6 June 2007

NORTHUMBRIAN WATER GROUP PLC

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2007

Northumbrian Water Group plc (NWG or the Group) is pleased to announce its preliminary results for the year ended 31 March 2007.

HIGHLIGHTS 2007

	Year to 31.3.2007 £m	Year to 31.3.2006 £m	Change £m	Change %
Continuing operations				
Revenue	**633.5**	591.5	42.0	7.1
Profit on ordinary activities before interest	**258.2**	236.2	22.0	9.3
Profit before tax	**147.8**	130.3	17.5	13.4
Profit before tax and FV debt amortisation[1]	**140.1**	117.3	22.8	19.4
Profit after tax	**111.2**	91.0	20.2	22.2
Net debt	**2,079.6**	2,010.4	69.2	3.4
RCV	**2,817**	2,624	193	7.4
Continuing operations				
Basic EPS	**21.42p**	17.48p	3.94p	22.5%
Adjusted EPS[1,2]	**24.95p**	19.52p	5.43p	27.8%
Ordinary dividends paid and proposed[3]	**11.27p**	10.56p	0.71p	6.7%

Notes:
1 Excludes fair value debt amortisation £7.7 million (2006: £13.0 million)
2 Excludes deferred tax £28.0 million (2006: £23.6 million), IAS 39 credit £2.0 million (2006: nil)
3 Ordinary interim dividends paid 3.75p (2006: 3.52p), final proposed 7.52p (2006: 7.04p)

- Total regulated capital investment for the year of £225 million; cumulative investment of £436.9 million over last 2 years, on track to invest £1 billion by 2010
- Customers to benefit from price changes from April 2007 to March 2010: decision taken by NWL not to increase prices by the full amount allowed by Ofwat at the last price review
- Continuing high levels of customer service and satisfaction
- Financial position strengthened by the issue of two £100 million index linked Eurobonds to finance capital investment through to 2010
- Proposed final dividend of 7.52 pence per share to be paid on 14 September 2007, giving a full year ordinary dividend of 11.27 pence per share, an increase of 6.7%
- Delivering regulatory outputs for drinking water quality and environmental improvement
- Water supplies maintained without restriction; resource management initiatives implemented, including plans for a projected 60% increase in capacity at Abberton
- Leakage targets achieved for 8th consecutive year

- Best ever bathing water quality results

Managing Director John Cuthbert said, “The Group has delivered a strong set of operational and financial results and these provide the foundation for continued good performance through the remainder of the current regulatory period. We have put in place the funding needed for the investment programme to 2010 and that programme will deliver the regulatory outputs and also the priorities identified by our customers, the Consumer Council for Water and our other stakeholders.

With a strong performance, delivering value to both customers and investors, the NWL board has decided not to apply the price increases above RPI allowed in the last two years of the current regulatory period. Alongside high standards of service, customers will now benefit from bills that will be lower than they would have otherwise been.”

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MANAGING DIRECTOR'S STATEMENT

NWG's financial performance

Revenue was £633.5 million for the year to 31 March 2007 and represents a 7.1% increase on the year to 31 March 2006. This increase is mainly due to the uplift in water and sewerage charges to support continuing high capital investment as part of the regulatory price review in 2004.

Profit on ordinary activities before interest for the year was £258.2 million (2006: £236.2 million). Operating costs increased by £20.0 million (5.6%) to £375.3 million with upward pressure on costs, particularly energy, partially mitigated by ongoing efficiencies.

The net interest charge was £111.2 million (2006: £106.0 million). This charge includes a credit of £7.7 million (2006: £13.0 million) in respect of the amortisation of the debt fair value and a gain of £2.9 million (2006: nil) in respect of the cancellation of a financial instrument.

Profit on ordinary activities before tax for the year was £147.8 million, 13.4% higher than the previous year (2006: £130.3 million). The tax charge of £36.6 million (2006: £39.3 million) reflects increased profitability, adjustments in respect of prior periods arising from changes in claims for capital allowances, a revision to retirement benefits and a reduction in the amortisation of financing items. The effective tax rate for the year to 31 March 2007 was 25% (2006: 30%).

