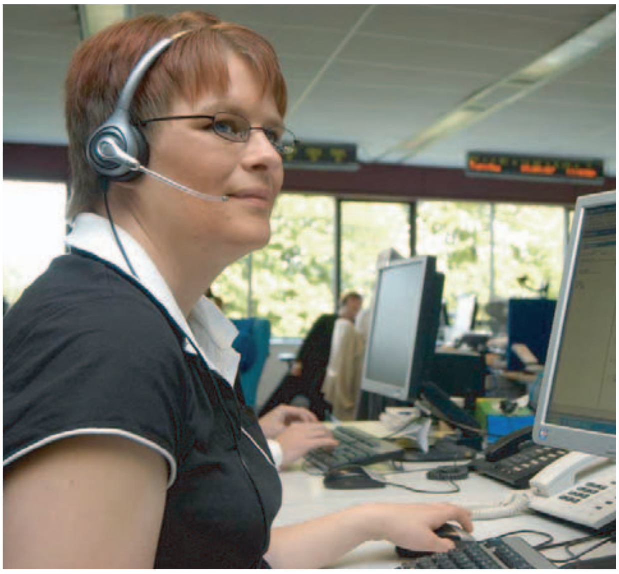
NORTHUMBRIAN WATER GROUP

HALF-YEARLY FINANCIAL REPORT
FOR THE SIX MONTHS ENDED

30 SEPTEMBER 2007



28 November 2007

NORTHUMBRIAN WATER GROUP PLC

HALF-YEARLY FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

Northumbrian Water Group plc (NWG or the Group) presents its half-yearly report for the six months ended 30 September 2007.

HIGHLIGHTS 2007

Financial highlights	Six months to 30.9.2007 £m	Six months to 30.9.2006 £m	Change £m	Change %
Continuing operations				
Revenue	**333.8**	315.9	17.9	5.7
Profit on ordinary activities before interest	**148.1**	129.5	18.6	14.4
Profit before tax	**88.0**	75.5	12.5	16.6
Profit before tax and FV debt amortisation[1]	**85.0**	71.1	13.9	19.5
Profit after tax[2]	**98.2**	56.8	41.4	72.9
Net debt	**2,128.1**	2,053.4	74.7	3.6
Continuing operations				
Basic EPS[2]	**18.94p**	10.95p	7.99p	73.0%
Adjusted EPS[1,3]	**13.19p**	11.32p	1.87p	16.5%
Ordinary dividend proposed	**4.00p**	3.75p	0.25p	6.7%

Notes:
1 Excludes amortisation of debt fair value £3.0 million (2006: £4.4 million)
2 Includes deferred tax credit £26.8 million (2006: charge, £8.3 million)
3 Excludes deferred tax credit £26.8 million (2006: charge, £8.3 million), IAS 39 £nil (2006: credit, £2.0 million)

- Revenue increase mainly reflects the uplift in tariffs to support continuing high capital investment
- Regulated capital investment in the period of £117 million (2006: £100.5 million)
- Funding secured for capital programme to 2010
- Highest levels of customer satisfaction in England and Wales
- Leakage targets achieved
- 100% bathing water compliance
- Ordinary interim dividend of 4.00 pence (2006: 3.75 pence) per share to be paid on 1 February 2008

Managing Director John Cuthbert said, “The Group has delivered strong operational and financial performance in the first six months. As announced previously, NWL has successfully raised the finance for its investment programme through to 2010 and will not be increasing prices to customers by the full amount allowed.

NWL has today published ‘Looking to the future’, strategic direction statements for its operating areas in the north east and south east of England. These consultation documents set out ambitions for the next 25 years and beyond. Stakeholders have already made an important contribution to these documents and we have also drawn on our extensive customer research. We aim to use this consultation process to ensure our future plans meet not only UK and EU legislative requirements, but also the priorities of our customers, CCWater and other key stakeholders.”

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INTERIM MANAGEMENT REPORT

NWG's financial performance

Revenue for the six months to 30 September 2007 was £333.8 million (2006: £315.9 million). This 5.7% increase is mainly due to the uplift in water and sewerage tariffs at Northumbrian Water Limited (NWL), the Group's principal subsidiary.

