7 June 2006

NORTHUMBRIAN WATER GROUP PLC

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2006

Northumbrian Water Group plc (NWG or the Group) is pleased to announce its preliminary results for the year ended 31 March 2006.

HIGHLIGHTS 2006

Financial highlights	**Year to 31.3.2006 £m**	Year to 31.3.2005 £m	Change £m	Change %
Continuing operations				
Revenue	**591.5**	541.6	49.9	9.2
Profit on ordinary activities before interest	**236.2**	196.1	40.1	20.4
Profit before tax	**130.3**	96.3	34.0	35.3
Profit before tax and FV debt amortisation[1]	**117.3**	82.2	35.1	42.7
Profit after tax	**91.0**	76.2	14.8	19.4
Net debt	**2,010.4**	1,881.0	129.4	6.9
Continuing operations				
Basic EPS	**17.57p**	14.71p	2.86p	19.4%
Adjusted EPS[1,2]	**19.62p**	16.44p	3.18p	19.3%
Ordinary dividends paid and proposed[3]	**10.56p**	10.00p	0.56p	5.6%

Notes:
1 Excludes fair value debt amortisation £13.0 million (2005: £14.1 million)
2 Excludes deferred tax £23.6 million (2005: £21.0 million)
3 Ordinary interim dividends paid 3.52p (2005: 2.87p), final proposed 7.04p (2005: 7.13p)

- Strong financial and operating performance – a good start to the five year period
- Revenue increase mainly due to the price increase on water and sewerage charges to support the continuing high capital investment programme
- Capital expenditure of £211.9 million in Northumbrian Water Limited (NWL) – on track to deliver the investment programme of nearly £1 billion to 2010
- Leakage targets and environmental standards either met or exceeded
- Disposal of three non-regulated businesses during the year reinforces the focus on the core water and waste water business
- Financial position further strengthened - funding secured for investment programme to 2010
- Proposed final dividend of 7.04 pence per share, giving a full year ordinary dividend of 10.56 pence per share (2005: 10.00 pence per share)

Managing Director John Cuthbert said, "We are pleased to be reporting a strong set of results and a good start to this regulatory period. Disposals during the course of the year, and reorganisation at board level, have reinforced our focus on the core water business. We have maintained a high level of operational performance, meeting our regulatory targets and delivering high levels of water quality, customer service and environmental standards."

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MANAGING DIRECTOR'S STATEMENT

This year has seen further development of NWG and highlights include:

- a good start with the delivery of the investment programme of nearly £1 billion over five years to 2010;
- increased focus on the core water and waste water business with the sale of three subsidiaries; and
- continuing high levels of water quality, customer service and environmental standards.

Sir Fred Holliday will retire as Chairman at the AGM on 27 July. Sir Fred has guided the Group wisely since he became Chairman in 1993.

We welcome Sir Derek Wanless, who joined the board in December 2003, as incoming Chairman.

NWG's financial performance

Revenue from continuing operations was £591.5 million for the year to 31 March 2006 (2005: £541.6 million). This increase is mainly due to the price increase on water and sewerage charges to support the continuing high capital investment programme.

Profit on ordinary activities before interest from continuing operations for the year was £236.2 million (2005: £196.1 million). Operating costs increased by £9.8 million (3%) to £355.3 million with upward pressure on costs mitigated by ongoing efficiencies.

The net interest charge from continuing operations was £106.0 million (2005: £99.9 million) and includes a credit of £13.0 million (2005: £14.1 million) in respect of the amortisation of the debt fair value.

Profit on ordinary activities before tax for the year was £130.3 million (2005: £96.3 million). The tax charge of £39.3 million (2005: £20.1 million) reflects increased profitability and changes in tax rules on capitalised maintenance expenditure. The effective tax rate for the year to 31 March 2006 is 30% (2005: 21%).

The sale of subsidiaries contributed £14.6 million to the results for the year and this is included in the profit from discontinued operations of £15.4 million (see note 4 for further analysis).

The Group's gearing has remained stable with net debt increasing by £129.4 million to £2,010.4 million over the year. Cash interest cover for the Group at 2.7x is unchanged from last year.

