6 December 2006

NORTHUMBRIAN WATER GROUP PLC

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

Northumbrian Water Group plc (NWG or the Group) announces its interim results for the six months ended 30 September 2006.

HIGHLIGHTS 2006

Financial highlights	Six months to 30.9.2006 £m	Six months to 30.9.2005 £m	Change £m	Change %
Continuing operations				
Revenue	**315.9**	295.3	20.6	7.0
Profit on ordinary activities before interest	**129.5**	116.8	12.7	10.9
Profit before tax	**75.5**	64.3	11.2	17.4
Profit before tax and FV debt amortisation[1]	**71.1**	58.3	12.8	22.0
Profit after tax	**56.8**	47.2	9.6	20.3
Net debt	**2,053.4**	1,869.3	184.1	9.8
Continuing operations				
Basic EPS	**10.97p**	9.11p	1.86p	20.4%
Adjusted EPS[1,2]	**11.34p**	9.30p	2.04p	21.9%
Ordinary dividend proposed	**3.75p**	3.52p	0.23p	6.5%

Notes:
1 Excludes fair value debt amortisation £4.4 million (2005: £6.0 million)
2 Excludes deferred tax £8.3 million (2005: £7.0 million), IAS 39 credit £2.0 million (2005: nil)

- Revenue increase mainly due to the uplift in water and sewerage charges to support continuing high capital investment
- Capital programme on track to deliver regulatory outputs for drinking water quality and environmental improvements
- Financial position strengthened by the issue of two £100 million index linked Eurobonds to finance capital investment through to 2010
- Levels of customer service and satisfaction remain high
- Water supplies maintained without restrictions
- Leakage targets outperformed
- Excellent bathing water quality results
- Ordinary interim dividend of 3.75 pence per share to be paid on 2 February 2007

Managing Director John Cuthbert said, “The Group has delivered a good operational and financial performance in the first six months. Looking forward, we have successfully secured funding for the high levels of investment planned to 2010. This investment programme will meet not only the UK and EU legislation requirements, but also the priorities identified by our customers, the Consumer Council for Water and our stakeholders.

The relationship with our stakeholders is important to us; we have built a reputation for providing value for money and our customer research shows high levels of satisfaction with our services. As a result, customers have responded positively to our appeals to use water carefully, particularly in areas experiencing low levels of rainfall. We do not take this co-operation for granted and we are committed to delivering levels of service our customers can continue to value”.

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MANAGING DIRECTOR'S STATEMENT

NWG's financial performance

Revenue for the six months to 30 September 2006 was £315.9 million (2005: £295.3 million). This 7% increase is mainly due to the uplift in water and sewerage charges at Northumbrian Water Limited (NWL), the Group's principal subsidiary.

Profit on ordinary activities before interest for the six months was £129.5 million (2005: £116.8 million). Operating costs increased by £7.9 million (4%) to £186.4 million with upward pressure on costs partially mitigated by ongoing efficiencies.

The net interest charge was £54.2 million (2005: £52.4 million) which includes a credit of £4.4 million (2005: £6.0 million) in respect of the amortisation of the debt fair value and a gain of £2.9 million (2005: nil) in respect of the cancellation of a financial instrument.

Profit on ordinary activities before tax for the six months was £75.5 million (2005: £64.3 million). The tax charge of £18.7 million (2005: £17.1 million) reflects increased profitability and changes in tax rules on capitalised maintenance expenditure offset by tax relief for the prepayment of pension contributions to 2010. The effective tax rate for the six months to 30 September 2006 is 25% (2005: 27%).

The Group's gearing remains stable with net debt increasing by £43.0 million, since 31 March 2006, to £2,053.4 million. Cash interest cover for the Group improved from 2.7x, at 31 March 2006, to 3.1x.

Capital structure

In June 2006, NWL's finance subsidiary took advantage of low market rates to issue two £100 million index linked Eurobonds bearing, respectively, a real coupon of 1.7118% due 2049 and 1.7484% due 2053. This will fund NWL's capital investment programme for the current regulatory period.

On 28 June 2006, the Group redeemed the remaining £172 million 8.625% Eurobonds using five year committed bank facilities of £125 million and cash resources.

