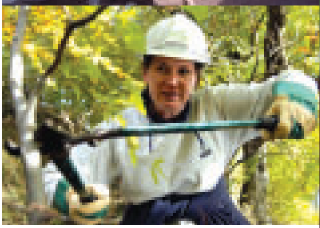
NORTHUMBRIAN WATER GROUP

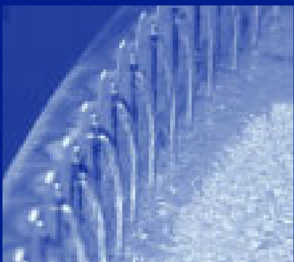


Northumbrian Water Group plc

Interim report 2004

Northumbrian Water Group plc (the Group or NWG) owns Northumbrian Services Limited (NSL), which in turn owns a number of companies. Of these, the largest are Northumbrian Water Limited (NWL), Entec UK Limited, Analytical & Environmental Services Limited and Fastflow Pipeline Services Limited. Northumbrian Water International, a division of NSL, manages waste water treatment plants in Scotland and the Republic of Ireland, and water operations in Gibraltar.

NWL is a regulated water and sewerage company operating in the north east and south east of England (trading as Northumbrian Water and Essex & Suffolk Water respectively), and is committed to maintaining its excellent reputation in the UK water industry for customer service and environmental protection. NWL currently provides water and sewerage services to 2.6 million people in the north east of England, and water services to 1.7 million people in the south east.



Contents

Highlights 2004

" In 2004 we have continued to build on the excellent start we made in 2003 following admission to the Official List of the London Stock Exchange. We have made significant progress in our operating performance, in securing our financial position and in improving our services to customers and our protection of the environment, as well as delivering value to shareholders."

John Cuthbert Managing Director

£286.5 million

Turnover for the six months ended 30 September 2004

£101.3 million

Operating profit

£49.4 million

Profit before taxation

£40.4 million

Profit after taxation

- Turnover of **£286.5 million** for the six month period to 30 September 2004 (2003 pro forma[1]: £261.4 million), principally reflecting the successful application to Ofwat for an interim increase of price limits at the Group's water and sewerage company, Northumbrian Water Limited (NWL).
- Profit before tax of **£49.4 million** (2003 pro forma before exceptionals: £31.5 million).
- Interim dividend of **2.87 pence per share** for the six month trading period.
- NWL's finance subsidiary will today issue a £100 million increase to its 5.625% Eurobond 2033.
- Continuing high levels of drinking water quality, customer service and environmental protection.
- Ofwat final determination sets NWL's price limits for 2005 to 2010 at 15% before inflation, an increase on the draft determination, which was 7.8%.
- Financial position further strengthened.

1 The Group was incorporated on 12 May 2003 and, consequently, there is not an equivalent interim six month trading period for 2003. Therefore, for comparative purposes, pro forma figures have been provided.

Managing Director's statement

> "At the end of last week we received Ofwat's final determination of our price limits for the next five years. The regulator has addressed a number of points we raised during the consultation period and has taken ministerial guidance and the views of customers and WaterVoice into account. Although we are still analysing the details, it appears a more acceptable determination than the draft Ofwat announced earlier this year."
>
> **John Cuthbert** Managing Director

Group financial performance

The Group's turnover was £286.5 million for the six months to 30 September 2004 (2003 pro forma: £261.4 million). The higher turnover in the current period principally reflects the successful application to Ofwat for an interim increase of price limits at NWL, and represents a 9.6% increase on the pro forma for the six month period to 30 September 2003.

Operating profit for the period was £101.3 million (2003 pro forma before exceptionals: £80.8 million). Operating costs have increased by £4.8 million at NWL and these are explained in further detail in the section on water.

The interest charge was £53.5 million for the period (2003 pro forma before exceptionals: £51.7 million) and includes the benefit of a gain of £1.7 million following the cancellation of interest rate hedging associated with the short term acquisition facilities.