Sale of subsidiaries

In line with the strategy to focus on the core water and waste water business, and following the receipt of several expressions of interest, the Group disposed of Fastflow Pipeline Services Limited (FPS) on 8 July 2005, Entec UK Limited (Entec) on 5 October 2005 and ULG Northumbrian Limited (ULG) on 10 April 2006.

FPS, which provides infrastructure replacement and rehabilitation services, was sold to a management buy-in for a cash consideration of £0.8 million.

The total consideration for the sale of Entec to its management was £30.0 million, satisfied by £29.0 million in cash and £1.0 million of loan notes. Entec provides environmental and engineering consultancy services.

ULG provides overseas aid funded project work through a number of funding agencies and was sold, to PMTC International Limited, for a consideration equal to its net assets of £26,642.

In the results for the year to 31 March 2006, the Group profit on the disposal of Entec and FPS was £14.0 million and £0.6 million respectively. No tax arises on either disposal due to the availability of the substantial shareholdings exemption. A payment of £11.0 million was made into the defined benefit scheme to meet the Section 75 liabilities of both FPS and Entec.

There was no profit or loss on the sale of ULG and no defined benefit scheme liability.

Capital structure
In September 2005, Northumbrian Water Finance plc (NWF), the finance subsidiary of NWL, issued £150 million index linked 2.033% Eurobonds due in 2036. The proceeds were used to repay short term loans and fund the continuing capital programme. This was the Group's first index linked debt issue and NWL will benefit from the cash flow advantage from this type of debt.

In November 2005, the EIB entered into a new £100 million facility with NWL. This offers NWL attractive funding and will be drawn on an index linked basis mid 2006, with a 10 year maturity.

On 20 April 2005, NWL effectively completed the early redemption of six debenture stocks amounting to £3.7 million. On 6 September 2005, NWL gave formal notice of redemption to the holders of the 11.2% redeemable debenture stock (£3.5 million) and the 12% redeemable debenture stock (£2.0 million) and both were redeemed at par on 31 December 2005.

On 31 January 2006, NWF issued a further £60 million index linked 1.6274% Eurobonds due in 2041.

On 31 March 2006, the bondholders of the £350 million 6.875% Eurobonds due in 2023 agreed to the substitution of NWF as issuer, in place of Northumbrian Services Limited, with the retention of the guarantee from NWL.

On 28 June 2006, the Group will redeem the remaining £172 million 8.625% Eurobonds utilising five year committed bank facilities of £125 million, with the balance to be paid from existing cash resources.

NWL has agreed the terms of two issues of index linked Eurobonds amounting to £200 million with a real coupon of c.1.75% and an average maturity of 45 years. Subject to the finalisation and terms of customary documentation, these index linked bonds are expected to be issued in mid June 2006. This will take advantage of the current low cost of funds and secure sufficient resources to meet the needs of the capital investment programme until 2010. When issued, the Group's debt portfolio will comprise c.75% on a fixed interest rate basis and average maturity will extend to about 20 years.

Pensions
The Group operates a defined benefit pension scheme providing benefits based on pensionable remuneration. The scheme remains open to existing members and to new employees of NWL.

The most recent actuarial valuation, as at 31 December 2004, reported that the scheme was 97.6% funded and new employer contributions were recommended by the scheme actuary.

The Group agreed an alternative proposal to make capital payments of £36.1 million by April 2006 and £23.3 million by April 2007, covering both employee and employer contributions to 31 December 2010. The Group also launched a salary sacrifice arrangement, on 1 April 2006, under which savings in employer national insurance contributions are also paid into the scheme.

The deficit under IAS 19 at 31 March 2006, was £3.7 million (2005: £76.4 million).

NORTHUMBRIAN WATER LIMITED

Revenue was £555.5 million for the year to 31 March 2006 (2005: £508.2 million). The revenue increase is mainly due to the price increase on water and sewerage charges to support the continuing high capital investment programme agreed as part of the recent regulatory price review.

Operating costs have increased from £310.5 million to £320.9 million, principally reflecting additional depreciation charges from the commissioning of new assets, the impact of inflation plus increases in market prices for power. These increases have been partially offset by efficiency savings. Operating costs for the appointed business in 2005/06 are in line with those estimated in the 2004 final determination.