Profit on ordinary activities before interest for the six months was £148.1 million (2006: £129.5 million). Operating costs decreased slightly by £0.7 million to £185.7 million largely reflecting lower energy prices.

The net interest charge was £60.3 million (2006: £54.2 million). This includes a credit of £3.0 million (2006: £4.4 million) from the amortisation of the debt fair value and a gain of £2.9 million in 2006 from the cancellation of a financial instrument.

Profit on ordinary activities before tax for the six months was £88.0 million (2006: £75.5 million). The current tax charge of £16.6 million (2006: £10.4 million) reflects increased profitability and the effect of the 2005 changes in tax rules on capitalised maintenance expenditure, offset by tax relief for the prepayment of pension contributions.

The deferred tax credit was £26.8 million (2006: charge, £8.3 million). During the period, the tax rate change from 30% to 28% was enacted and this results in a one-off credit to the income statement of £35.4 million.

As disclosed in the Group's 2007 annual report and financial statements, the 2007 Budget also proposed changes to capital allowances. These changes are expected in the 2008 Finance Act and, accordingly, no adjustment has yet been made.

Capital structure

The Group's capital structure and gearing ratios remain largely unchanged from those reported on 6 June 2007. Based on an estimated mid-year Regulated Capital Value (RCV) of £2,879 million (March 2007: £2,817 million) gearing for the Group was 74% of RCV at 30 September 2007 (March 2007: 74%). Gearing at NWL, including the Kielder securitisation, remained at 65%, whilst gearing for the regulated business of NWL increased slightly to 58% (March 2007: 57%).

NWG net debt increased by £48.5 million to £2,128.1 million, whilst that for NWL's regulated business increased by £50.5 million to £1,658.6 million.

The Group's debt structure remains largely unchanged with 64% fixed at an average rate of 6.18%, 19% index linked at an average real rate of 1.85% and 17% on a variable rate basis.

Current funding is sufficient to meet NWL's capital programme to March 2010.

Cash interest cover for the Group improved from 2.9x at March 2007 to 3.5x reflecting the impact of the index linked bonds.

Definitions of gearing, net debt and cash interest cover are disclosed in the March 2007 annual report and financial statements, a copy of which is available on the Company's website at www.nwg.co.uk.

Northumbrian Water Limited
Revenue was £313.5 million for the six months to 30 September 2007 (2006: £296.2 million). The 5.8% increase is mainly due to the uplift in water and sewerage charges to support the continuing high capital investment programme agreed as part of the regulatory price review in 2004. In addition, the revenue includes £2.7 million (2006: £2.6 million) from the scientific services business transferred into NWL from Analytical & Environmental Services Limited (AES) at 31 March 2007.

Operating costs increased from £171.8 million to £173.1 million, principally reflecting the impact of inflation, increased depreciation charges from capital investment and costs relating to the scientific services income referred to above. These have been partially offset by lower energy costs and efficiency savings.

Energy prices for 2007/08 are significantly lower than those for the previous year and are closer to the level assumed by the regulator at the last price review. However, energy prices remain volatile and it is already evident that substantial increases in energy costs will be experienced in 2008/09, largely removing the benefit gained this year.

Profit on ordinary activities before interest for the period was £140.4 million (2006: £124.4 million).

Capital investment for the period was £117.0 million (2006: £100.5 million). For the regulated business, forecast capital investment by 2007/08 on a cumulative basis is within 2% of the capital programme approved by Ofwat for the period from 2005 to 2010. At 30 September 2007, NWL has capital expenditure contracted of £130.8 million.

NWL continues to score very well on measures of customer service and market survey results confirm that customer satisfaction remains high.

CCWater's inaugural Annual Tracking Survey 2006 showed that 96% of NWL customers are satisfied with their water supply and 93% with their sewerage services. In the same survey, 80% of NWL customers are satisfied with the value for money of their water services and 86% with the value for money of the sewerage services. These were the highest levels recorded in England and Wales and confirm independent research commissioned by NWL: over 91% of customers are satisfied with the service and 87% consider their bills value for money.

Water quality results remain good. Drinking water quality is at an all time high and the high quality of rivers and bathing waters has been maintained. This year all 33 bathing waters passed the required mandatory standard and 82% passed the more demanding guideline standard.

