4 June 2008

NORTHUMBRIAN WATER GROUP PLC

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2008

Northumbrian Water Group plc (NWG or the Group) presents its preliminary results for the year ended 31 March 2008.

HIGHLIGHTS 2008

	Year to 31.3.2008 £m	Year to 31.3.2007 (restated)[1] £m	Change £m	Change %
Revenue	**670.4**	633.5	36.9	5.8
Profit on ordinary activities before interest[1]	**277.8**	247.7	30.1	12.2
Profit before tax	**170.3**	147.8	22.5	15.2
Profit for the year[2]	**158.3**	111.2	47.1	42.4
Net debt	**2,150.4**	2,079.6	70.8	3.4
RCV	**2,976**	2,817	159	5.6
Continuing operations				
Basic EPS[2]	**30.52p**	21.42p	9.10p	42.5%
Adjusted EPS[3]	**26.72p**	24.95p	1.77p	7.1%
Ordinary dividends paid and proposed[4]	**12.07p**	11.27p	0.80p	7.1%

Notes:
1 The Group has changed its presentation in respect of its defined benefit pension cost (see notes 2 and 3 to the financial statements)
2 Includes deferred tax credit £13.6 million (2007: charge, £28.0 million)
3 Excludes deferred tax credit £13.6 million (2007: charge, £28.0 million), IAS 39 £nil (2007: credit, £2.0 million) and amortisation of debt fair value £6.1 million (2007: £7.7 million)
4 Ordinary dividends: interim paid 4.00p (2007: 3.75p); final proposed 8.07p (2007: 7.52p)

- Revenue increase mainly reflects the uplift in tariffs to support continuing high capital investment
- Regulated capital investment in the period of £232.6 million (2007: £225.0 million)
- Funding secured for capital programme to 2011
- Highest levels of customer satisfaction in England and Wales
- Leakage targets achieved
- Excellent drinking water quality and environmental performance
- Proposed final dividend of 8.07 pence (2007: 7.52 pence) per share to be paid on 12 September 2008, giving a full year ordinary dividend of 12.07 pence per share, an increase of 7.1%

Managing Director John Cuthbert said, “The strong operational and financial performance reported in the first six months has been carried through to the full year. Regulatory outputs have been delivered, although sewer flooding continues to be a challenge as a result of the increasing incidence of severe localised storms. Results from our own customer research, and that carried out by CCWater, continue to place NWL in a strong position within the sector.

‘Looking to the Future’, the strategic direction statements published by NWL in December last year, have been well received by stakeholders. The statements establish a clear long term framework for NWL and a strong foundation on which proposals for the five-year period to March 2015 will be based.”

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MANAGING DIRECTOR'S STATEMENT

NWG's financial performance

Revenue for the year to 31 March 2008 was £670.4 million (2007: £633.5 million). This 5.8% 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 year was £277.8 million (2007: £247.7 million). Operating costs increased by £6.8 million (1.8%) to £392.6 million.

The net interest charge was £108.0 million (2007: £100.7 million). This charge includes a credit of £6.1 million (2007: £7.7 million) in respect of the amortisation of the debt fair value. The 2007 charge includes a gain of £2.9 million from the cancellation of a financial instrument.

Profit on ordinary activities before tax for the year was £170.3 million, 15.2% higher than the previous year (2007: £147.8 million). The current tax charge of £25.6 million (2007: £8.6 million) reflects increased profitability and the impact of changes in tax rules on capitalised maintenance expenditure, offset by tax relief for the prepayment of pension contributions between March 2006 and April 2007. The deferred tax credit was £13.6 million (2007: charge, £28.0 million). During the year, 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. Excluding this one-off credit, the effective tax rate for the year to 31 March 2008 was 28% (2007: 25%). Future capital allowances claims are subject to proposals announced by the UK Government which are expected to become law when the Finance Act is enacted. Further detail is provided in the principal risks and uncertainties section.

