,396.3	3,416.6
Current liabilities				
Interest bearing loans and borrowings		**150.1**	23.6	33.1
Provisions		**0.2**	0.2	0.2
Trade and other payables		**157.3**	155.9	151.2
Interest rate swaps		**16.5**	10.4	12.5
Current income tax liabilities		**10.0**	10.1	8.2
		334.1	200.2	205.2
Total liabilities		**3,596.4**	3,596.5	3,621.8
Net assets		**374.7**	294.1	313.9
Capital and reserves				
Issued capital		**51.9**	51.9	51.9
Share premium reserve		**446.5**	446.5	446.5
Cash flow hedge reserve		**(11.3)**	(6.7)	(8.2)
Treasury shares		**(2.0)**	(2.3)	(2.0)
Currency translation		**0.7**	1.0	0.7
Retained earnings		**(113.3)**	(198.9)	(177.8)
Equity shareholders' funds		**372.5**	291.5	311.1
Non-controlling interests		**2.2**	2.6	2.8
Total capital and reserves		**374.7**	294.1	313.9

1 The prior year balance sheets have been restated to reflect the impact of IFRIC 18. This is explained below in note 1.

Interim consolidated cash flow statement
Six months ended 30 September 2010

	Note	**Six months to 30.9.2010 £m**	Six months to 30.9.2009 £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		**151.3**	139.3	275.8
Depreciation		**55.6**	51.1	105.5
Other non-cash charges and credits		**(3.0)**	(2.3)	(5.7)
Net charge for provisions, less payments		**(0.1)**	(0.1)	(0.3)
Difference between pension contributions paid and amounts recognised in the income statement		**6.1**	4.4	10.3
Decrease/(increase) in inventories		**0.1**	-	(0.1)
(Increase)/decrease in trade and other receivables		**(8.5)**	1.9	(5.0)
Increase in trade and other payables		**2.9**	3.1	0.4
Cash generated from operations		**204.4**	197.4	380.9
Interest paid		**(48.0)**	(48.7)	(114.8)
Tax paid		**(19.8)**	(16.3)	(35.7)
Net cash flows from operating activities		**136.6**	132.4	230.4
Investing activities				
Interest received		**0.8**	8.2	8.8
Capital grants received		**8.0**	4.4	10.1
Proceeds on disposal of property, plant and equipment		**0.4**	0.1	0.3
Dividends received from jointly controlled entities		**0.3**	0.6	0.6
Short term cash deposits		**3.7**	116.8	144.8
Maturity of investments		**0.6**	0.7	1.4
Purchase of property, plant and equipment		**(97.0)**	(123.8)	(220.6)
Net cash flows from investing activities		**(83.2)**	7.0	(54.6)
Financing activities				
Dividends paid to equity shareholders		**(45.8)**	(44.0)	(66.7)
Repayment of borrowings		**(11.1)**	(11.2)	(20.9)
Payment of principal under hire purchase contracts and finance leases		**(4.8)**	(4.8)	(7.2)
Acquisition of externally held loan stock issued by a subsidiary		**(0.4)**	-	-
Net cash flows from financing activities		**(62.1)**	(60.0)	(94.8)
(Decrease)/increase in cash and cash equivalents		**(8.7)**	79.4	81.0
Cash and cash equivalents at start of period		**173.3**	92.3	92.3
Cash and cash equivalents at end of period	8	**164.6**	171.7	173.3

	Note			
Cash and cash equivalents at end of period		**164.6**	171.7	173.3
Short term cash deposits	8	**12.1**	43.8	15.8
Total cash, cash equivalents and short term deposits		**176.7**	215.5	189.1

Notes to the interim financial statements

1. Basis of preparation

The interim financial statements for the six months to 30 September 2010 have been prepared in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting'. The interim financial statements do not include all the information and disclosures required in the annual report and financial statements and should be read in conjunction with the Group's annual report and financial statements as at 31 March 2010. The annual report and financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

The accounting policies and methods of computation adopted are the same as those applied in the annual report and financial statements for the year ended 31 March 2010, except for the adoption of those standards and interpretations listed below which are required to be followed in the Group's annual report and financial statements for the year ending 31 March 2011:

- 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 sheets to be restated resulting in the balances of property, plant and equipment, and grants and deferred income, each increasing by £2.8 million at 30 September 2009 and by £14.0 million at 31 March 2010. The impact on profit for both the current period and the prior periods 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. The impact of this is explained in note 9.