Profit on ordinary activities before tax for the period was £49.4 million (2003 pro forma before exceptionals: £31.5 million), reflecting increased price limits at NWL, while profit on ordinary activities after tax was £40.4 million (2003 pro forma before exceptionals: £35.8 million).

The current tax charge for the period was £3.5 million (2003 pro forma: credit of £2.2 million). The 2003 tax credit arose from the availability of tax losses in the new parent company. The deferred tax charge for the period was £5.5 million (2003 pro forma: credit of £2.1 million). The increase of £7.6 million reflects the effect of discount due to movements in gilt rates in the respective periods.

NWG's net debt decreased by £3.4 million to £1,866.1 million compared with 31 March 2004. The Group's gearing at 30 September 2004, based on its net debt (before fair value) divided by Regulatory Asset Value at 31 March 2005 of £2,463.4 million, is 72%. Cash and EBIT interest cover for the Group are 3.1x and 1.9x respectively, a strong improvement reflecting the better trading performance.

Capital structure

Today, NWL's finance subsidiary will issue a £100 million increase to its 5.625% Eurobond 2033. The proceeds will be used to repay short term working capital facilities thereby extending the profile of the debt maturity and funding the ongoing capital programme. The all-in cost of this additional issue will be similar to the all-in cost (5.71%) of the original £250 million raised in December 2002.

Moody's initiated coverage of NWL with a credit rating of Baa1 on 8 April 2004, consistent with the Fitch rating of BBB+ announced on 11 December 2003. Standard & Poor's (S&P's) improved its rating outlook for NWL from BBB stable to BBB positive on 16 April 2004. More recently, S&P's has confirmed that it will review companies in the water sector after the announcement of the Ofwat final determination on 2 December 2004.

On 12 May 2004, the Group announced the securitisation of NWL's contract with the Environment Agency to operate the Kielder Water transfer scheme. The proceeds arising from a 30 year bond were used to repay short term debt of £205.0 million.

The European Investment Bank confirmed, on 12 May 2004, its intention to remain as a lender to NWL following the Group's change of ownership.

Ofwat issued a position paper on 12 July 2004 that concluded that NWL had taken adequate measures to demonstrate, both to the regulator and to the capital markets, that it was able to raise finance and to fund investment programmes.

Ofwat final determination

Ofwat published its final determination for NWL on 2 December 2004. The regulator will allow NWL to raise its price limits by 15% above the rate of inflation over the years 2005 to 2010. The determination means that the average bill for water and sewerage services in NWL's north eastern area (Northumbrian Water) will rise by £28 over the five year period to £260 in 2010; the average bill for water-only services in NWL's south eastern area (Essex & Suffolk Water) will rise by £21 to £153 in 2010.

Managing Director's statement continued

Following the announcement of Ofwat's draft determination on 5 August, NWL's executive directors had further discussions with the regulator. They raised a number of company-specific issues; movement on these, the final ministerial guidance and the representation by WaterVoice and others have contributed to the increase in the final determination compared with the draft determination of 7.8%.

Ofwat has made a number of significant changes in the final determination. In particular, appropriate allowances have been made for increases to base operating expenditure for energy costs and pension contributions, and the impact of new Inland Revenue tax rules on the business have been properly taken into account.

The determination also recognises NWL's need to increase its investment to address discoloured water complaints and further alleviate flooding from sewers in its northern area and to meet demand from major housing developments in its southern area.

NWL now has until 1 February 2005 to review the data in more detail and to decide if it will accept this final determination.

Water

Turnover was £264.4 million for the six months to 30 September 2004 (2003 pro forma: £237.9 million). The increased turnover in the current period is mainly due to price increases at NWL following the granting of an interim determination of price limits by Ofwat. NWL had applied for an increase in its price limits to fund unanticipated additional costs caused by increased customer bad debt, water quality monitoring, new obligations requiring capital expenditure and lower than forecast demand for water.

Operating profit for the period was £101.3 million (2003 pro forma: £79.9 million), which reflects an increase in turnover of £26.5 million, offset slightly by an increase in operating costs of £5.1 million.