The debt portfolio now comprises 67% with an average fixed rate of 6.2%, 19% of index linked funding at an average real rate of 1.851% and 14% on a variable rate basis.

Northumbrian Water Limited

Revenue was £293.6 million for the six months to 30 September 2006 (2005: £277.2 million). The 5.9% increase is mainly due to the uplift in water and sewerage charges to support the continuing high capital investment programme agreed as part of the regulatory price review.

Operating costs increased from £161.7 million to £169.4 million, principally reflecting increased power prices and additional pension costs. The impact of inflation has been partially offset by efficiency savings.

Profit on ordinary activities before interest for the period was £124.2 million (2005: £115.5 million).

Capital investment for the period was £100.5 million (2005: £96.6 million). NWL continues to perform well and is on target to achieve its regulatory outputs.

Customers will benefit from investment in technology as part of a new work management system. This three year investment programme to cut costs, improve customer service and communication, will be used extensively across the business.

Water quality remains high. NWL improved its already high standards of performance against the Drinking Water Inspectorate (DWI) indices and the quality of drinking water in both the northern and southern areas remains among the best in the country. NWL is continuing to develop a risk based approach to secure water supplies as efficiently and effectively as possible.

Improvements to Whittle Dene water treatment works in Northumberland were completed at the end of September, meeting the commitment given to the DWI. These improvements included an additional process to remove trace herbicides and pesticides from raw water. The upgrading of Horsley water treatment works, also in Northumberland, is due to be completed by the end of December. Both treatment works are important to the supply network for the Newcastle conurbation.

Good progress has been made on the programme of work to reline or renew water mains and to flush the network to reduce discoloured water. Planning for a major project to refurbish 180km of large diameter trunk mains supplying Newcastle is well advanced.

The southern operating areas are in the driest part of the country. There has been a continuous period of around 20 months of below average rainfall in this area, resulting in drought conditions throughout much of the south east. Despite this, average water resource levels were maintained in the Essex supply area and no restrictions on use were necessary. The availability of water from Norfolk via the Ely Ouse to Essex Transfer Scheme and water from the innovative Langford Recycling Scheme helped maintain reservoir levels. Demand management has also played its part in maintaining water resource levels. Leakage levels are among the lowest in the country and the benefits of promoting water efficiency to customers over the last 10 years led to a positive response from them during the summer with a 15% reduction in demand.

NWL continues to meter new houses and promotes the option to have a meter installed free of charge to all customers. In the southern operating area, meters are now installed on change of occupier. Current household metering levels are 15.7% and 39% in the northern and southern operating areas respectively.

Planning proposals to enlarge Abberton Reservoir in Essex are due to be submitted in spring 2007. With an anticipated completion date of 2014, the project will enlarge the capacity of the reservoir by around 60%.

Research continues to confirm that levels of customer satisfaction and value for money remain high, at around 90%. NWL continues to score well on Ofwat's measures of customer service and achieved five stars out of seven in its 2005/06 Levels of Service Report. It did not receive the two stars relating to sewer flooding. Its ranking in the Overall Performance Assessment score was affected by one failure at a large sewage treatment works. Investment to remedy this is largely complete. Sewer flooding as a consequence of severe storms in the summer of 2005 also affected the score.

Good progress has also been made on the major programme to reduce the impact of intermittent discharges and pollution incidents. Compliance with discharge consent standards at sewage treatment works continues to be good and significant investment to meet tighter standards and all major projects have been delivered on time. Where problems were the result of illegal discharges, NWL has initiated a number of successful prosecutions.

Investment in new instrument technology is underway, installing continuous level monitoring across the sewer network. Data from these monitors improves proactive management of the network, providing early warning of flooding, reducing discharges and informing investment decisions. Last year NWL had no category 1 pollution incidents (the most environmentally damaging) and significantly reduced the number of category 2 and 3 incidents. The Environment Agency has commended NWL for achieving above average compliance with its standards.

Bathing water quality results in the north east were the best ever in 2006. All the bathing waters achieved the mandatory compliance standard and nearly 90% met the higher guideline standards.