Profit on ordinary activities before interest for the period was £234.6 million (2005: £197.7 million).

Domestic customers

We are committed to providing a good service to all our customers. Once again, drinking water and environmental standards have been met or exceeded. The quality of drinking water supplied in both our regions is very high and remains among the best in the country. Our own independently commissioned research records that the number of domestic customers believing we provide value for money was the highest for six years and overall levels of customer satisfaction remain high. The results from our surveys of commercial and institutional customers were equally positive. However, we are not complacent and continue to work hard to improve the quality of the service we offer to all our customers.

Ofwat has set tough and challenging efficiency targets for the next five years and NWL is working hard to meet these. NWL has established new consultant and contractor frameworks to improve the delivery of the capital investment programme and has extended the use of the Six Sigma approach across the business. This statistically-based business management tool was piloted at the regional sludge treatment centre at Bran Sands, where it produced excellent results, and it is anticipated that it will prove equally valuable throughout the business.

The number of properties suffering unplanned interruptions to water supplies returned to normal low levels in 2005/06 after the major interruption caused by unprecedented storms at Hexham in January 2005. The major scheme to replace the two pipes crossing the River Tyne that were washed away is progressing well. The pipe network in Hexham has also been strengthened to improve the security of supplies in the area.

Managing the amount of water lost from our networks is a key priority for NWL. The leakage targets agreed with Ofwat for 2005/06 were 157.5 megalitres per day (ml/d) in the north and 69.0 ml/d in the south, and both of these targets have been met. In the south, where resources are scarce, this is, by most comparative measures, amongst the lowest leakage levels in the country. NWL has committed to make further reductions in both the north and the south. This will be achieved by further increasing the coverage and intensity of district metering, further optimisation of pressure management, improved methods for leak detection and better use of new technology, together with our ongoing programme of renewal of old pipes.

NWL has performed very well on Ofwat's new method of measuring customer telephone service which takes into account a combination of all lines busy, calls abandoned and customer satisfaction. The underlying reason for this good performance is that the company has always aimed to answer customer calls in person rather than use automated telephone answering systems.

The number of properties flooded from sewers increased significantly in 2005/06. This was a consequence of an increased number of intense, local storms that affected some of our most densely populated urban areas. For example, a storm on 19 June 2005 was measured as a once in 500 year event.

NWL is very aware of the impact flooding has on customers and is working with other stakeholders in the region to attempt to reduce the incidence of flooding and improve the way flooding is dealt with in the immediate and longer term. Regular formal liaison meetings with external bodies, such as local authorities, (most notably Newcastle City, South Tyneside and North Tyneside whose areas were worst affected) the EA and local residents groups, have proven invaluable in ensuring the most up to date information is fed back to the wider community.

Commercial customers

NWL has continued to develop its commercial business with major companies and, in particular, has successfully negotiated three major water and waste water services contracts, with John Baarda Limited, Biofuels Corporation plc and Corus UK Limited.

Water resources

NWL has sufficient water reserves in its northern area, largely due to Kielder Water and the ability to top up its major rivers during periods of drought. Its southern area is in one of the driest parts of the UK and rainfall has been low since November 2004. In Suffolk, both groundwater and river levels are at about average for the time of year. The situation in Essex is currently less challenging than that facing water companies further south and NWL continues to ensure there is enough water available for customers' needs.

Over the years, NWL has carefully designed its systems in Essex to take account of the limited availability of water in summer. Consequently, our reservoirs are full at the time of preparing this report. The Langford Recycling Scheme was commissioned some two years ago to improve the security of water supply. This scheme is designed to treat up to 40 ml/d of water during the summer months. The resource position is further enhanced by our industry-leading work to manage demand and control leakage. Customer responses to our long standing programmes to encourage the wise use of water have also helped to reduce demand.

NWL has now entered the pre-planning submission stage of the major project to enlarge its Abberton reservoir for water supply in Essex. Ten years have already been spent carefully preparing this major scheme which involves changes to existing abstraction licences, providing new pipelines, raising the reservoir's existing dam by 3.2 metres and constructing four additional small dams. The planning application is due to be submitted in 2006 and, provided the planning process proceeds smoothly, construction will begin in 2010. Once filled in 2014, the capacity of the enlarged reservoir will be increased by some 60% and it will be an important part of our plans to secure water supplies for our customers in one of Britain’s driest regions.