Operating costs at NWL for the period were £152.9 million (2003 pro forma: £148.1 million). Of this increase, £1.7 million is due to increased depreciation reflecting the commissioning of further capital investment. The remaining cost increases reflect the costs of meeting new obligations, increasing costs of debt recovery and general inflationary price rises. Taking the above into account, operating costs for the appointed business are below those in the 1999 final determination.

Capital expenditure at NWL for the period was £92.1 million. Due to capital efficiencies on investment required to meet quality objectives and lower expenditure relating to the supply demand balance, the regulated business remains on target to invest less than the Ofwat forecast for the AMP3 period and to meet its regulatory outputs. Capital maintenance investment remains in line with the Ofwat forecast.

During the period, NWL continued to provide its customers with excellent levels of service. The drinking water supplied in its northern and southern areas continued to be amongst the highest quality in the country. To safeguard these supplies, investment in new and refurbished assets continued. The new water treatment works at Wearhead in County Durham was commissioned during the period; it will safeguard the quality of water supplied to the Wear Valley and Sunderland areas. An extension to the water treatment works at Lound in Suffolk was also completed; it provides additional levels of treatment to the water supplied to the Lowestoft area.

NWL's sewage treatment works continued to deliver high levels of performance and all met their consents during the period. However, the very poor weather during the summer months had a detrimental effect on the quality of bathing waters along the coast of north east England. The official bathing water results were not as good as the excellent standard achieved in recent years. As in the previous two years, exceptional floods experienced during August mean that NWL will be unlikely to achieve the highest levels of service in Ofwat's sewer flooding categories when the regulator publishes its results for 2004/05.

Managing Director's statement continued

During the period, major environmental capital investment projects were completed at Marske and Skinningrove on the Cleveland coast. New underground storage tanks were constructed at Marske to store storm water that used to be discharged on to the nearby beach, putting the designated bathing water at risk of failure. At Skinningrove, the new sewage treatment works will improve the quality of the local watercourse and the sea.

NSL trading division, Northumbrian Water International (NWI), is part of a consortium that designed and built a e70 million waste water treatment plant for Cork City Council in the Republic of Ireland. Following the issuing of a take-over certificate on 15 September 2004, NWI has begun the 20 year operation and maintenance contract. NWI also operates plants in Levenmouth and Ayrshire for Scottish Water.

Related services

The Group's non-water companies' turnover was £42.7 million for the period (2003 pro forma: £39.6 million) and operating profit was £1.9 million (2003 pro forma: £1.5 million).

The related services companies continue to build their businesses and to expand their client bases. The largest of these, Entec UK Limited, saw its turnover increase to £19.3 million (2003 pro forma: £18.8 million).

Dividend

The Board has declared an interim dividend for the period of 2.87 pence per share (2003: 2.32 pence) which, after adjusting for the shorter trading period for 2003, represents an increase of just over 3% on a pro forma basis. This dividend will be paid on 4 February 2005 to shareholders on the register at the close of business on 24 December 2004. The dividend cover for the period is 2.7x.

The Board has adopted a progressive dividend policy and expects to follow this policy in the future. The impact of the Ofwat final determination and of International Financial Reporting Standards will be factored into the future policy, as will the refinancing of the NSL Bond, due 2006, which should significantly reduce the current level of interest charge.

Board appointments

Jenny Williams was appointed as an independent non-executive director on 27 May 2004. Jenny has held a variety of directorships in a range of Government departments. Jacques Pétry, a Suez Environnement (UK) Limited representative on the Board, was replaced by Bernard Guirkinger on 27 May 2004.

Outlook

The announcement by Ofwat of its final determination clarifies the regulator's position for the water industry and NWL. As expected, NWL's targets are exacting and the regulator's and customers' expectations are high. Whilst we are still analysing the details of the determination, the outlook for the business remains positive. The scale of NWL's capital programme means that its financial position is stable and it should continue to provide a solid foundation for the Group.

The Group has successfully strengthened its financial structure and its operating performance is strong. Across the Group, the focus remains on core competencies and this should ensure that financial targets are met and the Group continues to deliver shareholder value alongside the high standards of service its customers expect.