NWL is a major user of energy for its water and waste water processes and is accredited under the Carbon Trust’s Energy Efficiency Accreditation Scheme. The substantial rise in energy costs over the last two years has increased further the importance of reducing overall energy use. NWL monitors power consumption closely and has implemented several initiatives including extensive audits of energy use and pump efficiency. These help to identify improved plant operating procedures and efficiency improvements to reduce consumption.

Ultra violet (UV) disinfection, as a third level of treatment, is utilised at the larger coastal waste water plants throughout the year. This process uses a large amount of energy, contributing to significant CO_2 emissions. After detailed consultation with the Environment Agency, NWL commissioned independent research to examine the environmental impact of not using UV disinfection outside the bathing season of 1 May to 30 September. The research concluded that this would reduce the carbon footprint of the coastal works without any adverse impact on the marine environment or compliance with bathing water standards. NWL has, therefore, proposed to the Environment Agency that UV disinfection be applied at the six major coastal works only in the bathing season. This would reduce energy costs and carbon emissions as part of the carbon reduction programme.

There is a need to reduce the use of energy generated from fossil fuel sources. Currently, energy needs are met from a mix of renewable sources at water and waste water facilities and from external supplies generated from green and high efficiency sources such as hydro, wind and high quality combined heat and power. Last year a flexible electricity purchasing programme was introduced. NWL has bought 100% of power requirements for 2006/07 and 35.0% for 2007/08. Energy costs for 2006/07 are likely to be around £10 million higher than in the previous year. However, prevailing rates for 2007/08 are lower than these very high levels.

Water and waste water contracts

Revenue for the Group’s water and waste water contracts was £17.9 million for the six months to 30 September 2006 (2005: £13.0 million) and profit on ordinary activities before interest was £4.5 million (2005: £1.0 million). All contracts continue to perform satisfactorily. As a consequence of increasing the shareholdings in Ayrshire (see below), turnover and profit before interest contributed a further £3.6 million and £2.1 million, respectively, during this six months.

The Group is a 75% shareholder in two project companies delivering private finance initiative contracts with Scottish Water for waste water treatment at Levenmouth and Ayrshire. At Ayrshire, the Group acquired an additional 25% 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. Following this acquisition, the project company is fully consolidated into the Group's results.

In Ireland, the Group is part of a contractual consortium that designed and built a €70 million waste water treatment plant for Cork City Council. Under the consortium agreement, the Group has full responsibility for the operation and maintenance of the plant.

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 supply systems.

Related services

The Group's non-water companies' revenue was £12.7 million (2005: £39.3 million of which £26.3 million was in respect of discontinued operations). Profit on ordinary activities before interest was £0.2 million (2005: £1.7 million of which £1.4 million was in respect of discontinued operations).

Pensions

The Group operates both a final salary defined benefit and a defined contribution pension scheme. In common with many other final salary schemes, pressure on the funding of the scheme has grown over recent years. Improved life expectancy and volatile investment returns have increased the cost of providing a final salary pension. The scheme is currently well funded but the risks associated with funding such a scheme are well documented. An internal working group has been formed to review sustainable pension options for the future and the Board will consider these early in 2007.

At 30 September 2006, the Group's defined benefit scheme had a surplus of £17.0 million (31 March 2006: deficit of £3.7 million). This reflects the advance employer and employee contributions of £10 million and £26.1 million paid in March and April 2006, respectively. The Group will make a further payment of £23.3 million by April 2007, being the final instalment of employer and employee contributions to 31 December 2010.

Dividend

The Board has declared an interim dividend for the period of 3.75 pence per share (2005: 3.52 pence). This dividend will be paid on 2 February 2007 to shareholders on the register at the close of business on 22 December 2006. The dividend cover for the period is 2.9x, and 3.1x excluding deferred tax and the amortisation of debt fair value.

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

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, a specialist pension administration business 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 Executive Director of LEAD International, an international non-profit training organisation whose mission is to inspire leadership for sustainable 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). OTPP holds 25% of the issued share capital of NWG and Claude is, therefore, not regarded as an independent director.

Ron Lepin resigned as a non-executive director of NWG and NWL with effect from 1 December 2006.