Investment

NWL made a good start with the new investment programme and expenditure is broadly in line with the requirements set out in the regulatory settlement.

Capital expenditure for the period was £211.9 million. NWL has established new consultant and contractor frameworks aimed at improving the delivery of the capital investment programme.

Within our investment programme we completed major environmental capital investment projects at Birtley in Tyne and Wear, Hustledown, Sedgefield and Knitsley in County Durham and Hexham and Cramlington in Northumberland. Each of these will improve the quality of local watercourses. We have also replaced or improved 91 unsatisfactory storm water overflows and 591 kilometres of water mains have been renewed or relined.

NWL has also continued to invest in new and refurbished assets to protect drinking water supplies. The water treatment works at Horsley in Northumberland is currently being upgraded to safeguard further the quality of water supplied to the Tyneside area.

Investment schemes to improve the sewerage system have removed nearly 99 properties from our register for properties at risk of flooding from sewers.

Employees

We have introduced health screening for all employees, whether it is critical for their job or not, and provide all employees with access to private medical insurance cover for work related conditions. NWL has continued to reduce the level of sickness absence which is now down to 3.1%.

Water and waste water contracts

Revenue for the Group’s water and waste water contracts was £26.4 million for the year to 31 March 2006 (2005: £22.4 million) and profit on ordinary activities before interest was £1.8 million (2005: £2.1 million).

The Group is a member of two consortiums delivering private finance initiative contracts with Scottish Water for waste water treatment. At Levenmouth, where the Group has a 75% shareholding in both project and operating companies, the effluent treatment plant is meeting discharge consent conditions. Practical completion of the odour treatment and sludge drying facilities has been achieved and commissioning and performance testing is underway.

At Ayrshire, the Group acquired Degrémont Limited's interest in the project and operating companies on 23 December 2005, taking the Group's interest to 75% in the project company and 100% in the operating company. The three effluent treatment plants continue to perform satisfactorily.

In Ireland, Northumbrian Water Projects Limited (NWP), is part of a consortium that designed and built a €70 million waste water treatment plant for Cork City Council. NWP commenced the 20 year operation and maintenance contract in September 2004, following commissioning, and the plant was formally opened in June 2005.

Related services

The Group's non-water companies' revenue was £28.8 million (2005: £48.0 million) of which £19.2 million (2004: £37.0 million) was in respect of discontinued operations. Profit on ordinary activities before interest was £16.4 million (2005: £4.3 million), of which £15.8 million (2005: £1.8 million) was in respect of discontinued operations (i.e. FPS, Entec and ULG).

Earnings per share and dividends

Basic and diluted earnings per share were 20.55 pence (2005: 14.94 pence) and 20.52 pence (2005: 14.92 pence) respectively. Earnings per share from continuing operations, adjusted for IAS 39, deferred tax and the amortisation of debt fair value were 19.62 pence (2005: 16.44 pence).

A final dividend of 7.04 pence per share for the year ended 31 March 2006 will be recommended by the Board to shareholders at the AGM on 27 July 2006 and, if approved, will be paid on 15 September 2006 to shareholders on the register at the close of business on 18 August 2006. Together with the ordinary interim dividend of 3.52 pence per share, the ordinary dividends paid and proposed for the year will be 10.56 pence per share (2005: 10 pence per share). This represents an increase of 5.6% on the dividend for the previous year and is consistent with the Board's decision to maintain a progressive dividend policy with real increases of around 3% p.a. The board of our main subsidiary, NWL, has proposed a dividend policy consistent with the underlying assumptions adopted by Ofwat in its recent final determination.

A special dividend of 2.82 pence per share was paid in the year, in respect of the profit on disposal of subsidiaries of £14.6 million.

The dividend cover, including the special dividend, for the year is 1.5x, and 1.7x excluding deferred tax and the amortisation of debt fair value. The ordinary dividend cover from continuing operations for the year is 1.7x, and 1.9x excluding deferred tax and the amortisation of debt fair value.