John Cuthbert
Managing Director
7 December 2004

Group profit and loss account

	NWG 1.4.04 to 30.9.04 £m (unaudited)	NSL 1.4.03 to 30.9.03 £m Pro forma (unaudited)	NWG 12.5.03 to 30.9.03 £m (unaudited)	NWG 12.5.03 to 31.3.04 £m (audited)
Turnover: Group and share of joint ventures	**290.0**	264.4	184.7	448.6
Less share of joint ventures' turnover	**(3.5)**	(3.0)	(2.0)	(6.5)
Group turnover	**286.5**	261.4	182.7	442.1
Operating costs				
– operating costs before exceptional costs	**(185.2)**	(180.6)	(122.8)	(296.3)
– exceptional costs	**–**	(2.2)	(2.2)	(2.2)
Operating profit	**101.3**	78.6	57.7	143.6
Share of associated undertakings' operating profit	**1.1**	1.7	1.3	2.5
Share of joint ventures' operating profit	**0.5**	0.5	0.3	1.0
Investment income	**–**	0.2	0.2	–
Interest and similar charges				
– net interest payable and similar charges	**(53.5)**	(51.7)	(38.8)	(92.8)
– exceptional amortisation of financing costs	**–**	(5.2)	(5.2)	(8.8)
Profit on ordinary activities before taxation	**49.4**	24.1	15.5	45.5
Taxation on profit on ordinary activities				
– current taxation	**(3.5)**	2.2	2.1	9.1
– deferred taxation	**(5.5)**	2.1	2.5	4.9
Profit on ordinary activities after taxation	**40.4**	28.4	20.1	59.5
Minority interests	**0.2**	(0.7)	(0.2)	(0.1)
Profit attributable to shareholders	**40.6**	27.7	19.9	59.4
Dividends paid and proposed	**(14.9)**	(12.0)	(12.0)	(36.0)
Retained profit for the period	**25.7**	15.7	7.9	23.4
Basic earnings per share	**7.8p**	5.3p	3.8p	11.5p
Adjusted earnings per share (excluding deferred tax, goodwill and exceptionals)	**8.9p**	6.6p	5.0p	12.2p
Diluted earnings per share	**7.8p**	5.3p	3.8p	11.5p
Dividends per share	**2.87p**	2.32p	2.32p	6.95p

All results are attributable to continuing operations arising from acquisitions.

Group balance sheet

	NWG 30.9.04 £m (unaudited)	NWG 30.9.03 £m (unaudited)	NWG 31.3.04 £m (audited)
Fixed assets			
Intangible assets	**64.4**	55.9	64.4
Tangible assets	**2,737.0**	2,642.3	2,692.8
Investments	**5.4**	6.0	5.6
	2,806.8	2,704.2	2,762.8
Current assets			
Stocks	**6.8**	6.5	4.8
Debtors: amounts receivable within one year	**117.5**	112.6	118.1
Debtors: amounts receivable after more than one year	**13.8**	29.1	14.3
Investments	**–**	0.1	–
Cash at bank and in hand	**95.6**	90.1	44.8
	233.7	238.4	182.0
Creditors: amounts falling due within one year	**(280.9)**	(251.7)	(247.5)
Net current liabilities	**(47.2)**	(13.3)	(65.5)
Total assets less current liabilities	**2,759.6**	2,690.9	2,697.3
Creditors: amounts falling due after more than one year	**(1,887.9)**	(1,877.9)	(1,866.4)
Provisions for liabilities and charges	**(170.8)**	(173.3)	(165.1)
Accruals and deferred income	**(152.5)**	(131.2)	(142.8)
Net assets	**548.4**	508.5	523.0
Capital and reserves			
Called up share capital	**51.9**	51.9	51.9
Share premium account	**446.3**	446.3	446.3
Other reserve	**(0.5)**	–	(0.5)
Profit and loss account	**49.1**	7.9	23.4
Shareholders' funds: equity interests	**546.8**	506.1	521.1
Minority equity interests	**1.6**	2.4	1.9
	548.4	508.5	523.0