The Group's gearing has decreased from 77% to 74% of Northumbrian Water Limited's (NWL) regulatory capital value (RCV), with net debt increasing by £69.2 million to £2,079.6 million over the year. The decrease in the Group's gearing is principally due to the growth in RCV over the year from £2,624 million to £2,817 million at 31 March 2007. For the regulated business within NWL, gearing decreased from 58% to 57%.

Cash interest cover for the Group has improved from 2.7x to 2.9x in the year reflecting the positive cash effects of the index linked bond issuance since September 2005.

Earnings per share and dividends

Basic and diluted earnings per share were 21.42 pence (2006: 20.45 pence) and 21.38 pence (2006: 20.42 pence) respectively. Earnings per share from continuing operations, adjusted for IAS 39, deferred tax and the amortisation of debt fair value, were 24.95 pence (2006: 19.52 pence).

A final dividend of 7.52 pence per share for the year ended 31 March 2007 will be recommended by the Board to shareholders at the AGM on 2 August 2007 and, if approved, will be paid on 14 September 2007 to shareholders on the register at the close of business on 17 August 2007. Together with the ordinary interim dividend of 3.75 pence per share, the ordinary dividends paid and proposed for the year will be 11.27 pence per share (2006: 10.56 pence per share). This represents an increase of 6.7% on the ordinary dividend for the previous year and is consistent with the Board's decision to maintain a progressive dividend policy with real increases of around 3% p.a. The board of our main subsidiary, NWL, has proposed a dividend policy consistent with the underlying assumptions adopted by Ofwat at its price review in 2004.

The dividend cover for the year is 1.9x, and 2.3x (2006: 1.5x and 1.7x, including the special dividend) excluding deferred tax and the amortisation of debt fair value.

Future price changes
Customers are to benefit from price changes in the period from April 2007 to March 2010 following confirmation from NWL that it will not increase prices by the amount allowed by Ofwat at the last price review. The cumulative benefit to customers from 2007 to 2010 will be around £22 million.

Market conditions have been favourable over the last eighteen months and NWL has taken advantage of this and secured funding on attractive terms for the capital programme through to 2010. The benefit of this, together with the strong performance to date, informed the decision of the NWL Board to limit increases in bills in 2008/09 and 2009/10 to RPI.

The K allowance for 2007/08 of 3.2% has already been limited to 2.8% and this is reflected in current bills. The K allowances for 2008/09 and 2009/10, of 1% and 0.6% respectively, include financeability adjustments introduced to ensure companies could finance their functions with adequate financial ratios throughout the 2005 to 2010 period. These adjustments were to assist financing and were not available for distribution.

This has no impact on dividend policy and shareholders will continue to benefit from any outperformance.

Capital structure
In June 2006, Northumbrian Water Finance plc (NWF), the finance subsidiary of NWL, issued two further £100 million index linked Eurobonds with real coupons of 1.7118% and 1.7484% and with maturities of 2049 and 2053, respectively. Index linked debt now comprises 18% of the gross debt portfolio, whilst fixed rate debt amounts to 65%.

On 28 June 2006, the Group redeemed the remaining £172 million 8.625% Eurobonds. The redemption was financed by the drawdown of £125 million of five year committed bank facilities with the balance coming from cash resources. The loans were taken on a variable basis with interest rates linked to LIBOR.

In March 2007, the latest £100 million EIB facility was drawn by NWL. The loan was advanced on a variable interest rate basis, with a fifteen year maturity and an amortising principal repayment profile.

Pensions
The Group operates a defined benefit pension scheme providing benefits based on pensionable remuneration. As at 31 March 2007, there were 2,310 (2006: 2,351) active members. The surplus under IAS 19, at 31 March 2007, was £42.7 million (2006: deficit £3.7 million).

The Group is currently reviewing pension provision with the aim of introducing revised arrangements from 1 January 2008. Members as at 30 November 2007 would be eligible to participate in a revised defined benefit section and entrants would be eligible for a new occupational trust-based defined contribution scheme, with a choice of contribution rates.

The most recent triennial 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 advanced 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. In addition. the Group launched a salary sacrifice arrangement, on 1 April 2006, under which savings in employer national insurance contributions are also paid into the scheme.

The Group also operates an existing defined contribution scheme and, as at 31 March 2007, there were 248 (2006: 258) contributing members.