The results for the year ended 31 March 2010 have been extracted from the annual report and financial statements which have been delivered to the Registrar of Companies. The independent auditors' report on those financial statements was unqualified and did not contain a statement under section 498(2) or (3) of the Companies Act 2006. The financial information contained in the interim financial statements does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006.

The figures for the above periods are unaudited and do not constitute statutory accounts. However, the auditors have carried out a review of the figures to 30 September 2010 and their report is set out in the independent review report.

The operations of the Group are not subject to material seasonality or cyclicality. There have been no changes in related party transactions since the last annual report and financial statements for the year ended 31 March 2010 that have a material effect on the Group's financial position or performance for the period.

This report was approved by the Board of Directors on 29 November 2010.

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

Revenue	Northumbrian Water Limited £m	Water and waste water contracts £m	Other £m	Total £m
Six months ended 30 September 2010				
Segment revenue	**346.1**	**19.6**	**6.6**	**372.3**
Inter-segment revenue	**-**	**-**	**(2.9)**	**(2.9)**
Revenue to external customers	**346.1**	**19.6**	**3.7**	**369.4**
Six months ended 30 September 2009				
Segment revenue	328.5	18.9	6.7	354.1
Inter-segment revenue	-	-	(2.9)	(2.9)
Revenue to external customers	328.5	18.9	3.8	351.2
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

All revenue represents services provided.

Profit on ordinary activities before interest	Northumbrian Water Limited £m	Water and waste water contracts £m	Other £m	Total £m
Six months ended 30 September 2010				
Segment profit on ordinary activities before interest	**147.9**	**4.8**	**(1.4)**	**151.3**
Net finance costs payable				**(61.9)**
Share of profit from jointly controlled entities				**0.3**
Profit on ordinary activities before taxation				**89.7**
Taxation				**(1.9)**
Profit for the period from continuing operations				**87.8**
Six months ended 30 September 2009				
Segment profit on ordinary activities before interest	136.3	4.4	(1.4)	139.3
Net finance costs payable				(52.4)
Share of profit from jointly controlled entities				0.1
Profit on ordinary activities before taxation				87.0
Taxation				(23.9)
Profit for the period from continuing operations				63.1
Year ended 31 March 2010				
Segment profit on ordinary activities before interest	268.9	10.2	(3.3)	275.8
Net finance costs payable				(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)

	Six months to 30.9.2010 £m	Six months to 30.9.2009 £m	Year to 31.3.2010 £m
Finance costs payable on debentures, bank and other loans and overdrafts	**57.0**	57.8	114.7
Amortisation of discount, fees, loan issue costs and other financing items	**(2.2)**	(2.2)	(4.5)
Accretion/(amortisation) of index linked bonds	**11.0**	(3.3)	(6.6)
Interest cost on pension plan obligations	**21.8**	18.1	36.1
Finance costs payable on hire purchase contracts and finance leases	**2.5**	2.2	4.0
Total finance costs payable	**90.1**	72.6	143.7
Expected return on pension plan assets	**(22.8)**	(16.0)	(31.6)
Acquisition of CES loan stock	**(4.6)**	-	-
Finance income receivable	**(0.8)**	(4.2)	(5.6)
Net finance costs payable	**61.9**	52.4	106.5

During the period the company 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.