The Group's gearing has decreased from 74% to 72% of NWL's RCV, with net debt increasing by £70.8 million to £2,150.4 million over the year. The decrease in the Group's gearing is principally due to the growth in the RCV over the year from £2,817 million to £2,976 million at 31 March 2008. For the regulated business within NWL, gearing remained stable at 58%.

Cash interest cover for the Group has improved from 2.9x to 3.1x in the year, reflecting the positive cash effects of index linked bond issuance.

Capital structure

In March 2008, NWL entered into a new £28.6 million long term finance lease for relined infrastructure assets. The lease is at variable rates linked to RPI and has a final maturity of March 2043.

In May 2008, the EIB agreed an additional £120.0 million facility with NWL. This offers NWL attractive funding and will be drawn before May 2009.

Northumbrian Water Limited

Revenue was £628.0 million for the year to 31 March 2008 (2007: £591.8 million). The 6.1% increase is mainly due to the uplift in water and sewerage tariffs to support the continuing high capital investment programme agreed as part of the regulatory price review in 2004. In addition, the revenue includes £5.4 million (2007: £5.3 million) from the scientific services business transferred into NWL from Analytical & Environmental Services Limited (AES) at 31 March 2007.

Operating costs have increased from £353.1 million to £356.0 million. This increase reflects the impact of inflation on operating costs and increased depreciation due to the capital investment programme, although these have been partially offset by reduced energy costs and other efficiencies. Operating costs for the appointed business in 2007/08 are £1.4 million lower than those estimated in the 2004 final determination for the year.

Operating costs continue to be dominated by energy prices and, in particular, by the volatility in prices seen over recent years. Energy prices for 2007/08 fell back from the previous year to levels close to those assumed by Ofwat when setting prices. However, there has subsequently been a dramatic increase in energy prices – almost doubling from the low point of February 2007. This will add more than £8.0 million to NWL's operating costs in 2008/09, despite continuous efforts to minimise energy usage.

Profit on ordinary activities before interest for the period was £272.0 million (2007: £238.7 million).

Capital expenditure for the year was £232.6 million (2007: £225.0 million).

Water

The quality of the drinking water supplied by NWL remained excellent in 2007/08. One of the Drinking Water Inspectorate's (DWI) key measures is Mean Zonal Compliance and NWL achieved 99.98% in the south and 99.94% in the north. In addition, the DWI's Operational Performance Index was 99.98% in the south and 99.66% in the north while the Distribution Maintenance Index (DMI) was 99.96% in the south and 99.47% in the north.

During 2007/08, we completed significant improvements to water treatment works at Honeyhill and Lartington, both in County Durham and at Warkworth in Northumberland, which now has an additional treatment process to remove pesticides from raw water. At Layer in Essex, we made good progress on a project that will increase the reliable output by 20%, to 145 Ml/d.

One of NWL's key priorities is to reduce the amount of water lost from its networks and the leakage targets agreed with Ofwat have been met. The leakage in our southern operating area remains amongst the lowest in the country as it has been for many years. NWL aims to set best practice standards to manage leakage and is playing a leading role in a review of leakage methodologies with the Environment Agency (EA) and Ofwat.

Construction of a new 16km trunk main to serve customers in Newcastle is almost finished. This will enable 155km of trunk mains supplying South Northumberland and Newcastle to be cleaned over the next few years. We have rehabilitated 373km of water mains during the year.

Water resources

Our plan to increase the capacity of the Abberton reservoir near Colchester by around 60% reached a key milestone in December 2007 when we submitted our applications for planning permission for the reservoir and two large pipelines. The submission was followed by a period of statutory consultation in the first three months of 2008. The applications are the culmination of extensive work with environmental scientists, lawyers and planners to produce the environmental statement and supporting documentation. We anticipate determination of the planning applications during the summer. The EA is preparing the application to vary its licences at Denver and Blackdyke which, together with the enhanced transfer facilities and the enlarged reservoir, will secure water supplies for customers in one of the driest areas in the United Kingdom.

Our long running water efficiency promotions and good relationship with our customers continue to produce a positive response with further reductions in demand.