Financial calendar
2006

27 July	AGM
16 August	Ex-dividend date
18 August	Record date
15 September	Final dividend payment
6 December	Interim results announcement
20 December	Ex-dividend date
22 December	Record date

2007

2 February	Interim dividend payment

Board appointments
Ron Lepin was appointed to the NWG Board as a non-executive director on 24 October 2005. He is Vice President of the Infrastructure division of Ontario Teachers Pension Plan Board which holds 25% of the issued share capital of NWG. Ron is, therefore, not regarded as an independent director.

The Chairman, Sir Frederick Holliday, will retire from the Board at the AGM on 27 July 2006. Sir Derek Wanless will succeed Sir Fred as Chairman of NWG and also of NWL.

Following the retirement of Richard Allan in July 2005, Alex Scott-Barrett was appointed an independent non-executive director to the board of NWL on 1 November 2005.

The NWL board agreed to appoint the non-executive directors of NWG, Sir Patrick Brown, Ron Lepin, Martin Nègre, Sir Derek Wanless and Jenny Williams, to the board of NWL on 1 January 2006.

Outlook
NWG will maintain its focus on delivering a solid performance in this regulatory period. We will continue to deliver efficiencies against a backdrop of upward cost pressure from energy prices, abstraction licences and other costs.

In Essex, where water resources are most constrained, we are in a relatively strong position and do not anticipate the need for restrictions. However, we are not complacent and continue to monitor the situation. In the medium term, we will implement our programme to increase security of supply through the Abberton reservoir scheme.

Delivery of our capital investment programme will reinforce our strong operational performance and high level of customer service and water quality.

John Cuthbert
Managing Director
6 June 2006

Consolidated income statement
For the year ended 31 March 2006

	Notes	**Year to 31.3.2006 £m**	Year to 31.3.2005 £m
Continuing operations			
Revenue	2	**591.5**	541.6
Operating costs		**(355.3)**	(345.5)
Profit on ordinary activities before interest	2	**236.2**	196.1
Finance costs payable		**(112.7)**	(107.7)
Finance income receivable		**6.7**	7.8
Share of profit after tax of associates and jointly controlled entities		**0.1**	0.1
Profit on ordinary activities before taxation	2	**130.3**	96.3
- current taxation	3	**(15.6)**	1.0
- deferred taxation	3	**(23.6)**	(21.0)
- overseas tax	3	**(0.1)**	(0.1)
Profit for the year from continuing operations		**91.0**	76.2
Discontinued operations			
Profit for the year from discontinued operations	4	**15.4**	1.2
Profit for the year		**106.4**	77.4
Attributable to:			
Equity shareholders of the company		**105.9**	77.9
Minority interests		**0.5**	(0.5)
		106.4	77.4

Basic earnings per share for profit attributable to ordinary equity holders of the parent	6	**20.55p**	14.94p
Diluted earnings per share for profit attributable to ordinary equity holders of the parent	6	**20.52p**	14.92p
Basic earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent	6	**17.57p**	14.71p
Diluted earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent	6	**17.55p**	14.69p
Adjusted earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent (excluding deferred tax, amortisation of debt fair value and IAS 39 adjustments)	6	**19.62p**	16.44p
Ordinary final dividend proposed per share	5	**7.04p**	7.13p
Special dividend paid per share	5	**2.82p**	-
Dividend paid per share	5	**10.65p**	7.50p

Consolidated statement of recognised income and expense
For the year ended 31 March 2006

	Year to 31.3.2006 £m	Year to 31.3.2005 £m
Actuarial gains	52.7	21.2
Cash flow hedges	(2.8)	7.2
Tax on items charged or credited to equity	(15.6)	(7.3)
Translation differences	-	0.4
Profit for the year	106.4	77.4
Total recognised income and expense	**140.7**	**98.9**