Although our area was not as badly affected by flooding during the period as other parts of the country, sewer flooding incidents have increased substantially to 816 as a consequence of severe storms (2006: 212). Capital investment was accelerated after the storms in 2005 and several major schemes were completed recently. The largest of these schemes, at Shiremoor in North Tyneside, has removed 71 properties from the "At Risk of Flooding Register" and the Acomb Crescent Scheme in Newcastle has removed a further 57.

Major improvements to the water treatment works at Warkworth in Northumberland were completed on time in August 2007. They incorporate an additional treatment process to remove pesticides from raw water. Work to reduce discoloured water is on target to lay 17 km of large diameter pipes in the initial phase of the programme to improve over 150 km of pipes in the next three years.

Managing leakage helps meet our customers' demand for water. It also reduces the energy used to treat and pump the water, which lowers carbon emissions and helps combat climate change. We agreed leakage targets with Ofwat of 156 Ml/d in the northern operating area and 68.3 Ml/d in the south for 2006/07 and, once again, both have been met. Our efforts have resulted in leakage levels in Essex & Suffolk being among the lowest in the country over a number of years. Reducing leakage in our southern operating area is particularly important, given the forecast growth in population, and is a key part of the work to find sustainable ways of meeting the increasing demand for water. NWL continues to play a leading role in the review of leakage methodologies with the Environment Agency and Ofwat.

NWL's southern operating areas are in the driest part of the country. Nevertheless, NWL has avoided restrictions on the use of water and has maintained average water resource levels in the Essex supply area by managing demand and achieving leakage levels that are among the lowest in the country. Customers have also contributed by responding positively to our water efficiency promotions over the last ten years.

The pre-planning submission stage of the project to increase the capacity of the Abberton reservoir in Essex is drawing to a close and the planning application will be submitted in early December. When the project is completed in 2014, the capacity of the reservoir will be increased by around 60%.

NWL has extended its effluent treatment plant at Bran Sands on Teesside to provide its first anaerobic treatment facility which will reduce the amount of waste going to landfill. This significant investment is designed to treat 96 tonnes of chemical oxygen demand a day. Construction of a second plant has also commenced at Bran Sands and this will convert sludge into green energy that will meet half the electricity requirement for the entire treatment works.

The pilot stages of our innovative Work Management programme have been completed successfully with the hardware installed in all vehicles, ready for the roll out which is now underway. Work Management uses the latest satellite and communications technology to transfer data electronically between mobile and office based employees. This three year investment programme will improve customer service, reduce costs and improve communications across the business. It will also make a major contribution to improving our environmental impact by reducing journeys and is predicted to reduce our mileage by around 30%.

We have successfully created a new scientific services division within NWL by merging the business of AES with NWL's water and waste water compliance teams. AES continues to operate as a trading division of NWL, providing services to blue chip clients such as Marks & Spencer, the Ministry of Defence, Castle Cement, Northern Ireland Water and National Grid Property Limited (a subsidiary of National Grid Transco plc).

In April this year NWL, in conjunction with Carillion Water, won the Robert Stephenson Award for the Civil Engineering Contract of the Year. The award, from the Institution of Civil Engineers North East, recognised the quality of the work at Seahouses sewage treatment works and associated pumping stations at Beadnell and Bamburgh.

In November, the former waterworks building at Easington Colliery in County Durham was re-opened as Healthworks. This is the culmination of a unique partnership between Northumbrian Water, County Durham Primary Care Trust, Easington District Council and Horden and Easington Colliery Neighbourhood Management and will provide a range of dedicated health improvement and community regeneration services. Healthworks will be a focal point for service providers and community groups to address the health and social issues facing one of the most deprived areas of England.

This project is part of NWL's commitment to corporate responsibility to contribute to the long term sustainability of the communities served. Within the partnership we have been able to use our own 'Water for health' campaign to support the Primary Care Trust's Healthy Living agenda to make a lasting contribution to the local community.

Water and waste water contracts
Revenue for the Group's water and waste water contracts was £16.9 million for the six months to 30 September 2007 (2006: £17.5 million) and profit on ordinary activities before interest was £3.4 million (2006: £4.5 million). The decrease in profit on ordinary activities before interest is principally due to a one-off credit in respect of gas indexation on tariffs. All contracts continue to perform satisfactorily.