Metering also has an important role to play in managing the demand for water. For several years we have been installing water meters on change of occupier in properties in the Essex area. This is in addition to our optional metering scheme and we now have about 40% of domestic customers in Essex and 54% in Suffolk on a metered supply.

Environment

All 33 bathing waters in NWL's area passed the EU Mandatory Standard and, of these, 27 achieved the more demanding Guideline Standard, despite poor weather in the summer of 2007. 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, particularly with water running off the land.

We have only one non-compliant consented sewage treatment works out of a total of 158, based on Look-Up Table compliance for the year. This is a works that represents 1.6% of the population equivalent and is now compliant.

NWL has now installed nearly 500 real-time monitoring devices in the sewerage network to provide information on high or unusual flows. This information allows NWL to be proactive rather than reactive and to target action to prevent spillages and flooding. This investment, together with a more proactive maintenance programme, has improved performance and, whilst Category 1 and 2 pollution incidents (1 and 13 respectively) are broadly the same as the previous year, there has been a reduction of 20% in Category 3 incidents (105). This continues the improvement trend that NWL has recorded for the last four years.

Intense rainfall during localised summer storms caused extensive flooding during the year with 813 properties flooded internally, well above the long term average and second only to 2005/06. Investment to reduce the risk of sewer flooding has been increased. During the year, 18 schemes were completed to alleviate flooding risk for 156 properties and we improved 86 combined sewer overflows. This will further improve local water courses, enhance their visual appearance and reduce pollution incidents.

Domestic customers

Our relationship with our customers is vital to the success of our business. Our reputation for providing value for money and working to maintain high levels of customer satisfaction has undoubtedly helped achieve a positive response to our appeals to use water carefully.

We carry out regular surveys and focus group research to understand our customers' needs, their perceptions of our service and its value for money. Affordability and value for money are important to our customers and are, therefore, key issues for the business.

CCWater has carried out its second annual survey for domestic customers on a number of key themes, including value for money. This year's survey again concluded that, of all water companies' customers, ours are the most satisfied with the fairness of charges and value for money.

Business customers
NWG is actively involved in the business community in its operating areas through direct membership and involvement in the councils/boards of the CBI, Chambers of Commerce and other similar organisations.

NWL continues to develop its business with major companies in the north east. We have worked closely with Newcastle International Airport to divert trunk mains to allow the airport's further development. In addition, NWL's Pipeline Solutions business completed a strategic mains replacement project for Durham Tees Valley Airport.

We also continue to provide expert industrial effluent treatment services through our major works at Bran Sands on Teesside and work collaboratively with partners to deliver commercial and environmental outcomes. During the year, Huntsman Polyurethanes, an existing customer at Bran Sands, worked in conjunction with NWL and the EA to implement a process change at its Wilton Site. This change will bring about major improvements in safe handling and in the environmental performance of the effluents discharged from the site.

NWL has also worked with Degussa, an existing customer, to assess the opportunities for the disposal of the liquid wastes generated on its site. We have assessed a number of these and two additional waste streams are now discharged via a pipeline to Bran Sands under the terms of its contract.

We successfully completed a project to provide a supplementary raw water supply service to Teesside Power Station at Wilton. The power station now has increased security of supply as a result of the new connection to NWL's network. The majority of the water NWL supplies is used for cooling the electricity generating equipment.

In another important area, NWL is working with the regional NHS Trusts to improve and extend contingency plans for hospitals and other medical sites in the region to protect water supplies in the event of an emergency.

On 31 March 2007, we created a new Scientific Services team within NWL by integrating the AES business within the NWL water and waste water compliance teams. We retained the AES name for accreditation and commercial purposes. Scientific Services has continued to grow and, during the year, won new contracts with blue chip clients including the EA, the Spanish EPA, British Energy, Castle Cement, English Heritage, Durham University, local health trusts and Sembcorp.