Consolidated balance sheet
As at 31 March 2006

	Notes	31.3.2006 £m	31.3.2005 £m
Non-current assets			
Goodwill		**3.7**	0.1
Other intangible assets		**64.2**	64.2
Property, plant and equipment		**2,985.6**	2,800.3
Investments in jointly controlled entities		**3.6**	3.6
Investments in associates		**-**	1.4
Financial assets		**22.2**	27.6
Other investments		**0.3**	0.4
		3,079.6	2,897.6
Current assets			
Inventories		**3.3**	4.5
Trade and other receivables		**109.5**	117.3
Cash and cash equivalents		**176.6**	95.0
		289.4	216.8
TOTAL ASSETS		**3,369.0**	3,114.4
Non-current liabilities			
Interest bearing loans and borrowings		**1,972.9**	1,929.7
Provisions		**3.1**	2.7
Deferred income tax liabilities		**495.6**	450.4
Pension liability		**3.7**	76.4
Other payables		**10.6**	16.6
Grants		**179.3**	161.3
		2,665.2	2,637.1
Current liabilities			
Interest bearing loans and borrowings		**236.7**	73.9
Provisions		**0.3**	2.5
Trade and other payables		**156.3**	169.4
Income tax payable		**9.7**	1.2
		403.0	247.0
TOTAL LIABILITIES		**3,068.2**	2,884.1
NET ASSETS		**300.8**	230.3
Capital and reserves			
Issued capital	7	**51.9**	51.9
Share premium reserve	7	**446.5**	446.3
Cash flow hedge reserve	7	**1.5**	4.3
Treasury shares	7	**(1.7)**	(0.9)
Retained earnings	7	**(198.9)**	(272.4)
Equity shareholders' funds		**299.3**	229.2
Minority interest	7	**1.5**	1.1
TOTAL CAPITAL AND RESERVES		**300.8**	230.3

Consolidated cash flow statement
For the year ended 31 March 2006

	Year to 31.3.2006 £m	Year to 31.3.2005 £m
Operating activities		
Reconciliation of profit before interest to net cash flows from operating activities		
Profit on ordinary activities before interest	**236.2**	196.1
Profit before interest on discontinued operations	**1.2**	1.8
Depreciation and other similar non-cash charges	**83.6**	78.9
Net charge for provisions, less payments	**(0.5)**	(1.1)
Movements in working capital	**(5.5)**	(7.7)
Cash generated from operations	**315.0**	268.0
Special contributions paid in respect of retirement benefits	**(22.8)**	-
Net interest paid	**(119.7)**	(113.6)
Income taxes (paid)/received	**(6.5)**	6.7
Net cash flows from operating activities	**166.0**	161.1
Investing activities		
Interest received	**4.1**	10.1
Capital grants received	**21.4**	21.3
Purchase of subsidiary undertaking (net of cash acquired)	**2.4**	-
Proceeds on disposal of subsidiary undertakings	**18.6**	-
Proceeds on disposal of property, plant and equipment	**2.0**	2.7
Dividends received from jointly controlled entities	**0.8**	0.3
Purchase of property, plant and equipment	**(206.7)**	(181.7)
Other cash items	**0.2**	-
Net cash flows from investing activities	**(157.2)**	(147.3)
Financing activities		
New borrowings	**210.2**	348.2
New loans issued	**(2.1)**	-
Maturity of/(deposits into) investments	**2.0**	(23.0)
Settled hedge instruments	**(3.7)**	4.3
Issue costs of new borrowings	**(1.4)**	(11.7)
Own shares purchased	**(0.8)**	(0.4)
Dividends paid to minority interests	**(0.3)**	(0.1)
Dividends paid to equity shareholders	**(69.7)**	(38.9)
Repayment of borrowings	**(46.6)**	(253.7)
Payment of principal under hire purchase contracts and finance leases	**(4.7)**	(4.0)
Net cash flows from financing activities	**82.9**	20.7
Increase in cash and cash equivalents	**91.7**	34.5
Cash and cash equivalents at start of year	**62.2**	27.7
Cash and cash equivalents at end of year	**153.9**	62.2
Net cash flow in respect of discontinued operations		
Cash consideration	**29.8**	-
Cash and cash equivalents disposed	**(11.1)**	-
Expenses paid in connection with disposals	**(0.1)**	-
	18.6	-

Notes to the financial statements

The Board approved the preliminary statement covering the year ended 31 March 2006 on 6 June 2006. The financial information set out above does not constitute the Group's statutory financial statements for the year ended 31 March 2006 nor for the year ended 31 March 2005 within the meaning of Section 240 of the Companies Act 1985. The financial information is based on the audited statutory financial statements for the year ended 31 March 2006, upon which the auditors have issued an unqualified audit opinion.