The Group is a shareholder in two consortia delivering private finance initiative contracts with Scottish Water. In Ireland, the Group is part of a contractual consortium that designed and built a waste water treatment plant for Cork City Council, which the Group also operates and maintains.

AquaGib Limited, in which the Group owns two thirds of the equity, with the balance owned by the Government of Gibraltar, continues to operate Gibraltar's dual drinking water and sea water distribution systems. In June 2007, AquaGib placed a contract for additional reverse osmosis units which will complement existing units and replace less efficient processes used to produce potable water from sea water. The project will cost £3.3 million and is due to be completed in Spring 2008.

Financial calendar

2007

19 December	Ex-dividend date
21 December	Record date

2008

1 February	Interim dividend payment
6 February	Interim Management Statement
4 June	Preliminary results announcement
31 July	AGM
31 July	Interim Management Statement
13 August	Ex-dividend date
15 August	Record date
12 September	Final dividend payment

Principal risks and uncertainties
In considering the next six months there are no material changes to the principal risks and uncertainties affecting the business activities of the Group as described in the March 2007 annual report and financial statements, a copy of which is available on the Company's website at www.nwg.co.uk.

Pensions
The Group operates both a final salary defined benefit and a contract-based contribution pension scheme. Following an extensive review and consultation, the defined benefit scheme will close to new members at the end of 2007. Contributions from members who remain in the defined benefit scheme will increase from 1 April 2008.

From 1 January 2008, new employees will have the opportunity to join a new occupational trust-based defined contribution arrangement.

At 30 September 2007, the surplus (under IAS19) of the defined benefit scheme had increased from £42.7 million, at 31 March 2007, to £74 million. This reflects the third and final tranche of £23.3 million paid to the scheme in April 2007. A total of £59.4m, representing both employee and employer contributions for the 5 years to 31 December 2010, has now been invested in the scheme's assets.

The surplus also reflects the latest assumption on scheme mortality which will form the basis of the next actuarial valuation as at 31 December 2007.

Dividend
The Board has declared an interim dividend for the period of 4.00 pence per share (2006: 3.75 pence). This dividend will be paid on 1 February 2008 to shareholders on the register at the close of business on 21 December 2007. The dividend cover for the period is 4.7x, and 3.3x excluding deferred tax and the amortisation of debt fair value.

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

Outlook
The Company's operating and financial performance remains strong. By continuing to concentrate on our core water and waste water competencies we will maintain our high levels of customer satisfaction and our ability to deliver value to our stakeholders.

We will continue to focus on managing energy costs and take positive steps to reduce the environmental impact of our business.

We are consulting with all our stakeholders on our plans for the medium and long term and will endeavour to continue to manage the business to meet our regulatory obligations, provide value for our stakeholders and to be a responsible business in the communities we serve.

John Cuthbert
Managing Director
27 November 2007

Interim consolidated income statement
Six months ended 30 September 2007

	Notes	**Six months to 30.9.2007 £m**	Six months to 30.9.2006 £m	Year to 31.3.2007 £m
Continuing operations				
Revenue	2	**333.8**	315.9	633.5
Operating costs		**(185.7)**	(186.4)	(375.3)
Profit on ordinary activities before interest	2	**148.1**	129.5	258.2
Finance costs payable		**(68.8)**	(60.0)	(127.0)
Finance income receivable		**8.5**	5.8	15.8
Share of profit after tax of associates and jointly controlled entities		**0.2**	0.2	0.8
Profit on ordinary activities before taxation	2	**88.0**	75.5	147.8
- current taxation	3	**(16.6)**	(10.4)	(8.6)
- deferred taxation	3	**26.8**	(8.3)	(28.0)
Profit for the period		**98.2**	56.8	111.2
Attributable to:				
Equity shareholders of the company		**98.1**	56.7	110.9
Minority interests		**0.1**	0.1	0.3
		98.2	56.8	111.2