Climate change
Over the last five years we have reduced the amount of energy we use by almost eight per cent. We have achieved this by improving our operations throughout the business, for example, by introducing anaerobic processes at Bran Sands, and by encouraging our customers to use water resources wisely, thereby reducing the associated energy consumption.

We have been working with independent experts and have carried out detailed assessments to identify and understand the impact climate change will have on our business. The UK Climate Impacts Programme will publish its climate change scenarios in November 2008 and we will be revisiting our assessment in the light of the new science that emerges. However, the water industry is one of the largest users of energy in the UK and we have been working hard to reduce our carbon footprint as part of our normal business.

Employees

NWG's key asset is its employees and one of the strengths of NWL is employee loyalty: employee turnover is relatively low at 7.4%, well below the UK water industry average of 10.3%. NWG ensures that its terms and conditions are appropriate to attract and retain the best employees in the areas it serves. Employees also have access to a scheme which provides a range of benefits including childcare vouchers and discounted store vouchers. Currently 27% of employees participate in the scheme, up from 23% last year. NWG places an emphasis on health and safety and employees are actively involved in identifying and eliminating hazards in the workplace which has resulted in a significant reduction in accidents.

Corporate responsibility

NWG continues to be a member of the FTSE4Good Index and was again ranked as one of the top 100 'Companies for corporate responsibility' based on an assessment of the widely recognised Business in the Community (BITC) indices, which cover how companies measure, manage and report responsible business practice. It was ranked as a 'Platinum' company, which is the top rank as well as being rated as the leading company in the sector which covers 'Gas, water and multi-utilities.' NWG was also one of only eight companies that received the BITC 'Big Tick' for its impact on society. Last year NWG was also named as the North East Representative Business of the Year by BITC. NWG uses these indices to measure, manage and report its responsible business practice underpinned by a rigorous external review process.

Currently 23% of employees participate in the 'Just an hour' volunteering scheme and last year gave over 5,431 hours to the community.

Water and waste water contracts

Revenue for the Group's water and waste water contracts was £35.5 million for the year to 31 March 2008 (2007: £37.0 million) and profit on ordinary activities before interest was £8.4 million (2007: £11.9 million). The decrease in revenue and profit on ordinary activities before interest is principally due to a one-off credit in respect of gas indexation on tariffs in 2007. 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, operates 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 is due to be completed in spring 2008.

Other
The 'Other' segment (formerly disclosed as 'Related services') previously included AES. As noted above, the business of AES now operates as a trading division of NWL. Accordingly, the comparatives for the 'Other' and 'Northumbrian Water Limited' segments, for the year ended 31 March 2007, have been restated by £5.3 million and £0.4 million in respect of external revenue and profit on ordinary activities before interest, respectively.

Credits for central unallocated costs and provisions reported previously in profit on ordinary activities before interest for the year ended 31 March 2007, of £2.8 million, have also been restated to be included within the 'Other' segment.

Financial calendar
2008

31 July	AGM
31 July	Interim Management Statement
13 August	Ex-dividend date
15 August	Record date
12 September	Final dividend payment
27 November	Half-yearly announcement
17 December	Ex-dividend date
19 December	Record date

2009

30 January	Interim 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.

In February 2008, the Government announced a study (the 'Cave review') into the scope for innovation and competition in water services and, in May, Ofwat published the second part of its own competition review. The latter is intended to inform the Cave review and effectively forms Ofwat's view of the legislative action which may be required to introduce competition into the sector. Government is proposing to introduce a Water Bill in the next parliamentary session which will propose various measures to tidy up water related legislation but may also include reference to introducing measures in response to the Cave review. This may result in enabling legislation that provides Ministers with powers to pass secondary legislation to enact recommendations from the review. However, a Water Act is unlikely to materialise for at least two years.

Future capital allowances claims are subject to proposals announced by the UK Government on 21 March 2007 to revise the rates of allowances with effect from 1 April 2008. The proposed changes are expected to become law when the Finance Act 2008 is enacted and, in the directors' view, if all the changes had been enacted or substantively enacted by the date of these financial statements, the Group's deferred tax liability at 31 March 2008 would have been increased by approximately £117.0 million.