The financial statements for the year ended 31 March 2005 have been delivered to the Registrar of Companies. The financial statements for the year ended 31 March 2006 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 IFRS as adopted for use in the European Union and as applied in accordance with the provisions of the Companies Act 1985. The accounting policies selected by management and applied to the results for the year ended 31 March 2006 were published by the Company on 28 November 2005, and are available on the Company' website www.nwg.co.uk.

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

Revenue

	Northumbrian Water Limited £m	Water & waste water contracts £m	Related services £m	Total £m	Discontinued operations £m	Total revenue from continuing operations £m
Year ended 31 March 2006						
Segment revenue	**555.5**	**28.4**	**53.3**	**637.2**	**(28.5)**	**608.7**
Inter segment revenue	**-**	**(2.0)**	**(24.5)**	**(26.5)**	**9.3**	**(17.2)**
Revenue to external customers	**555.5**	**26.4**	**28.8**	**610.7**	**(19.2)**	**591.5**
Year ended 31 March 2005						
Segment revenue	508.2	23.1	87.7	619.0	(60.5)	558.5
Inter segment revenue	-	(0.7)	(39.7)	(40.4)	23.5	(16.9)
Revenue to external customers	508.2	22.4	48.0	578.6	(37.0)	541.6

Profit on ordinary activities before interest

	Northumbrian Water Limited £m	Water & waste water contracts £m	Related services £m	Total £m	Discontinued operations £m	Total revenue from continuing operations £m
Year ended 31 March 2006						
Segment profit before interest	**234.6**	**1.8**	**16.4**	**252.8**	**(15.8)**	**237.0**
Central unallocated costs and provisions						**(0.8)**
Profit on ordinary activities before interest						**236.2**
Net finance costs						**(106.0)**
Share of profit from associates and jointly controlled entities						**0.1**
Profit on ordinary activities before taxation						**130.3**

The trading profit disclosed as discontinued operations is part of related services. Profit on ordinary activities before interest for related services, includes the profit on disposal of £14.6 million for 2006.

Year ended 31 March 2005						
Segment profit before interest	197.7	2.1	4.3	204.1	(1.8)	202.3
Central unallocated costs and provisions						(6.2)
Profit on ordinary activities before interest						196.1
Net finance costs						(99.9)
Share of profit from associates and jointly controlled entities						0.1
Profit on ordinary activities before taxation						96.3

3. Taxation

	Year to 31.3.2006 £m	Year to 31.3.2005 £m
Current tax:		
UK corporation tax - continuing operations	**15.6**	(1.0)
- discontinued operations (note 4)	**0.6**	0.9
- overseas tax	**0.1**	0.1
Total current tax	**16.3**	-
Deferred tax:		
Deferred tax - continuing operations	**23.6**	21.0
- discontinued operations (note 4)	**0.1**	-
Total deferred tax	**23.7**	21.0
Tax charge in the income statement	**40.0**	21.0
The tax charge in the income statement is disclosed as follows:		
Tax expense on continuing operations	**39.3**	20.1
Tax expense on discontinued operations (note 4)	**0.7**	0.9
	40.0	21.0

4. Discontinued operations

The Group disposed of FPS on 8 July 2005, Entec on 5 October 2005 and ULG on 10 April 2006. The results of the discontinued operations are disclosed within related services. No tax arises on the disposals due to the availability of the substantial shareholdings exemption. The results of FPS, Entec and ULG for the period to their date of disposal are presented below:

	Year to 31.3.2006 £m	Year to 31.3.2005 £m
Revenue	**28.5**	60.5
Inter segment	**(9.3)**	(23.5)
External revenue	**19.2**	37.0
Operating costs	**(18.0)**	(35.2)
Profit on ordinary activities before interest	**1.2**	1.8
Profit on disposal of discontinued operations	**14.6**	-
Profit before interest on discontinued operations	**15.8**	1.8
Net finance costs	**0.3**	0.3
Profit on ordinary activities before taxation	**16.1**	2.1
Current tax	**(0.6)**	(0.9)
Deferred tax	**(0.1)**	-
Profit for the year from discontinued operations	**15.4**	1.2
The tax charge is analysed as follows:		
On profit on ordinary activities for the year	**(0.7)**	(0.9)