Basic earnings per share for profit attributable to ordinary equity holders of the parent	5	**18.94p**	10.95p	21.42p
Diluted earnings per share for profit attributable to ordinary equity holders of the parent	5	**18.92p**	10.93p	21.38p
Adjusted earnings per share for profit attributable to ordinary equity holders of the parent (excluding deferred tax, amortisation of debt fair value and IAS 39 adjustments)	5	**13.19p**	11.32p	24.95p
Ordinary dividend proposed per share	4	**4.00p**	3.75p	7.52p
Dividend paid per share	4	**7.52p**	7.04p	10.79p

Consolidated statement of recognised income and expense
Six months ended 30 September 2007

	Six months to 30.9.2007 £m	Six months to 30.9.2006 £m	Year to 31.3.2007 £m
Actuarial gains/(losses)	**9.2**	(2.4)	25.0
Gains on cash flow hedges	**-**	1.9	2.4
Tax on items charged or credited to equity	**(2.6)**	0.7	(7.5)
Translation differences	**-**	-	(0.2)
Total income and expense recognised in equity	**6.6**	0.2	19.7
Transferred to the income statement on cash flow hedges	**-**	(2.9)	(2.9)
Profit for the period	**98.2**	56.8	111.2
Total recognised income and expense	**104.8**	54.1	128.0
Attributable to:			
Equity shareholders of the Company	**104.7**	54.0	127.7
Minority interests	**0.1**	0.1	0.3
	104.8	54.1	128.0

Interim consolidated balance sheet
As at 30 September 2007

	Note	**30.9.2007 £m**	30.9.2006 £m	31.3.2007 £m
Non-current assets				
Goodwill		**3.6**	3.7	3.6
Other intangible assets		**64.2**	64.2	64.2
Property, plant and equipment		**3,189.4**	3,041.0	3,119.9
Investments in jointly controlled entities		**3.4**	3.2	3.6
Financial assets		**17.2**	21.2	18.0
Pension asset		**74.0**	17.0	42.7
Other receivables		**1.7**	1.7	1.7
Other investments		**0.2**	0.3	0.2
		3,353.7	3,152.3	3,253.9
Current assets				
Inventories		**3.4**	3.6	3.7
Trade and other receivables		**125.6**	111.6	122.8
Cash and cash equivalents		**265.8**	247.4	316.9
		394.8	362.6	443.4
TOTAL ASSETS		**3,748.5**	3,514.9	3,697.3
Non-current liabilities				
Interest bearing loans and borrowings		**2,376.9**	2,295.1	2,382.1
Provisions		**2.8**	3.0	2.9
Deferred income tax liabilities		**507.0**	503.3	531.2
Other payables		**9.5**	10.2	10.0
Grants		**203.1**	186.3	193.3
		3,099.3	2,997.9	3,119.5
Current liabilities				
Interest bearing loans and borrowings		**36.0**	22.9	34.5
Provisions		**0.2**	0.3	0.2
Trade and other payables		**163.6**	158.7	165.6
Income tax payable		**10.2**	16.4	4.4
		210.0	198.3	204.7
TOTAL LIABILITIES		**3,309.3**	3,196.2	3,324.2
NET ASSETS		**439.2**	318.7	373.1
Capital and reserves				
Issued capital		**51.9**	51.9	51.9
Share premium reserve		**446.5**	446.5	446.5
Cash flow hedge reserve		**1.0**	0.5	1.0
Treasury shares		**(1.3)**	(1.7)	(1.3)
Currency translation		**(0.2)**	-	(0.2)
Retained earnings		**(60.5)**	(180.1)	(126.5)
Equity shareholders' funds		**437.4**	317.1	371.4
Minority interest		**1.8**	1.6	1.7
TOTAL CAPITAL AND RESERVES	7	**439.2**	318.7	373.1