Outlook

The Group intends to maintain the focus on its core business of water and waste water operations. The Board believes this strategy will continue to deliver value and this view seems to be held increasingly by others in the sector. The Group has a secure financial structure able to support the high levels of investment required not only to meet its regulatory and contractual obligations but also to sustain strong operational performance.

Key financial ratios will remain stable over the current regulatory period. Energy cost management continues to be an important focus in both the short and medium term even though current 2007/08 prices are lower than those in 2006/07.

The Group will continue to drive for efficiency in all operations.

John Cuthbert
Managing Director
5 December 2006

Consolidated income statement
Six months ended 30 September 2006

	Notes	**Six months to 30.9.2006 £m**	Six months to 30.9.2005 £m	Year to 31.3.2006 £m
Continuing operations				
Revenue	2	**315.9**	295.3	591.5
Operating costs		**(186.4)**	(178.5)	(355.3)
Profit on ordinary activities before interest	2	**129.5**	116.8	236.2
Finance costs payable		**(60.0)**	(54.3)	(112.7)
Finance income receivable		**5.8**	1.9	6.7
Share of profit after tax of associates and jointly controlled entities		**0.2**	(0.1)	0.1
Profit on ordinary activities before taxation	2	**75.5**	64.3	130.3
- current taxation	3	**(10.4)**	(10.1)	(15.6)
- deferred taxation	3	**(8.3)**	(7.0)	(23.6)
- overseas tax	3	**-**	-	(0.1)
Profit for the period from continuing operations		**56.8**	47.2	91.0
Discontinued operations				
Profit for the period from discontinued operations	4	**-**	15.5	15.4
Profit for the period		**56.8**	62.7	106.4
Attributable to:				
Equity shareholders of the company		**56.7**	62.9	105.9
Minority interests		**0.1**	(0.2)	0.5
		56.8	62.7	106.4

Basic earnings per share for profit attributable to ordinary equity holders of the parent	6	**10.97p**	12.11p	20.55p
Diluted earnings per share for profit attributable to ordinary equity holders of the parent	6	**10.95p**	12.11p	20.52p
Basic earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent	6	**10.97p**	9.11p	17.57p
Diluted earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent	6	**10.95p**	9.11p	17.55p
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	**11.34p**	9.30p	19.62p
Ordinary final dividend proposed per share	5	**3.75p**	3.52p	7.04p
Special dividend paid per share	5	**-**	-	2.82p
Dividend paid per share	5	**7.04p**	7.13p	10.65p

Consolidated statement of recognised income and expense
Six months ended 30 September 2006

	Six months to 30.9.2006 £m	Six months to 30.9.2005 £m	Year to 31.3.2006 £m
Actuarial (losses)/gains	**(2.4)**	(4.3)	52.7
Cash flow hedges	**(1.0)**	(3.8)	(2.8)
Tax on items charged or credited to equity	**0.7**	1.3	(15.6)
Profit for the period	**56.8**	62.7	106.4
Total recognised income and expense	**54.1**	55.9	140.7

Consolidated balance sheet
As at 30 September 2006

	Note	**30.9.2006 £m**	30.9.2005 £m	31.3.2006 £m
Non-current assets				
Goodwill		**3.7**	0.1	3.7
Other intangible assets		**64.2**	64.2	64.2
Property, plant and equipment		**3,041.0**	2,850.0	2,985.6
Investments in jointly controlled entities		**3.2**	3.7	3.6
Investments in associates		**-**	0.8	-
Pension asset		**17.0**	-	-
Financial assets		**21.2**	22.2	22.2
Other investments		**0.3**	0.4	0.3
		3,150.6	2,941.4	3,079.6
Current assets				
Inventories		**3.6**	4.0	3.3
Trade and other receivables		**113.3**	107.0	109.5
Cash and cash equivalents		**247.4**	194.2	176.6
		364.3	305.2	289.4
TOTAL ASSETS		**3,514.9**	3,246.6	3,369.0
Non-current liabilities				
Interest bearing loans and borrowings		**2,295.1**	1,858.1	1,972.9
Provisions		**3.0**	3.6	3.1
Deferred income tax liabilities		**503.3**	456.7	495.6
Pension liability		**-**	81.6	3.7
Other payables		**10.2**	15.7	10.6
Grants		**186.3**	171.2	179.3
		2,997.9	2,586.9	2,665.2
Current liabilities				
Interest bearing loans and borrowings		**22.9**	232.9	236.7
Provisions		**0.3**	-	0.3
Trade and other payables		**158.7**	166.3	156.3
Income tax payable		**16.4**	11.0	9.7
		198.3	410.2	403.0
TOTAL LIABILITIES		**3,196.2**	2,997.1	3,068.2
NET ASSETS		**318.7**	249.5	300.8
Capital and reserves				
Issued capital		**51.9**	51.9	51.9
Share premium reserve		**446.5**	446.5	446.5
Cash flow hedge reserve		**0.5**	0.5	1.5
Treasury shares		**(1.7)**	(0.9)	(1.7)
Retained earnings		**(180.1)**	(249.3)	(198.9)
Equity shareholders' funds		**317.1**	248.7	299.3
Minority interest		**1.6**	0.8	1.5
TOTAL CAPITAL AND RESERVES	7	**318.7**	249.5	300.8