Pensions
The Group operates a defined benefit pension scheme providing benefits based on pensionable remuneration. As at 31 March 2008, there were 2,391 (2007: 2,310) active members.

After consultation with employees and the trade unions, NWG closed the final salary scheme to new entrants on 1 January 2008, raised the employee contribution for existing members by 2% in April 2008 and changed the benefit structure. This will reduce the risk associated with the scheme. In addition, on 1 January 2008, a defined contribution scheme was introduced which will be offered to new employees. The pension scheme surplus under IAS 19, at 31 March 2008, was £90.5 million (2007: £42.7 million).

Earnings per share and dividend cover

Basic and diluted earnings per share were 30.52 pence (2007: 21.42 pence) and 30.48 pence (2007: 21.38 pence) respectively. Earnings per share from continuing operations, adjusted for IAS 39, deferred tax and the amortisation of debt fair value, were 26.72 pence (2007: 24.95 pence).

A final dividend of 8.07 pence per share for the year ended 31 March 2008 will be recommended by the Board to shareholders at the AGM on 31 July 2008 and, if approved, will be paid on 12 September 2008 to shareholders on the Company's Register of Members at the close of business on 15 August 2008. Together with the ordinary interim dividend of 4.00 pence per share, the ordinary dividends paid and proposed for the year will be 12.07 pence per share (2007: 11.27 pence per share). This represents an increase of 7.1% 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% per annum. 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 2.7x (2007: 1.9x) and 2.3x (2007: 2.3x) excluding deferred tax and the amortisation of debt fair value.

Outlook

We are entering a busy regulatory period with not only the forthcoming price review but also the emergence of competition as an increasingly important regulatory objective. We are well placed with our preparations for the former and will be submitting our draft business plan to Ofwat in August. As far as the latter is concerned, we look forward to participating in the current discussion on options and to contributing to whatever framework may evolve in the years ahead.

The commitment to our core water and waste water competencies continues to deliver a strong operating and financial performance. We believe this focus delivers good outcomes for all stakeholders, not least among those being customers and shareholders.

John Cuthbert
Managing Director
3 June 2008

Consolidated income statement
For the year ended 31 March 2008

	Notes	Year to 31.3.2008 £m	Year to 31.3.2007 (restated) £m
Continuing operations			
Revenue	2	**670.4**	633.5
Operating costs		**(392.6)**	(385.8)
Profit on ordinary activities before interest	2	**277.8**	247.7
Finance costs payable	3	**(173.5)**	(159.4)
Finance income receivable	3	**65.5**	58.7
Share of profit after tax of associates and jointly controlled entities		**0.5**	0.8
Profit on ordinary activities before taxation	2	**170.3**	147.8
- current taxation	4	**(25.4)**	(8.6)
- deferred taxation	4	**13.6**	(28.0)
- overseas tax	4	**(0.2)**	-
Profit for the year		**158.3**	111.2
Attributable to:			
Equity shareholders of the parent Company		**158.1**	110.9
Minority interests		**0.2**	0.3
		158.3	111.2

	Notes	Year to 31.3.2008	Year to 31.3.2007 (restated)
Basic earnings per share for profit attributable to ordinary equity holders of the parent Company	5	**30.52p**	21.42p
Diluted earnings per share for profit attributable to ordinary equity holders of the parent Company	5	**30.48p**	21.38p
Adjusted earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent Company (excluding deferred tax, amortisation of debt fair value and IAS 39 adjustments)	5	**26.72p**	24.95p
Ordinary final dividend proposed per share	6	**8.07p**	7.52p
Dividend paid per share	6	**11.52p**	10.79p

Consolidated statement of recognised income and expense
For the year ended 31 March 2008