NORTHUMBRIAN WATER LIMITED

Revenue was £586.5 million for the year to 31 March 2007 (2006: £555.5 million). The revenue increase is mainly due to the uplift in prices for water and sewerage services to support the continuing high capital investment programme agreed as part of the 2004 regulatory price review.

Operating costs have increased from £320.9 million to £343.9 million, principally reflecting a significant increase in energy market prices and the full year impact of increased pension costs following an actuarial review of the pension scheme, in addition to the impact of inflation. Operating costs for the appointed business in 2006/07 are £7.2 million higher than those estimated in the 2004 final determination for the year due to energy costs.

Profit on ordinary activities before interest for the period was £242.6 million (2006: £234.6 million).

Capital expenditure for the year was £225.0 million (2006: £211.9 million).

Water

NWL achieved its best ever drinking water quality results in 2006 and the quality of drinking water supplied in both operating areas remains among the best in the country. One of the DWI's key measures is Mean Zonal Compliance and NWL achieved 99.97% in the south and 99.96% in the north. Additionally, their Operational Performance Index was 99.99% in the south and 99.84% in the north.

During 2006/07, we completed significant improvements to water treatment works (WTWs) at Whittle Dene and Horsley, on Tyneside, and Chigwell in Essex. These works now have an additional treatment process to remove pesticides from raw water. Similar work at Warkworth in Northumberland will be complete in summer 2007. We also completed a major refurbishment of our Ormesby WTW in Suffolk.

One of NWL's key priorities is to reduce the amount of water lost from the networks. We agreed leakage targets with Ofwat of 156 Ml/d in the northern operating area and 68.3 Ml/d in the south, and both have been met. This means that leakage targets have been met consistently since 1998/99. The leakage in our southern operating area has been among the lowest in the country for many years. NWL aims to set best practice standards to reduce leakage and is playing a leading role in a review of leakage methodologies with the EA and Ofwat.

Comprehensive repairs to the two water mains supplying Hexham in Northumberland, which had been washed away during the severe weather in 2005, are now complete. The solution involved building a tunnel several metres below the riverbed.

In Essex, we laid 10.5km of pipeline to triplicate the strategic mains taking water from our Layer-de-la-Haye WTW and to improve the overall infrastructure. In addition, 477km of mains was renewed or relined. The current rehabilitation programme in the south is now complete and the work in the north is due to be finished in 2008. This work will help reduce incidents of discoloured water and also help further reduce leakage.

Over the years, NWL has carefully designed its systems to secure water supplies for its customers. This is particularly challenging in Essex, where there is limited water in the summer months. The Langford Recycling Scheme has improved the security of supply and can provide up to 30Ml/d of water during the summer months.

In the medium term, we plan to further improve the security of supply and augment resources in the Essex area by increasing the capacity of the Abberton reservoir. During 2007, we will be applying for planning permission for a project that will increase the capacity of the reservoir by 60%.

Water resources

Following a wet winter, our reservoirs are in a strong position at the time of writing this report. NWL has sufficient water reserves in its northern area, largely due to Kielder Water and the ability it provides to augment the major rivers in the area during periods of drought. Its southern area is in one of the driest parts of the UK and rainfall, until recently, has been low since November 2004.

In Essex, NWL did not need to introduce a hosepipe ban during the drought which affected supplies across much of south east England during 2006. Our investment to reduce leakage, our ability to pump water from Norfolk via the Ely Ouse to Essex Transfer Scheme and the water available from the innovative Langford Recycling Scheme, helped maintain our reservoir levels. The Langford Recycling Scheme provided 12% extra water in Hanningfield reservoir last summer.

Our ongoing and long running water efficiency promotions and good relationship with our customers produced a positive response to our requests for additional efforts on water saving and a consequent significant reduction in demand.

Metering has an important role to play in managing demand. In addition to our optional metering scheme, we have introduced a successful scheme to install water meters when properties are sold in the Essex area and we now have about 40% of domestic customers in Essex on a metered supply.

Alongside these important measures to manage demand, we believe that we need to augment water resources in the south to secure water supplies for customers in what is one of Britain's driest regions.