Consolidated cash flow statement
Six months ended 30 September 2006

	Six months to 30.9.2006 £m	Six months to 30.9.2005 £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	**129.5**	116.8	236.2
Profit before interest on discontinued operations	**-**	1.4	1.2
Depreciation and other similar non-cash charges	**43.1**	40.6	83.6
Net charge for provisions, less payments	**(0.1)**	(0.3)	(0.5)
Movements in working capital	**(6.9)**	4.7	(5.5)
Cash generated from operations	**165.6**	163.2	315.0
Special contributions paid in respect of retirement benefits	**(26.1)**	-	(22.8)
Net interest paid	**(54.9)**	(55.6)	(119.7)
Income taxes paid	**(4.4)**	(0.1)	(6.5)
Net cash flows from operating activities	**80.2**	107.5	166.0
Investing activities			
Interest received	**2.5**	1.7	4.1
Capital grants received	**9.5**	11.0	21.4
Purchase of subsidiary undertaking (net of cash acquired)	**-**	-	2.4
Proceeds on disposal of subsidiary undertakings	**-**	18.7	18.6
Proceeds on disposal of property, plant and equipment	**0.8**	1.0	2.0
Dividends received from jointly controlled entities	**0.6**	0.4	0.8
Purchase of property, plant and equipment	**(99.3)**	(93.0)	(206.7)
Other cash items	**-**	0.2	0.2
Net cash flows from investing activities	**(85.9)**	(60.0)	(157.2)
Financing activities			
New borrowings	**325.1**	150.0	210.2
New loans issued	**-**	-	(2.1)
Maturity of investments	**1.0**	0.8	2.0
Settled hedge instruments	**2.9**	(3.7)	(3.7)
Issue costs of new borrowings	**(0.4)**	(1.1)	(1.4)
Own shares purchased	**-**	-	(0.8)
Dividends paid to minority interests	**-**	-	(0.3)
Dividends paid to equity shareholders	**(36.4)**	(36.8)	(69.7)
Repayment of borrowings	**(193.7)**	(22.1)	(46.6)
Payment of principal under hire purchase contracts and finance leases	**(3.5)**	(3.1)	(4.7)
Net cash flows from financing activities	**95.0**	84.0	82.9
Increase in cash and cash equivalents	**89.3**	131.5	91.7
Cash and cash equivalents at start of period	**153.9**	62.2	62.2
Cash and cash equivalents at end of period	**243.2**	193.7	153.9
Net cash flow in respect of discontinued operations			
Cash consideration	**-**	29.8	29.8
Cash and cash equivalents disposed	**-**	(11.0)	(11.1)
Expenses paid in connection with disposals	**-**	(0.1)	(0.1)
	-	18.7	18.6

Notes to the financial statements

1. Basis of preparation

The results for the six months to 30 September 2006 have been prepared using the accounting policies expected to be applied in the annual report and financial statements for 31 March 2007 and are consistent with the accounting policies applied in the annual report and financial statements for the year ended 31 March 2006.

The results for the year ended 31 March 2006 have been extracted from the financial statements, which have been delivered to the Registrar of Companies. The independent auditors' report on those financial statements was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985. The financial information contained in the interim financial statements does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985.