5. Dividends paid and proposed

A final ordinary dividend payment of 7.04 pence per ordinary share will be recommended by the Board to shareholders at the AGM scheduled for 27 July 2006. If approved, the final dividend will be paid on 15 September 2006 to shareholders whose names appear on the Company's Register of Members at the close of business on 18 August 2006. Together with the ordinary interim dividend of 3.52 pence per ordinary share, the total ordinary dividend for the year will be 10.56 pence per ordinary share.

	Year to 31.3.2006 £m	Year to 31.3.2005 £m
Declared and paid during the year:		
Equity dividends on ordinary shares:		
Final dividend for 2004/05: 7.13p (2003/04: 4.63p)	**36.9**	24.0
Interim dividend for 2005/06: 3.52p (2004/05: 2.87p)	**18.2**	14.9
Special dividend for 2005/06: 2.82p (2004/05: nil)	**14.6**	-
Dividends paid	**69.7**	38.9
Proposed for approval by shareholders at the AGM:		
Final dividend for 2005/06: 7.04p (2004/05: 7.13p)	**36.5**	36.9

6. 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 year. Treasury shares held are excluded from the weighted average number of shares for basic EPS. EPS for continuing operations is also disclosed.

	Earnings 31.3.2006 £m	**Weighted average number of shares 31.3.2006 million**	**Earnings per share 31.3.2006 pence**	Earnings 31.3.2005 £m	Weighted average number of shares 31.3.2005 million	Earnings per share 31.3.2005 pence
Net profit attributable to equity holders of the parent – continuing operations	**91.0**	**517.9**	**17.57**	76.2	518.1	14.71
Net profit attributable to equity holders of the parent – discontinued operations	**15.4**		**2.98**	1.2		0.23
Basic EPS	**106.4**	**517.9**	**20.55**	77.4	518.1	14.94

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

	Earnings 31.3.2006 £m	**Weighted average number of shares 31.3.2006 million**	**Earnings per share 31.3.2006 pence**	Earnings 31.3.2005 £m	Weighted average number of shares 31.3.2005 million	Earnings per share 31.3.2005 pence
Net profit attributable to equity holders of the parent – continuing operations	**91.0**	**518.6**	**17.55**	76.2	518.6	14.69
Net profit attributable to equity holders of the parent – discontinued operations	**15.4**		**2.97**	1.2		0.23
Diluted EPS	**106.4**	**518.6**	**20.52**	77.4	518.6	14.92

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

	Earnings 31.3.2006 £m	**Weighted average number of shares 31.3.2006 million**	**Earnings per share 31.3.2006 pence**	Earnings 31.3.2005 £m	Weighted average number of shares 31.3.2005 million	Earnings per share 31.3.2005 pence
Basic EPS	**91.0**	**517.9**	**17.57**	76.2	518.1	14.71
Deferred tax	**23.6**		**4.55**	21.0		4.05
Amortisation of debt fair value	**(13.0)**		**(2.50)**	(14.1)		(2.72)
IAS 39 derivatives	**-**		**-**	2.1		0.40
Adjusted EPS	**101.6**	**517.9**	**19.62**	85.2	518.1	16.44

7. Reconciliation of movements in equity

Group	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 2005	51.9	446.3	4.3	(0.9)	(272.4)	229.2	1.1	230.3
Shares purchased	-	-	-	(0.8)	-	(0.8)	-	(0.8)
Refund of share issue costs	-	0.2	-	-	-	0.2	-	0.2
Total recognised income and expense for the year	-	-	(2.8)	-	143.0	140.2	0.5	140.7
Share-based payment	-	-	-	-	0.2	0.2	-	0.2
Equity dividends paid	-	-	-	-	(69.7)	(69.7)	(0.1)	(69.8)
At 31 March 2006	**51.9**	**446.5**	**1.5**	**(1.7)**	**(198.9)**	**299.3**	**1.5**	**300.8**