Environment

All 33 bathing waters passed the EU Mandatory Standard and, of these, 29 (88%) passed the more demanding Guideline Standard. Those passing the Guideline Standard are predicted to achieve good or excellent ratings under the new Bathing Water Directive which takes effect on 31 December 2014. To maintain this high performance we are working with the EA to identify the impact of other stakeholders including local authorities, highway authorities, farmers and land holders on the quality of bathing waters.

The performance of the 425 sewage treatment works (STWs) operated by NWL continued to be high with 99.8% of the population being served by works which met their consent standards.

We had one category 1 pollution incident in 2006 and the EA has commended NWL for achieving above average compliance with standards. The number of minor incidents, such as blockages, continued to fall significantly (by nearly 30%) compared to last year as a result of more proactive maintenance and our investment in remote monitors. We currently have around 450 monitors installed to warn of high or unusual flows, so that we can take action to prevent spillages and flooding.

NWL is working with other stakeholders in the region to reduce flooding and improve the way flooding incidents are managed. Regular meetings with local authorities, local residents groups and the Consumer Council for Water (CCWater), the independent body which represents customer interests, have helped to improve communication with affected communities.

In 2006/07, the number of properties flooded from sewers was 314, about the long term average. As a result of investment in improving the sewerage system, 129 properties were removed from the register of properties at risk of flooding during 2006/07. This takes the total to 228 properties, effectively delivering three years' outputs in two years.

During the year, 98 sewerage overflows have been improved. This will improve local water courses, enhance their visual appearance and reduce pollution incidents.

Domestic customers

NWL is committed to providing a high standard of customer service that meets the expectations of both customers and regulators.

Based on information provided to Ofwat for 2006/07, NWL should remain in the top category for each Ofwat level of service indicator, with the exception of DG3, which covers unplanned interruptions to supply. Performance here was affected by two major bursts, one in Middlesbrough on Teesside and one in Bedlington in Northumberland.

Although there has been a rise in written and telephone contacts, partly due to these bursts, the Customer Centre still responded to 99.9% of written complaints within ten working days. During 2006/07, the total number of written complaints received was 11,496. The increase, when compared to 2005/06, can be attributed to heightened national media interest in water shortages and leakage levels along with the large operational incidents in our northern operating area. Greater levels of debt recovery activity have also generated more responses from our customers regarding billing arrears.

CCWater formally reviews the quality of complaints handling. During this process they audit procedures, track samples of complaints' correspondence through our systems and assess the quality of our responses. In 2006/07, 100% of all northern complaints and 80% of all southern complaints were rated as 'good'.

Despite regional socio-economic characteristics, and increases in levels of water and sewerage charges during the year, NWL has maintained its collection rates, supported by its successful initiative to encourage as many customers as possible to use direct debit. This still proves to be the most efficient way to collect payment for bills.

Business customers

NWL has continued to develop its commercial business with major companies in the region. Solvent Resource Management Ltd at its site in Sunderland, is recovering and recycling used solvents. Effluent from this process is now being delivered for treatment at Hendon STW.

Biofuels Corporation, the developer of Europe's largest biodiesel plant at Seal Sands on Teesside, is now transferring effluent to Bran Sands effluent treatment works. Biofuels Corporation produces 250,000 tonnes of biodiesel a year at Seal Sands from renewable vegetable crops. NWL also supplies the company with water services.

Corus has benefited from these effluent treatment services since 1998. NWL has successfully completed modifications to Bran Sands so that it can undertake additional effluent treatment for Corus. This has extended the long term relationship between the two companies.

Regulation

We are working with the EA to consider the drivers for investment beyond 2010, including the Water Framework Directive (WFD). The quality of rivers and bathing waters in the north east is among the best in the country and our initial view is that the investment required to comply with the WFD will be less than in many other regions. Nutrient removal, particularly phosphates, is likely to be an important factor, with ammonia also requiring attention in some cases. In order to achieve a cost effective programme and meet the “polluter pays” principle, other sources of these pollutants must also be addressed. Removing the source of the problem, for example, by changing farming or land management practice, may be cheaper but could take longer to deliver. We need to ensure that ‘end of pipe’ solutions are not viewed as an easy option. CCWater is also fully engaged in work with the EA and other stakeholders to achieve a sustainable, coordinated approach to achieving environmental objectives.