Interim consolidated cash flow statement
Six months ended 30 September 2007

	Note	**Six months to 30.9.2007 £m**	Six months to 30.9.2006 £m	Year to 31.3.2007 £m
Operating activities				
Reconciliation of profit before interest to net cash flows from operating activities				
Profit on ordinary activities before interest		**148.1**	129.5	258.2
Depreciation and other similar non-cash charges		**44.8**	42.8	92.9
Other non-cash charges		**0.2**	0.3	(6.2)
Net charge for provisions, less payments		**(0.1)**	(0.1)	(0.3)
Difference between pension contributions paid and amounts recognised in the income statement		**0.5**	2.7	4.4
Decrease/(increase) in inventories		**0.3**	(0.3)	(0.4)
Increase in trade and other receivables		**(3.1)**	(4.2)	(13.6)
(Decrease)/increase in trade and other payables		**(0.9)**	(5.4)	0.9
Cash generated from operations		**189.8**	165.3	335.9
Advanced contributions in respect of retirement benefits		**(22.6)**	(25.8)	(25.8)
Net interest paid		**(57.1)**	(54.9)	(124.7)
Income taxes paid		**(10.8)**	(4.4)	(14.6)
Net cash flows from operating activities		**99.3**	80.2	170.8
Investing activities				
Interest received		**6.4**	2.5	12.5
Capital grants received		**12.1**	9.5	18.8
Proceeds on disposal of property, plant and equipment		**1.3**	0.8	2.2
Dividends received from jointly controlled entities		**0.4**	0.6	0.9
Purchase of property, plant and equipment		**(120.3)**	(99.3)	(211.4)
Net cash flows from investing activities		**(100.1)**	(85.9)	(177.0)
Financing activities				
New borrowings		**3.5**	325.1	425.0
Maturity of investments		**0.9**	1.0	2.1
Settled hedge instruments		**-**	2.9	3.4
Issue costs of new borrowings		**-**	(0.4)	(0.4)
Own shares purchased		**-**	-	(0.2)
Dividends paid to minority interests		**-**	-	(0.1)
Dividends paid to equity shareholders		**(38.7)**	(36.4)	(55.8)
Repayment of borrowings		**(12.0)**	(193.7)	(201.1)
Payment of principal under hire purchase contracts and finance leases		**(3.9)**	(3.5)	(4.8)
Net cash flows from financing activities		**(50.2)**	95.0	168.1
Increase in cash and cash equivalents		**(51.0)**	89.3	161.9
Cash and cash equivalents at start of period		**315.8**	153.9	153.9
Cash and cash equivalents at end of period	6	**264.8**	243.2	315.8

Notes to the interim financial statements

1. Basis of preparation

The interim financial statements for the six months to 30 September 2007 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 2007. The annual report and financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The accounting policies and methods of computation adopted are the same as those applied in the annual report and financial statements for the year ended 31 March 2007, 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 2008:

- *IFRS 7– Financial Instruments: Disclosures*
- *Amendment to IAS 1 – Presentation of Financial Instruments: Capital disclosures*
- *IFRIC 8 – Scope of IFRS 2*
- *IFRIC 9 – Reassessment of Embedded Derivatives*
- *IFRIC 10 – Interim Financial Reporting and Impairment*
- *IFRIC 11: IFRS 2 – Group and Treasury Share transactions*

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

The results for the year ended 31 March 2007 have been extracted from the annual report and financial statements which have been delivered to the Registrar of Companies. The independent auditors' report on those financial statements was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985. The financial information contained in the interim financial statements does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985.

The figures for the above periods are unaudited and do not constitute statutory accounts. However, the auditors have carried out a review of the figures to 30 September 2007 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 2007 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 27 November 2007.

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

The 'Other' segment (formerly disclosed as 'Related services') previously included AES. On 31 March 2007, the business of AES merged with NWL and operates as a trading division of NWL. Accordingly, the comparatives for the 'Other' and 'Northumbrian Water Limited' segments, for the six months to 30 September 2006 and 12 months to 31 March 2007, have been restated by £2.6 million and £5.3 million in respect of revenue, and £0.2 million and £0.4 million in respect of profit on ordinary activities before interest, respectively.

Credits for central unallocated costs and provisions included in profit on ordinary activities before interest, for the six months to 30 September 2006 and 12 months to 31 March 2007, of £0.6 million and £3.4 million respectively, have also been restated to be included within the 'Other' segment.