Group cash flow statement

	NWG 1.4.04 to 30.9.04 £m (unaudited)	NSL 1.4.03 to 30.9.03 £m Pro forma (unaudited)	NWG 12.5.03 to 30.9.03 £m (unaudited)	NWG 12.5.03 to 31.3.04 £m (audited)
Reconciliation of total operating profit to net cash inflow from operating activities				
Total operating profit	**101.3**	78.6	57.7	143.6
Depreciation	**47.8**	46.5	31.0	72.9
Profit on disposal of tangible fixed assets	**(0.4)**	(0.6)	(0.4)	(0.5)
Other non-cash movements	**0.2**	0.3	0.2	–
Movement in provisions	**0.3**	(0.1)	(0.5)	(1.5)
Amortisation of capital grants	**(1.7)**	(0.3)	(0.8)	(3.2)
Amortisation of fair value adjustment to debt	**–**	(2.1)	(2.1)	–
Amortisation of goodwill	**–**	1.0	1.0	–
(Increase)/decrease in stocks	**(2.0)**	(0.9)	(0.5)	1.2
(Increase)/decrease in debtors	**(2.2)**	1.5	12.9	15.5
Increase/(decrease) in creditors	**2.3**	2.7	(9.3)	(9.5)
Net cash inflow from operating activities	**145.6**	126.6	89.2	218.5

Cash flow statement				
Net cash inflow from operating activities	**145.6**	126.6	89.2	218.5
Net cash outflow from returns on investments and servicing of finance	**(51.0)**	(39.1)	(38.2)	(101.9)
Net cash outflow on capital expenditure	**(76.7)**	(88.9)	(59.3)	(148.4)
Acquisition of business (net of expenses)	**–**	(879.5)	(889.8)	(789.2)
Equity dividends paid	**(24.0)**	(31.1)	–	(12.0)
Net cash outflow before use of liquid resources and financing	**(6.1)**	(912.0)	(898.1)	(833.0)
Management of liquid resources	**(32.7)**	380.2	364.1	293.6
Issue of new shares	**–**	368.5	368.5	368.5
Purchase of own shares	**–**	–	–	(0.5)
Other financing net cash inflow	**11.4**	192.5	194.7	184.7
Net cash inflow from financing	**11.4**	561.0	563.2	552.7
(Decrease)/increase in cash in the period	**(27.4)**	29.2	29.2	13.3

	NWG 1.4.04 to 30.9.04 £m (unaudited)	NSL 1.4.03 to 30.9.03 £m Pro forma (unaudited)	NWG 12.5.03 to 30.9.03 £m (unaudited)	NWG 12.5.03 to 31.3.04 £m (audited)
Reconciliation of net cash flow to movement in net debt				
(Decrease)/increase in cash in the period	**(27.4)**	29.2	29.2	13.3
Cash inflow from increase in net borrowings	**(11.4)**	(192.5)	(194.7)	(184.7)
Less unamortised financing costs	**8.8**	2.7	2.7	–
Cash outflow/(inflow) from management of liquid resources	**32.7**	(380.2)	(364.1)	(293.6)
Loans and finance leases acquired with subsidiaries net of short term deposits	**–**	(1,290.1)	(1,304.2)	(1,404.6)
Other non-cash items	**3.2**	–	–	5.3
Inception of new finance leases	**(2.5)**	(4.3)	(4.1)	(5.2)
Movement in net debt in the period	**3.4**	(1,835.2)	(1,835.2)	(1,869.5)
Opening net debt	**(1,869.5)**	–	–	–
Closing net debt	**(1,866.1)**	(1,835.2)	(1,835.2)	(1,869.5)

Net debt (including fair value adjustment)	**(1,866.1)**	(1,835.2)	(1,835.2)	(1,869.5)
Fair value adjustment less amortisation	**97.9**	104.3	104.3	101.1
Net debt (excluding fair value adjustment)	**(1,768.2)**	(1,730.9)	(1,730.9)	(1,768.4)

Notes to the financial statements

1 Basis of preparation

The results for the half year ended 30 September 2004 have been prepared using the same accounting policies as disclosed in the Northumbrian Water Group plc annual report and financial statements for the period ended 31 March 2004.