	Year to 31.3.2008 £m	Year to 31.3.2007 £m
Actuarial gains	**27.3**	25.0
Gains on cash flow hedges	-	2.4
Tax on items charged or credited to equity	**(7.8)**	(7.5)
Translation differences	**0.3**	(0.2)
Total income and expense recognised in equity	**19.8**	19.7
Transferred to the income statement on cash flow hedges	-	(2.9)
Profit for the year	**158.3**	111.2
Total recognised income and expense	**178.1**	128.0
Attributable to:		
Equity shareholders of the parent Company	**177.9**	127.7
Minority interests	**0.2**	0.3
	178.1	128.0

Consolidated balance sheet
As at 31 March 2008

	Note	**31.3.2008** £m	31.3.2007 £m
Non-current assets			
Goodwill		**3.6**	3.6
Other intangible assets		**64.2**	64.2
Property, plant and equipment		**3,256.3**	3,119.9
Investments in jointly controlled entities		**3.8**	3.6
Financial assets		**16.4**	18.0
Pension asset		**90.5**	42.7
Other investments		**-**	0.2
		3,434.8	3,252.2
Current assets			
Inventories		**3.4**	3.7
Trade and other receivables		**125.1**	124.5
Cash and cash equivalents		**294.2**	316.9
		422.7	445.1
Total assets		**3,857.5**	3,697.3
Non-current liabilities			
Interest bearing loans and borrowings		**2,326.4**	2,382.1
Provisions		**2.8**	2.9
Deferred income tax liabilities		**525.4**	531.2
Other payables		**9.0**	10.0
Grants		**209.0**	193.3
		3,072.6	3,119.5
Current liabilities			
Interest bearing loans and borrowings		**136.3**	34.5
Provisions		**0.2**	0.2
Trade and other payables		**152.9**	165.6
Income tax payable		**3.7**	4.4
		293.1	204.7
Total liabilities		**3,365.7**	3,324.2
Net assets		**491.8**	373.1
Capital and reserves			
Issued capital	8	**51.9**	51.9
Share premium reserve	8	**446.5**	446.5
Cash flow hedge reserve	8	**1.0**	1.0
Treasury shares	8	**(0.8)**	(1.3)
Currency translation	8	**0.1**	(0.2)
Retained earnings	8	**(8.6)**	(126.5)
Equity shareholders' funds		**490.1**	371.4
Minority interests	8	**1.7**	1.7
Total capital and reserves	8	**491.8**	373.1

Consolidated cash flow statement
For the year ended 31 March 2008

	Notes	Year to 31.3.2008 £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		**277.8**	247.7
Depreciation and other similar non-cash charges		**98.3**	92.9
Other non-cash credits		**(5.0)**	(6.2)
Net credit for provisions, less payments		**(0.1)**	(0.3)
Difference between pension contributions paid and amounts recognised in the income statement		**15.3**	14.9
Decrease/(increase) in inventories		**0.3**	(0.4)
Increase in trade and other receivables		**(1.0)**	(13.6)
(Decrease)/increase in trade and other payables		**(3.8)**	0.9
Cash generated from operations		**381.8**	335.9
Advanced contributions in respect of retirement benefits		**(22.6)**	(25.8)
Interest paid		**(131.3)**	(124.7)
Income taxes paid		**(26.3)**	(14.6)
Net cash flows from operating activities		**201.6**	170.8
Investing activities			
Interest received		**18.2**	12.5
Capital grants received		**20.5**	18.8
Proceeds on disposal of property, plant and equipment		**1.8**	2.2
Dividends received from jointly controlled entities		**0.5**	0.9
Purchase of property, plant and equipment		**(236.8)**	(211.4)
Net cash flows from investing activities		**(195.8)**	(177.0)
Financing activities			
New borrowings		**31.4**	425.0
Maturity of investments		**1.8**	2.1
Settled hedge instruments		**-**	3.4
Issue costs of new borrowings		**-**	(0.4)
Own shares purchased		**-**	(0.2)
Dividends paid to minority interests		**(0.2)**	(0.1)
Dividends paid to equity shareholders		**(59.7)**	(55.8)
Repayment of borrowings		**(22.1)**	(201.1)
Payment of principal under hire purchase contracts and finance leases		**(6.4)**	(4.8)
Net cash flows from financing activities		**(55.2)**	168.1
(Decrease)/increase in cash and cash equivalents		**(49.4)**	161.9
Cash and cash equivalents at start of year	7	**315.8**	153.9
Cash and cash equivalents at end of year	7	**266.4**	315.8