Revenue

	Northumbrian Water Limited £m	Water & waste water contracts £m	Other £m	Total £m
Six months ended 30 September 2007				
Segment revenue	**313.5**	**16.9**	**6.2**	**336.6**
Inter-segment revenue	**-**	**-**	**(2.8)**	**(2.8)**
Revenue to external customers	**313.5**	**16.9**	**3.4**	**333.8**
Six months ended 30 September 2006				
Segment revenue	296.2	17.5	5.7	319.4
Inter-segment revenue	-	-	(3.5)	(3.5)
Revenue to external customers	296.2	17.5	2.2	315.9
Year ended 31 March 2007				
Segment revenue	591.8	37.0	11.2	640.0
Inter-segment revenue	-	-	(6.5)	(6.5)
Revenue to external customers	591.8	37.0	4.7	633.5

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

Profit on ordinary activities before interest

	Northumbrian Water Limited £m	Water & waste water contracts £m	Other £m	Total £m
Six months ended 30 September 2007				
Segment profit on ordinary activities before interest	**140.4**	**3.4**	**4.3**	**148.1**
Net finance costs				**(60.3)**
Share of profit from associates and jointly controlled entities				**0.2**
Profit on ordinary activities before taxation				**88.0**
Taxation				**10.2**
Profit for the period				**98.2**
Six months ended 30 September 2006				
Segment profit on ordinary activities before interest	124.4	4.5	0.6	129.5
Net finance costs				(54.2)
Share of profit from associates and jointly controlled entities				0.2
Profit on ordinary activities before taxation				75.5
Taxation				(18.7)
Profit for the period				56.8
Year ended 31 March 2007				
Segment profit on ordinary activities before interest	243.0	11.9	3.3	258.2
Net finance costs				(111.2)
Share of profit from associates and jointly controlled entities				0.8
Profit on ordinary activities before taxation				147.8
Taxation				(36.6)
Profit for the year				111.2

3. Taxation

	Six months to 30.9.2007 £m	Six months to 30.9.2006 £m	Year to 31.3.2007 £m
Current tax:			
UK corporation tax - continuing operations	**16.6**	10.3	21.0
- income tax reported in equity on cash flow hedges	**-**	0.1	0.1
- adjustment in respect of prior periods	**-**	-	(12.5)
Total current tax	**16.6**	10.4	8.6
Deferred tax:			
Deferred tax - continuing operations	**8.5**	11.3	21.0
- impact of rate reduction	**(35.4)**	-	-
- income tax reported in equity on cash flow hedges	**-**	(0.1)	(0.1)
- adjustment in respect of prior periods	**0.1**	(2.9)	7.1
Total deferred tax	**(26.8)**	8.3	28.0
Tax (credit)/charge in the income statement	**(10.2)**	18.7	36.6

4. Dividends paid and proposed

The Board has declared an ordinary interim dividend for the period of 4.00 pence per share (2006/07: 3.75 pence). The dividend will be paid on 1 February 2008 to shareholders on the register at the close of business on 21 December 2007.

	Six months to 30.9.2007 £m	Six months to 30.9.2006 £m	Year to 31.3.2007 £m
Declared and paid during the period:			
Equity dividends on ordinary shares:			
Interim dividend for 2006/07: 3.75p	**-**	-	19.4
Final dividend for 2006/07: 7.52p (2005/06: 7.04p)	**38.9**	36.4	36.4
Dividends paid	**38.9**	36.4	55.8
Proposed dividend for the period:			
Interim dividend for 2007/08: 4.00p (2006/07: 3.75p)	**20.7**	19.4	-
Final dividend for 2006/07: 7.52p	**-**	-	39.0

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.

	Earnings 30.9.2007 £m	**Weighted average number of shares 30.9.2007 million**	**Earnings per share 30.9.2007 pence**	Earnings 30.9.2006 £m	Weighted average number of shares 30.9.2006 million	Earnings per share 30.9.2006 Pence
Basic EPS	**98.1**	**517.9**	**18.94**	56.7	517.6	10.95
Diluted EPS	**98.1**	**518.6**	**18.92**	56.7	518.6	10.93

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

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

Six months to:	**Earnings 30.9.2007 £m**	**Weighted average number of shares 30.9.2007 million**	**Earnings per share 30.9.2007 pence**	Earnings 30.9.2006 £m	Weighted average number of shares 30.9.2006 million	Earnings per share 30.9.2006 pence
Basic EPS	**98.1**	**517.9**	**18.94**	56.7	517.6	10.95
Deferred tax	**(26.8)**		**(5.17)**	8.3		1.60
Amortisation of debt fair value	**(3.0)**		**(0.58)**	(4.4)		(0.84)
IAS 39 derivatives (net of tax)	**-**		**-**	(2.0)		(0.39)
Adjusted EPS	**68.3**	**517.9**	**13.19**	58.6	517.6	11.32