4. Taxation

	Six months to 30.9.2010 £m	Six months to 30.9.2009 £m	Year to 31.3.2010 £m
Current tax:			
Current tax charge at 28%	**21.6**	20.9	38.9
Adjustment in respect of prior periods	**-**	(0.6)	(1.3)
UK corporation tax	**21.6**	20.3	37.6
Overseas tax	**-**	-	0.2
Total current tax	**21.6**	20.3	37.8
Deferred tax:			
Origination and reversal of temporary differences in the year at 27% (2009: 28%)	**3.5**	3.7	9.2
Impact of opening rate reduction	**(23.1)**	-	-
Adjustment in respect of prior periods	**(0.1)**	(0.1)	0.3
Total deferred tax	**(19.7)**	3.6	9.5
Tax charge in the income statement	**1.9**	23.9	47.3

A reduction in the UK corporation tax rate from 28% to 27% with effect from 1 April 2011 was enacted during the period. The Government has announced its intention to further reduce the UK corporation tax rate to 24% by 2014. If this reduction had been enacted by 30 September 2010 the Group's deferred tax liability would have been reduced by a further £66.1 million to £529.2 million.

The Group's future tax charges will also be affected by the Government's intention to reduce the two main rates of capital allowances from 20% to 18% and from 10% to 8% with effect from April 2012.

5. Earnings per share

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

Six months to:	**Earnings 30.9.2010 £m**	**Weighted average number of shares 30.9.2010 million**	**Earnings per share 30.9.2010 pence**	Earnings 30.9.2009 £m	Weighted average number of shares 30.9.2009 million	Earnings per share 30.9.2009 pence
Basic EPS	**87.8**	**517.7**	**16.96**	62.9	517.6	12.15
Diluted EPS	**87.8**	**518.6**	**16.93**	62.9	518.6	12.13

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

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 £3.4 million (2009: £3.6 million, March 2010: £9.5 million) and has an impact on the adjusted EPS of 0.65 pence (2009: 0.70 pence, March 2010: 1.84 pence per share).

Six months to:	**Earnings 30.9.2010 £m**	**Weighted average number of shares 30.9.2010 million**	**Earnings per share 30.9.2010 pence**	Earnings 30.9.2009 restated £m	Weighted average number of shares 30.9.2009 million	Earnings per share 30.9.2009 restated pence
Basic EPS	**87.8**	**517.7**	**16.96**	62.9	517.6	12.15
Deferred tax credit	**(23.1)**		**(4.46)**	-		-
Adjusted EPS	**64.7**	**517.7**	**12.50**	62.9	517.6	12.15

Year to:	Earnings 31.3.2010 restated £m	Weighted average number of shares 31.3.2010 million	Earnings per share 31.3.2010 restated pence
Basic EPS	122.5	517.6	23.67
Diluted EPS	122.5	518.6	23.62
Basic EPS	122.5	517.6	23.67
Deferred tax	-		-
Adjusted EPS	122.5	517.6	23.67

6. Dividends paid and proposed

The Board has declared an ordinary interim dividend for the period of 4.72 pence per share (2009/10: 4.39 pence). The dividend will be paid on 28 January 2011 to shareholders on the register at the close of business on 17 December 2010.

Equity dividends on ordinary shares:	**Six months to 30.9.2010 £m**	Six months to 30.9.2009 £m	Year to 31.3.2010 £m
Declared and paid during the period:			
Interim dividend for 2009/10: 4.39p	**-**	-	22.7
Final dividend for 2009/10: 8.85p (2008/09: 8.50p)	**45.8**	44.0	44.0
Dividends paid	**45.8**	44.0	66.7
Proposed dividend for the period:			
Interim dividend for 2010/11: 4.72p (2009/10: 4.39p)	**24.4**	22.7	-
Final dividend for 2009/10: 8.85p	**-**	-	45.8

7. Property, plant and equipment

Additions for the six months to 30 September 2010 were £97.2 million (2009 restated: £119.0 million). Capital investment in the regulated business for the period was £103.6 million (2009 restated: £111.5 million), which included an intra-Group asset transfer of £7.0 million.