It will be increasingly important to ensure an appropriate balance between marginal improvements in river quality and the energy, concrete and chemicals required to achieve this. In some cases the increased carbon footprint may outweigh the environmental benefit.

We are participating in the Northumbria River Basin Liaison Panel which is developing the plan to meet the WFD in the north east. This panel is currently considering the Significant Water Management Issues (SWMIs) for the region. Action plans to address the SWMIs will be a key element of the programme of measures to be agreed by 2008.

We have applied to the EA to have the consents for six coastal STWs amended. These works discharge highly treated effluent through long sea outfalls. The final stage of treatment, ultraviolet (UV) disinfection, is energy intensive, contributing to significant CO_2 emissions. Our modelling concludes that bathing waters in the vicinity would meet not only EU Mandatory but also the stricter Guideline Standard, without UV treatment. We have applied to restrict UV application to summer months. This application raises important issues about achieving the right environmental balance and we await a decision.

An important step leading up to the next price review in 2009 is NWL’s Strategic Direction Statement. This is now being prepared and will outline a 25 year vision for the company, as well as key objectives for the next five years. The Statement will be published in the autumn and will be used as the basis for a stakeholder consultation exercise in each of our operating areas, which will in turn help inform the periodic review of prices in 2009.

Employees
One of the strengths of NWL is employee loyalty, evidenced by the fact that employee turnover is relatively low at 8.2%, well below the UK water industry average of 10.3%.

NWL continues to seek the views of employees. This year's survey was completed by 56%, an increase of 7%, who gave their views on their working life, training, communications, managers and the company. The results were reported back to all employees and discussed with representative bodies. Overall, employee satisfaction levels remain very high with over 72% of respondents stating they are proud to work for the company.

We continue to develop programmes to promote healthy eating and discourage smoking in our workforce and offer excellent health screening and medical insurance schemes. Around 1,700 employees have been through our health screening and fitness standards programmes, both of which now include lifestyle advice elements. The success of these programmes has helped reduce NWL's total sickness absence rate to 3.01%, which is well below the sector norm.

Water and waste water contracts
Revenue for the Group's water and waste water contracts was £37.0 million for the year to 31 March 2007 (2006: £26.4 million) and profit on ordinary activities before interest was £11.9 million (2006: £1.8 million). This performance includes an additional credit of £3 million in respect of gas indexation on tariffs. This is not expected to be repeated in 2007/08.

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 delivering against discharge consent conditions. Practical completion of the odour treatment and sludge drying facilities has been achieved and commissioning and performance testing has been completed.

At Ayrshire, the Group has a 75% shareholding in the project company and a 100% shareholding in the operating company. The three effluent treatment plants that make up this contract continue to perform satisfactorily.

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

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

Related services
The Group's non-water companies' revenue was £10.0 million (2006: £28.8 million) of which £nil (2006: £19.2 million) was in respect of discontinued operations. Profit on ordinary activities before interest was £0.3 million (2006: £16.4 million), of which £nil (2006: £15.8 million) was in respect of discontinued operations. The Group has sustained its focus on core competencies and merged the business of AES with NWL on 31 March 2007. We have brought together expertise from the two companies and are building on existing strengths to deliver an improved service to customers.

Financial calendar
2007

2 August	AGM
15 August	Ex-dividend date
17 August	Record date
14 September	Final dividend payment
28 November	Interim results announcement
19 December	Ex-dividend date
21 December	Record date

2008

1 February	Interim dividend payment

Board appointments

Sir Derek Wanless succeeded Sir Frederick Holliday as Chairman of both NWG and NWL on 27 July 2006, following Sir Fred's retirement.

Alex Scott-Barrett, a non-executive director of NWL, was appointed as an independent non-executive director of NWG on 26 September 2006. Alex is non-executive Chairman of Suffolk Life Group plc and a non-executive director of General Capital Group plc.

On 26 September 2006, Dr Simon Lyster was appointed as an independent non-executive director of NWL. Simon is Chief Executive of LEAD International (Leadership for Environment and Development).

On 17 November 2006, the Board announced the appointment of Claude Lamoureux as a non-executive director of NWG and NWL with effect from 1 December 2006. Claude is President and CEO of the Ontario Teachers' Pension Plan Board (OTPP). Claude replaces Ron Lepin who resigned from both boards on 1 December 2006 on leaving OTPP. OTPP holds 25% of the issued share capital of NWG and Claude is, therefore, not regarded as an independent director.