Notes to the financial statements

The Board approved the preliminary financial statements covering the year ended 31 March 2008 on 3 June 2008. The financial information set out above does not constitute the Group's statutory financial statements for the year ended 31 March 2008, or for the year ended 31 March 2007, 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 2008, upon which the auditors have issued an unqualified audit opinion.

The financial statements for the year ended 31 March 2007 have been delivered to the Registrar of Companies. The financial statements for the year ended 31 March 2008 will be sent to shareholders and delivered to the Registrar of Companies in due course. They will also be available at the Registered Office of the company, Northumbrian Water Group plc, Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ.

1. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as it applies to the financial statements of the Group for the year ended 31 March 2008 and in accordance with the Companies Act 1985. The consolidated financial statements are also consistent with IFRS as issued by the IASB.

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

The Group has changed its presentation in respect of its defined benefit pension cost. The service cost is disclosed in employment costs and the expected interest income and interest cost on obligations have been disclosed within finance costs payable/(income receivable) as the directors believe this is more comparable to other companies in the industry. Operating costs, finance costs payable and finance income receivable have been restated for the year ended 31 March 2007 by £10.5 million, £32.4 million and £42.9 million, respectively. There is no effect on profit on ordinary activities before tax or profit for the year. The impact at the NWL segment is a reduction on profit on ordinary activities before interest for the year ended 31 March 2007 of £4.3 million.

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 year ended 31 March 2007, have been restated by £5.3 million and £0.4 million in respect of external revenue and profit on ordinary activities before interest, respectively.

Central unallocated costs and provisions reported previously in profit on ordinary activities before interest for the year ended 31 March 2007, of £2.8 million, have also been restated to be included within the 'Other' segment.

Revenue

	Northumbrian Water Limited £m	Water and waste water contracts £m	Other £m	Total £m
Year ended 31 March 2008				
Segment revenue	**628.0**	**35.5**	**12.6**	**676.1**
Inter segment revenue	**-**	**-**	**(5.7)**	**(5.7)**
Revenue to external customers	**628.0**	**35.5**	**6.9**	**670.4**
Year ended 31 March 2007 (restated)				
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

All revenue above represents services provided.

Profit on ordinary activities before interest

	Northumbrian Water Limited £m	Water and waste water contracts £m	Other £m	Total £m
Year ended 31 March 2008				
Segment profit on ordinary activities before interest	**272.0**	**8.4**	**(2.6)**	**277.8**
Net finance costs				**(108.0)**
Share of profit from associates and jointly controlled entities				**0.5**
Profit on ordinary activities before taxation				**170.3**
Taxation				**(12.0)**
Profit for the year from continuing operations				**158.3**
Year ended 31 March 2007 (restated)				
Segment profit on ordinary activities before interest	238.7	11.9	(2.9)	247.7
Net finance costs				(100.7)
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

3. Finance costs payable/(income receivable)

	Year to 31.3.2008 £m	Year to 31.3.2007 (restated) £m
Finance costs payable on debentures, bank and other loans and overdrafts	**141.5**	128.4
Amortisation of discount, fees, loan issue costs and other financing items	**(5.6)**	(7.1)
Settled hedge instruments	**-**	2.9
Interest cost on pension plan obligations	**35.2**	32.4
Finance costs payable on hire purchase contracts and finance leases	**2.4**	2.8
Total finance costs payable	**173.5**	159.4
Expected return on pension plan assets	**(48.4)**	(42.9)
Finance income receivable	**(17.1)**	(15.8)
Net finance costs payable	**108.0**	100.7