5. Earnings per share (continued)

Year to:	Earnings 31.3.2007 £m	Weighted average number of shares 31.3.2007 million	Earnings per share 31.3.2007 pence
Basic EPS	110.9	517.7	21.42
Diluted EPS	110.9	518.6	21.38
Basic EPS	110.9	517.7	21.42
Deferred tax	28.0		5.41
Amortisation of debt fair value	(7.7)		(1.49)
Derivatives	(2.0)		(0.39)
Adjusted EPS	129.2	517.7	24.95

6. Cash and cash equivalents

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

	Six months to 30.9.2007 £m	Six months to 30.9.2006 £m	Year to 31.3.2007 £m
Cash at bank and in hand	**23.7**	21.2	53.3
Short term deposits	**242.1**	226.2	263.6
Bank overdrafts	**(1.0)**	(4.2)	(1.1)
	264.8	243.2	315.8

7. Reconciliation of movements in equity

	Equity share capital £m	Share premium reserve £m	Cash flow hedge reserve £m	Treasury shares £m	Currency translation £m	Retained earnings £m	Total equity £m	Minority interests £m	Total £m
At 1 April 2006	51.9	446.5	1.5	(1.7)	-	(198.9)	299.3	1.5	300.8
Shares purchased	-	-	-	(0.2)	-	-	(0.2)	-	(0.2)
Total recognised income and expense for the year	-	-	(0.5)	-	(0.2)	128.4	127.7	0.3	128.0
Share-based payment	-	-	-	-	-	0.4	0.4	-	0.4
Exercise of LTIP awards	-	-	-	0.6	-	(0.6)	-	-	-
Equity dividends paid	-	-	-	-	-	(55.8)	(55.8)	(0.1)	(55.9)
At 31 March 2007	51.9	446.5	1.0	(1.3)	(0.2)	(126.5)	371.4	1.7	373.1
Total recognised income and expense for the period	-	-	-	-	-	104.7	104.7	0.1	104.8
Share-based payment	-	-	-	-	-	0.2	0.2	-	0.2
Equity dividends paid	-	-	-	-	-	(38.9)	(38.9)	-	(38.9)
At 30 September 2007	**51.9**	**446.5**	**1.0**	**(1.3)**	**(0.2)**	**(60.5)**	**437.4**	**1.8**	**439.2**

7. Reconciliation of movements in equity (continued)

	Equity share capital £m	Share premium reserve £m	Cash flow hedge reserve £m	Treasury shares £m	Retained earnings £m	Total equity £m	Minority interests £m	Total £m
At 1 April 2006	51.9	446.5	1.5	(1.7)	(198.9)	299.3	1.5	300.8
Total recognised income and expense for the period	-	-	(1.0)	-	55.0	54.0	0.1	54.1
Share-based payment	-	-	-	-	0.2	0.2	-	0.2
Equity dividends paid	-	-	-	-	(36.4)	(36.4)	-	(36.4)
At 30 September 2006	51.9	446.5	0.5	(1.7)	(180.1)	317.1	1.6	318.7

Responsibility Statements

We confirm that to the best of our knowledge:

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

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

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

By order of the Board

John Cuthbert Managing Director

Chris Green Finance Director

27 November 2007

INDEPENDENT REVIEW REPORT TO NORTHUMBRIAN WATER GROUP PLC

Introduction

We have been engaged by the Company to review the interim set of financial statements in the half-yearly financial report for the six months ended 30 September 2007 which comprise the Consolidated Income Statement, Consolidated Statement of Recognised Income and Expense, Consolidated Balance Sheet, Consolidated Cash Flow Statement and the related notes 1 to 7. 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 interim set of financial statements.

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

Directors' responsibilities

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

As disclosed in note 1, the annual report and financial statements of the Group are prepared in accordance with IFRS as adopted by the European Union. The interim set of financial statements included in this half-yearly financial report have 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 interim set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (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 interim set of financial statements in the half-yearly financial report for the six months ended 30 September 2007 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
27 November 2007