Outlook

The continuing impact and heightened risk of drought in the south, as a consequence of climate change, highlight the importance of our emphasis on leakage management, water efficiency and demand management. We intend to maintain our leading position in these areas and, alongside these, promote the scheme to increase the capacity of the Abberton reservoir.

Building on past performance, the Group will continue to focus on its core business of water and waste water operations to drive further improvement in customer service and operating efficiency.

John Cuthbert
Managing Director
5 June 2007

Consolidated income statement
For the year ended 31 March 2007

	Notes	**Year to 31.3.2007 £m**	Year to 31.3.2006 £m
Continuing operations			
Revenue	2	**633.5**	591.5
Operating costs		**(375.3)**	(355.3)
Profit on ordinary activities before interest	2	**258.2**	236.2
Finance costs payable		**(127.0)**	(112.7)
Finance income receivable		**15.8**	6.7
Share of profit after tax of associates and jointly controlled entities		**0.8**	0.1
Profit on ordinary activities before taxation	2	**147.8**	130.3
- current taxation	3	**(8.6)**	(15.6)
- deferred taxation	3	**(28.0)**	(23.6)
- overseas tax	3	**-**	(0.1)
Profit for the year from continuing operations		**111.2**	91.0
Discontinued operations			
Profit for the year from discontinued operations		**-**	15.4
Profit for the year		**111.2**	106.4
Attributable to:			
Equity shareholders of the company		**110.9**	105.9
Minority interests		**0.3**	0.5
		111.2	106.4

Basic earnings per share for profit attributable to ordinary equity holders of the parent	5	**21.42p**	20.45p
Diluted earnings per share for profit attributable to ordinary equity holders of the parent	5	**21.38p**	20.42p
Basic earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent	5	**21.42p**	17.48p
Diluted earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent	5	**21.38p**	17.45p
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)	5	**24.95p**	19.52p
Ordinary final dividend proposed per share	4	**7.52p**	7.04p
Special dividend paid per share	4	**-**	2.82p
Dividend paid per share	4	**10.79p**	10.65p

Consolidated statement of recognised income and expense
For the year ended 31 March 2007

	Year to 31.3.2007 £m	Year to 31.3.2006 £m
Actuarial gains	**25.0**	52.7
Losses on cash flow hedges	**-**	(3.8)
Gains on cash flow hedges	**2.4**	1.0
Tax on items charged or credited to equity	**(7.5)**	(15.6)
Translation differences	**(0.2)**	-
Total income and expense recognised in equity	**19.7**	34.3
Transferred to the income statement on cash flow hedges	**(2.9)**	-
Profit for the year	**111.2**	106.4
Total recognised income and expense	**128.0**	140.7
Attributable to:		
Equity shareholders of the Company	**127.7**	140.2
Minority interests	**0.3**	0.5
	128.0	140.7

Consolidated balance sheet
As at 31 March 2007

	Notes	**31.3.2007 £m**	31.3.2006 £m
Non-current assets			
Goodwill		**3.6**	3.7
Other intangible assets		**64.2**	64.2
Property, plant and equipment		**3,119.9**	2,985.6
Investments in jointly controlled entities		**3.6**	3.6
Financial assets		**18.0**	20.1
Pension asset		**42.7**	-
Other investments		**0.2**	0.3
		3,252.2	3,077.5
Current assets			
Inventories		**3.7**	3.3
Trade and other receivables		**124.5**	111.6
Cash and cash equivalents		**316.9**	176.6
		445.1	291.5
Total assets		**3,697.3**	3,369.0
Non-current liabilities			
Interest bearing loans and borrowings		**2,382.1**	1,972.9
Provisions		**2.9**	3.1
Deferred income tax liabilities		**531.2**	495.6
Pension liability		**-**	3.7
Other payables		**10.0**	10.6
Grants		**193.3**	179.3
		3,119.5	2,665.2
Current liabilities			
Interest bearing loans and borrowings		**34.5**	236.7
Provisions		**0.2**	0.3
Trade and other payables		**165.6**	156.3
Income tax payable		**4.4**	9.7
		204.7	403.0
Total liabilities		**3,324.2**	3,068.2
Net assets		**373.1**	300.8
Capital and reserves			
Issued capital	6	**51.9**	51.9
Share premium reserve	6	**446.5**	446.5
Cash flow hedge reserve	6	**1.0**	1.5
Treasury shares	6	**(1.3)**	(1.7)
Retained earnings	6	**(126.7)**	(198.9)
Equity shareholders' funds		**371.4**	299.3
Minority interests	6	**1.7**	1.5
Total capital and reserves		**373.1**	300.8