4. Taxation

	Year to 31.3.2008 £m	Year to 31.3.2007 £m
Current tax:		
Current income tax charge at 30% (2007: 30%)	**28.1**	21.0
Income tax reported in equity on cash flow hedges	**-**	0.1
Adjustment in respect of prior periods	**(2.7)**	(12.5)
UK corporation tax	**25.4**	8.6
Overseas tax	**0.2**	-
Total current tax	**25.6**	8.6
Deferred tax:		
Impact of opening rate reduction	**(35.4)**	-
Origination and reversal of temporary differences in the year at 28% (2007: 30%)	**15.1**	21.0
Income tax reported in equity on cash flow hedges	**-**	(0.1)
Adjustment in respect of prior periods	**6.7**	7.1
Total deferred tax	**(13.6)**	28.0
Tax charge in the income statement	**12.0**	36.6

5. Earnings per share

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

	Earnings 31.3.2008 £m	**Weighted average number of shares 31.3.2008 million**	**Earnings per share 31.3.2008 pence**	Earnings 31.3.2007 £m	Weighted average number of shares 31.3.2007 million	Earnings per share 31.3.2007 pence
Basic EPS	**158.1**	**518.0**	**30.52**	110.9	517.7	21.42

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

	Earnings 31.3.2008 £m	**Weighted average number of shares 31.3.2008 million**	**Earnings per share 31.3.2008 pence**	Earnings 31.3.2007 £m	Weighted average number of shares 31.3.2007 million	Earnings per share 31.3.2007 pence
Diluted EPS	**158.1**	**518.6**	**30.48**	110.9	518.6	21.38

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 31.3.2008 £m	**Weighted average number of shares 31.3.2008 million**	**Earnings per share 31.3.2008 pence**	Earnings 31.3.2007 £m	Weighted average number of shares 31.3.2007 million	Earnings per share 31.3.2007 pence
Basic EPS	**158.1**	**518.0**	**30.52**	110.9	517.7	21.42
Deferred tax	**(13.6)**		**(2.62)**	28.0		5.41
Amortisation of debt fair value	**(6.1)**		**(1.18)**	(7.7)		(1.49)
Derivatives	**-**		**-**	(2.0)		(0.39)
Adjusted EPS	**138.4**	**518.0**	**26.72**	129.2	517.7	24.95

6. Dividends paid and proposed

A final ordinary dividend payment of 8.07 pence per ordinary share will be recommended by the Board to shareholders at the AGM scheduled for 31 July 2008. If approved, the final dividend will be paid on 12 September 2008 to shareholders whose names appear on the Company's Register of Members at the close of business on 15 August 2008. Together with the ordinary interim dividend of 4.00 pence per ordinary share, the total ordinary dividend for the year will be 12.07 pence per ordinary share.

	Year to 31.3.2008 £m	Year to 31.3.2007 £m
Declared and paid during the year:		
Equity dividends on ordinary shares:		
Final dividend for 2006/07: 7.52p (2005/06: 7.04p)	**39.0**	36.4
Interim dividend for 2007/08: 4.00p (2006/07: 3.75p)	**20.7**	19.4
Dividends paid	**59.7**	55.8
Proposed for approval by shareholders at the AGM:		
Final dividend for 2007/08: 8.07p (2006/07: 7.52p)	**41.8**	39.0

7. Cash and cash equivalents

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

	31.3.2008 £m	31.3.2007 £m
Cash at bank and in hand	**92.3**	53.3
Short term deposits	**201.9**	263.6
Bank overdrafts	**(27.8)**	(1.1)
	266.4	315.8

8. 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 1 April 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 year	-	-	-	-	0.3	177.6	177.9	0.2	178.1
Share-based payment	-	-	-	-	-	0.5	0.5	-	0.5
Exercise of LTIP awards	-	-	-	0.5	-	(0.5)	-	-	-
Equity dividends paid	-	-	-	-	-	(59.7)	(59.7)	(0.2)	(59.9)
At 31 March 2008	**51.9**	**446.5**	**1.0**	**(0.8)**	**0.1**	**(8.6)**	**490.1**	**1.7**	**491.8**