The figures for the above periods are unaudited and do not constitute statutory accounts. However, the auditors have carried out a review of the figures to 30 September 2006 and their report is set out in the independent review report.

The interim report was approved by the Board of Directors on 5 December 2006.

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
Six months ended 30 September 2006						
Segment revenue	**293.6**	**17.9**	**12.7**	**324.2**	**-**	**324.2**
Inter segment revenue	**-**	**(0.4)**	**(7.9)**	**(8.3)**	**-**	**(8.3)**
Revenue to external customers	**293.6**	**17.5**	**4.8**	**315.9**	**-**	**315.9**
Six months ended 30 September 2005						
Segment revenue	277.2	13.0	39.3	329.5	(26.3)	303.2
Inter segment revenue	-	(0.6)	(16.6)	(17.2)	9.3	(7.9)
Revenue to external customers	277.2	12.4	22.7	312.3	(17.0)	295.3
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 & waste water contracts £m	Related services £m	Total £m	Discontinued operations £m	Total revenue from continuing operations £m
Six months ended 30 September 2006						
Segment profit before interest	**124.2**	**4.5**	**0.2**	**128.9**	**-**	**128.9**
Central unallocated costs and provisions						**0.6**
Profit on ordinary activities before interest						**129.5**
Net finance costs						**(54.2)**
Share of profit from associates and jointly controlled entities						**0.2**
Profit on ordinary activities before taxation						**75.5**
Six months ended 30 September 2005						
Segment profit before interest	115.5	1.0	1.7	118.2	(1.4)	116.8
Central unallocated costs and provisions						-
Profit on ordinary activities before interest						116.8
Net finance costs						(52.4)
Share of profit from associates and jointly controlled entities						(0.1)
Profit on ordinary activities before taxation						64.3

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 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

3. Taxation

	Six months to 30.9.2006 £m	Six months to 30.9.2005 £m	Year to 31.3.2006 £m
Current tax:			
UK corporation tax - continuing operations	**10.4**	10.1	15.6
- discontinued operations (note 4)	**-**	0.6	0.6
- overseas tax	**-**	-	0.1
Total current tax	**10.4**	10.7	16.3
Deferred tax:			
Deferred tax - continuing operations	**8.3**	7.0	23.6
- discontinued operations (note 4)	**-**	0.1	0.1
Total deferred tax	**8.3**	7.1	23.7
Tax charge in the income statement	**18.7**	17.8	40.0
The tax charge in the income statement is disclosed as follows:			
Tax expense on continuing operations	**18.7**	17.1	39.3
Tax expense on discontinued operations (note 4)	**-**	0.7	0.7
	18.7	17.8	40.0

4. Discontinued operations

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. 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:

	Six months to 30.9.2006 £m	Six months to 30.9.2005 £m	Year to 31.3.2006 £m
Revenue	-	26.3	28.5
Inter segment	-	(9.3)	(9.3)
External revenue	-	17.0	19.2
Operating costs	-	(15.6)	(18.0)
Profit on ordinary activities before interest	-	1.4	1.2
Profit on disposal of discontinued operations	-	14.6	14.6
Profit before interest on discontinued operations	-	16.0	15.8
Net finance costs	-	0.2	0.3
Profit on ordinary activities before taxation	-	16.2	16.1
Current tax	-	(0.6)	(0.6)
Deferred tax	-	(0.1)	(0.1)
Profit for the period from discontinued operations	-	15.5	15.4
The tax charge is analysed as follows:			
On profit on ordinary activities for the period	-	(0.7)	(0.7)

5. Dividends paid and proposed

The Board has declared an ordinary interim dividend for the period of 3.75 pence per share (2005/06: 3.52 pence). The dividend will be paid on 2 February 2007 to shareholders on the register at the close of business on 22 December 2006.