Consolidated cash flow statement
For the year ended 31 March 2007

	Year to 31.3.2007 £m	Year to 31.3.2006 £m
Operating activities		
Reconciliation of profit before interest to net cash flows from operating activities		
Profit on ordinary activities before interest	**258.2**	236.2
Profit before interest on discontinued operations	**-**	1.2
Depreciation and other similar non-cash charges	**92.9**	88.4
Other non-cash charges	**(6.2)**	(4.8)
Net charge for provisions, less payments	**(0.3)**	(0.5)
Difference between pension contributions paid and amounts recognised in the income statement	**4.4**	2.8
Increase in inventories	**(0.4)**	(2.6)
(Increase)/decrease in trade and other receivables	**(13.6)**	4.0
Increase/(decrease) in trade and other payables	**0.9**	(9.7)
Cash generated from operations	**335.9**	315.0
Advance contributions in respect of retirement benefits	**(25.8)**	(22.8)
Net interest paid	**(124.7)**	(119.7)
Income taxes paid	**(14.6)**	(6.5)
Net cash flows from operating activities	**170.8**	166.0
Investing activities		
Interest received	**12.5**	4.1
Capital grants received	**18.8**	21.4
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	**2.2**	2.0
Dividends received from jointly controlled entities	**0.9**	0.8
Purchase of property, plant and equipment	**(211.4)**	(206.7)
Other cash items	**-**	0.2
Net cash flows from investing activities	**(177.0)**	(157.2)
Financing activities		
New borrowings	**425.0**	210.2
New loans issued	**-**	(2.1)
Maturity of investments	**2.1**	2.0
Settled hedge instruments	**3.4**	(3.7)
Issue costs of new borrowings	**(0.4)**	(1.4)
Own shares purchased	**(0.2)**	(0.8)
Dividends paid to minority interests	**(0.1)**	(0.3)
Dividends paid to equity shareholders	**(55.8)**	(69.7)
Repayment of borrowings	**(201.1)**	(46.6)
Payment of principal under hire purchase contracts and finance leases	**(4.8)**	(4.7)
Net cash flows from financing activities	**168.1**	82.9
Increase in cash and cash equivalents	**161.9**	91.7
Cash and cash equivalents at start of year	**153.9**	62.2
Cash and cash equivalents at end of year	**315.8**	153.9
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 2007 on 5 June 2007. The financial information set out above does not constitute the Group's statutory financial statements for the year ended 31 March 2007, or for the year ended 31 March 2006, 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 2007, upon which the auditors have issued an unqualified audit opinion.

The financial statements for the year ended 31 March 2006 have been delivered to the Registrar of Companies. The financial statements for the year ended 31 March 2007 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 by the European Union as it applies to the financial statements of the Group for the year ended 31 March 2007 and in accordance with the Companies Act 1985.

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 2007						
Segment revenue	**586.5**	**37.0**	**25.3**	**648.8**	**-**	**648.8**
Inter segment revenue	**-**	**-**	**(15.3)**	**(15.3)**	**-**	**(15.3)**
Revenue to external customers	**586.5**	**37.0**	**10.0**	**633.5**	**-**	**633.5**
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

Profit on ordinary activities before interest

	Northumbrian Water Limited £m	Water and waste water contracts £m	Related services £m	Total £m	Discontinued operations £m	Total profit from continuing operations £m
Year ended 31 March 2007						
Segment profit before interest	**242.6**	**11.9**	**0.3**	**254.8**	**-**	**254.8**
Central unallocated costs and provisions						**3.4**
Profit on ordinary activities before interest						**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 from continuing operations						**111.2**
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
Taxation						(39.3)
Profit for the year from continuing operations						91.0

The profit disclosed in 2006 as discontinued operations is included in the result of related services and comprises a trading profit £1.2 million and a gain on disposal of £14.6 million.