8. Cash, cash equivalents and short-term cash deposits

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

	30.9.2010 £m	30.9.2009 £m	31.3.2010 £m
Cash at bank and in hand	**66.4**	69.6	66.1
Cash equivalent deposits	**98.2**	102.1	108.7
	164.6	171.7	174.8
Bank overdrafts	**-**	-	(1.5)
Cash and cash equivalents	**164.6**	171.7	173.3

Amounts disclosed as short term cash deposits comprise:

	30.9.2010 £m	30.9.2009 £m	31.3.2010 £m
Short term cash deposits > 3 months	**12.1**	-	1.1
Short term cash deposits < 3 months	**-**	43.8	14.7
	12.1	43.8	15.8

Short term cash deposits with a maturity of less than three months of £nil (2009: £43.8 million, March 2010: £14.7 million) represented amounts on deposit at fixed rates with the Northumbrian Water Pension Scheme.

9. Pensions

The deficit (under IAS19) of the defined benefit scheme has decreased from £133.1 million, at 31 March 2010, to £106.6 million at 30 September 2010. This is mainly due to a reduction in the liabilities of the scheme (£52.9 million) which has more than offset a reduction in the value of the assets of the scheme (£26.4 million).

The valuation of the scheme liabilities has taken account of the Government's stated intention to use CPI rather than RPI to set the inflation measure to determine the minimum pension increases to be applied to the statutory index linked features of retirement benefits and for future pension increase orders. 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 pension increases to pension increase orders.

The deficit on the pension scheme was calculated based on the following assumptions.

	Six months to 30.9.2010	Six months to 30.9.2009	Year to 31.3.2010
Pay increases[1]	**4.2%**	4.2%	4.7%
Retail price index inflation	**3.2%**	3.2%	3.7%
Consumer price index inflation	**2.5%**	n/a	n/a
Pensions increases linked to RPI	**3.2%**	3.2%	3.7%
Pensions increases linked to CPI	**2.5%**	n/a	n/a
Discount rate	**5.2%**	5.5%	5.5%
Mortality assumptions[2]			
- Life expectancy for a member aged 65 – female (years)	**23.0**	22.9	23.0
- Life expectancy for a member aged 65 – male (years)	**20.7**	20.6	20.7

1. Including promotional salary scale
2. 115% of PCMA00/PCFA00 (year of birth with medium cohort improvements)

Sensitivity to assumptions

A reduction in the net discount rate will increase the assessed value of liabilities, as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have an opposite effect of similar magnitude. The overall effect of a change in the net discount rate of 0.1% would change the liabilities by around £14.3 million.

There is also uncertainty around life expectancy for the UK population. The value of current and future pension benefits will depend on how long they are assumed to be in payment.

The disclosures have been prepared using the mortality assumptions basis for the 2007 formal valuation, namely the PCMA00/PCFA00 tables, applying a medium cohort adjustment with a 115% loading to mortality rates based on the year of birth of the membership. The assumed life expectancy for a member currently aged 65 is 20.7 years for males and 23.0 years for females.

The effect of increasing the assumed life expectancies by one year would be to increase the value of liabilities by around 2.8% (c. £21.0 million).

Responsibility Statements

We confirm that to the best of our knowledge:

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

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

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

By order of the Board

Heidi Mottram	Chris Green
Chief Executive Officer	Finance Director

29 November 2010

Independent review report to Northumbrian Water Group plc

Introduction
We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2010 which comprises the Interim Consolidated Income Statement, Interim Consolidated Statement of Comprehensive Income, Interim Consolidated Statement of Changes in Equity, Interim Consolidated Balance Sheet, Interim Consolidated Cash Flow Statement and the related notes 1 to 9. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements (ISRE) (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities
The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

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

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

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

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Ernst & Young LLP
Registered Auditor
Newcastle upon Tyne
29 November 2010