	Six months to 30.9.2006 £m	Six months to 30.9.2005 £m	Year to 31.3.2006 £m
Declared and approved during the period:			
Equity dividends on ordinary shares:			
Interim dividend for 2005/06: 3.52p	**-**	-	18.2
Final dividend for 2005/06: 7.04p (2004/05: 7.13p)	**36.4**	36.9	36.9
Special dividend for 2005/06: 2.82p	**-**	-	14.6
Dividends paid	**36.4**	36.9	69.7
Proposed dividend for the period:			
Interim dividend for 2006/07: 3.75p (2005/06: 3.52p)	**19.4**	18.2	18.2
Special dividend for 2006/07: nil (2005/06: 2.82p)	**-**	14.6	14.6
Final dividend for 2005/06: 7.04p	**-**	-	36.4

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

	Earnings 30.9.2006 £m	**Weighted average number of shares 30.9.2006 million**	**Earnings per share 30.9.2006 pence**	Earnings 30.9.2005 £m	Weighted average number of shares 30.9.2005 million	Earnings per share 30.9.2005 pence
Net profit attributable to equity holders of the parent – continuing operations	**56.8**	**517.6**	**10.97**	47.2	517.9	9.11
Net profit attributable to equity holders of the parent – discontinued operations	**-**		**-**	15.5		3.00
Basic EPS	**56.8**	**517.6**	**10.97**	62.7	517.9	12.11

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

	Earnings 30.9.2006 £m	**Weighted average number of shares 30.9.2006 million**	**Earnings per share 30.9.2006 pence**	Earnings 30.9.2005 £m	Weighted average number of shares 30.9.2005 million	Earnings per share 30.9.2005 pence
Net profit attributable to equity holders of the parent – continuing operations	**56.8**	**518.6**	**10.95**	47.2	518.6	9.11
Net profit attributable to equity holders of the parent – discontinued operations	**-**		**-**	15.5		3.00
Diluted EPS	**56.8**	**518.6**	**10.95**	62.7	518.6	12.11

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

	Earnings 30.9.2006 £m	**Weighted average number of shares 30.9.2006 million**	**Earnings per share 30.9.2006 pence**	Earnings 30.9.2005 £m	Weighted average number of shares 30.9.2005 million	Earnings per share 30.9.2005 pence
Basic EPS	**56.8**	**517.6**	**10.97**	47.2	517.9	9.11
Deferred tax	**8.3**		**1.60**	7.0		1.35
Amortisation of debt fair value	**(4.4)**		**(0.84)**	(6.0)		(1.16)
IAS 39 derivatives (net of tax)	**(2.0)**		**(0.39)**	-		-
Adjusted EPS	**58.7**	**517.6**	**11.34**	48.2	517.9	9.30

	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	91.0	517.9	17.57
Net profit attributable to equity holders of the parent – discontinued operations	15.4		2.98
Basic EPS	106.4	517.9	20.55
Net profit attributable to equity holders of the parent – continuing operations	91.0	518.6	17.55
Net profit attributable to equity holders of the parent – discontinued operations	15.4		2.97
Diluted EPS	106.4	518.6	20.52
Basic EPS	91.0	517.9	17.57
Deferred tax	23.6		4.55
Amortisation of debt fair value	(13.0)		(2.50)
Adjusted EPS	101.6	517.9	19.62

7. Reconciliation of movements in equity

	Six months to 30.9.2006 £m	Six months to 30.9.2005 £m	Year to 31.3.2006 £m
At start of period	**300.8**	230.3	230.3
Actuarial (losses)/gains	**(2.4)**	(4.3)	52.7
Cash flow hedges	**(1.0)**	(3.8)	(2.8)
Tax on items charged or credited to equity	**0.7**	1.3	(15.6)
Dividends paid	**(36.4)**	(37.0)	(69.8)
Share-based payment	**0.2**	0.1	0.2
Refund of share issue costs	**-**	0.2	0.2
Shares purchased	**-**	-	(0.8)
Profit for the period	**56.8**	62.7	106.4
Total recognised income and expense	**318.7**	249.5	300.8

INDEPENDENT REVIEW REPORT TO NORTHUMBRIAN WATER GROUP PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 September 2006 which comprises the Consolidated Income Statement, Consolidated Statement of Recognised Income and Expense, Consolidated Balance Sheet, Consolidated Cash Flow Statement and the related notes 1 to 7. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2006.

Ernst & Young LLP
Newcastle upon Tyne
6 December 2006