3. Taxation

	Year to 31.3.2007 £m	Year to 31.3.2006 £m
Current tax:		
UK corporation tax - continuing operations	**21.0**	16.3
- discontinued operations	**-**	0.6
- income tax reported in equity	**0.1**	-
- adjustment in respect of prior periods	**(12.5)**	(0.7)
Overseas tax	**-**	0.1
Total current tax	**8.6**	16.3
Deferred tax:		
Origination and reversal of temporary differences in the year		
Deferred tax - continuing operations	**21.0**	22.5
- discontinued operations	**-**	0.1
- income tax reported in equity	**(0.1)**	-
- adjustment in respect of prior periods	**7.1**	1.1
Total deferred tax	**28.0**	23.7
Tax charge in the income statement	**36.6**	40.0
The tax charge in the income statement is disclosed as follows:		
Tax expense on continuing operations	**36.6**	39.3
Tax expense on discontinued operations	**-**	0.7
	36.6	40.0

4. Dividends paid and proposed

A final ordinary dividend payment of 7.52 pence per ordinary share will be recommended by the Board to shareholders at the AGM scheduled for 2 August 2007. If approved, the final dividend will be paid on 14 September 2007 to shareholders whose names appear on the Company's Register of Members at the close of business on 17 August 2007. Together with the ordinary interim dividend of 3.75 pence per ordinary share, the total ordinary dividend for the year will be 11.27 pence per ordinary share.

	Year to 31.3.2007 £m	Year to 31.3.2006 £m
Declared and paid during the year:		
Equity dividends on ordinary shares:		
Final dividend for 2005/06: 7.04p (2004/05: 7.13p)	**36.4**	36.9
Interim dividend for 2006/07: 3.75p (2005/06: 3.52p)	**19.4**	18.2
Special dividend for 2006/07: nil (2005/06: 2.82p)	**-**	14.6
Dividends paid	**55.8**	69.7
Proposed for approval by shareholders at the AGM:		
Final dividend for 2006/07: 7.52p (2005/06: 7.04p)	**39.0**	36.5

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

	Earnings 31.3.2007 £m	**Weighted average number of shares 31.3.2007 million**	**Earnings per share 31.3.2007 pence**	Earnings 31.3.2006 £m	Weighted average number of shares 31.3.2006 million	Earnings per share 31.3.2006 pence
Net profit attributable to equity holders of the parent – continuing operations	**110.9**	**517.7**	**21.42**	90.5	517.9	17.48
Net profit attributable to equity holders of the parent – discontinued operations	**-**		**-**	15.4		2.97
Basic EPS	**110.9**	**517.7**	**21.42**	105.9	517.9	20.45

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

	Earnings 31.3.2007 £m	**Weighted average number of shares 31.3.2007 million**	**Earnings per share 31.3.2007 pence**	Earnings 31.3.2006 £m	Weighted average number of shares 31.3.2006 million	Earnings per share 31.3.2006 pence
Net profit attributable to equity holders of the parent – continuing operations	**110.9**	**518.6**	**21.38**	90.5	518.6	17.45
Net profit attributable to equity holders of the parent – discontinued operations	**-**		**-**	15.4		2.97
Diluted EPS	**110.9**	**518.6**	**21.38**	105.9	518.6	20.42

Adjusted EPS is considered by the directors to give a better indication of the Group's underlying performance due to the non-cash nature of the adjusted items and is calculated as follows:

	Earnings 31.3.2007 £m	**Weighted average number of shares 31.3.2007 million**	**Earnings per share 31.3.2007 pence**	Earnings 31.3.2006 £m	Weighted average number of shares 31.3.2006 million	Earnings per share 31.3.2006 pence
Basic EPS	**110.9**	**517.7**	**21.42**	90.5	517.9	17.48
Deferred tax	**28.0**		**5.41**	23.6		4.55
Amortisation of debt fair value	**(7.7)**		**(1.49)**	(13.0)		(2.51)
IAS 39 derivatives	**(2.0)**		**(0.39)**	-		-
Adjusted EPS	**129.2**	**517.7**	**24.95**	101.1	517.9	19.52

6. 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**