The pro forma results for the six months ended 30 September 2003 include the six months' results of NSL to 30 September 2003 with the addition of the NWG acquisition accounting from 23 May 2003. These pro forma results are presented to provide a comparative. The pro forma figures include eight weeks of pre acquisition profits.

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 2004 and their report is set out in the independent review report.

The results for the year ended 31 March 2004 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 interim report was approved by the Board of Directors on 6 December 2004.

2 Segmental analysis of turnover and operating profit

	NWG 1.4.04 to 30.9.04 £m (unaudited)	NSL 1.4.03 to 30.9.03 £m Pro forma (unaudited)	NWG 12.5.03 to 30.9.03 £m (unaudited)	NWG 12.5.03 to 31.3.04 £m (audited)
Turnover				
UK water	**253.7**	226.4	158.0	386.2
Water international	**10.7**	11.5	8.4	17.6
	264.4	237.9	166.4	403.8
Related services	**42.7**	39.6	27.7	70.2
Joint ventures	**3.5**	3.0	2.0	6.5
Total turnover	**310.6**	280.5	196.1	480.5
Inter segment	**(20.6)**	(16.1)	(11.4)	(31.9)
External turnover	**290.0**	264.4	184.7	448.6
Group	**286.5**	261.4	182.7	442.1
Joint ventures	**3.5**	3.0	2.0	6.5
	290.0	264.4	184.7	448.6
Operating profit				
UK water	**100.8**	78.3	59.0	133.4
Water international	**0.5**	1.6	1.5	2.1
	101.3	79.9	60.5	135.5
Related services	**1.9**	1.5	1.3	3.2
	103.2	81.4	61.8	138.7
Central unallocated costs and provisions	**(1.9)**	(2.8)	(4.1)	4.9
Group operating profit	**101.3**	78.6	57.7	143.6
Share of associated undertakings' profit	**1.1**	1.7	1.3	2.5
Share of joint ventures' profit	**0.5**	0.5	0.3	1.0
Net interest payable and investment income	**(53.5)**	(56.7)	(43.8)	(101.6)
Profit on ordinary activities before taxation	**49.4**	24.1	15.5	45.5

Notes to the financial statements continued

3 Earnings per share

Basic and diluted earnings per share are calculated using a weighted average number of shares of 518.6 million.

Adjusted earnings per share is considered by the directors to give a better indication of the Group's underlying performance. Adjusted earnings per share have been calculated as follows:

	NWG 1.4.04 to 30.9.04 £m (unaudited)	NSL 1.4.03 to 30.9.03 £m Pro forma (unaudited)	NWG 12.5.03 to 30.9.03 £m (unaudited)	NWG 12.5.03 to 31.3.04 £m (audited)
Adjusted earnings				
Profit attributable to shareholders	**40.6**	27.7	19.9	59.4
Deferred tax	**5.5**	(2.1)	(2.5)	(4.9)
Goodwill	**–**	1.0	1.0	–
Exceptional current tax	**–**	–	–	(2.3)
Exceptional operating costs	**–**	2.2	2.2	2.2
Exceptional amortisation of financing costs	**–**	5.2	5.2	8.8
Adjusted earnings	**46.1**	34.0	25.8	63.2
Basic and diluted EPS	**7.8p**	5.3p	3.8p	11.5p
Adjusted EPS	**8.9p**	6.6p	5.0p	12.2p

4 Dividends

An interim dividend of 2.87 pence per share has been declared and will be paid on 4 February 2005 to shareholders on the register on 24 December 2004.

5 Taxation

	NWG 1.4.04 to 30.9.04 £m (unaudited)	NSL 1.4.03 to 30.9.03 £m Pro forma (unaudited)	NWG 12.5.03 to 30.9.03 £m (unaudited)	NWG 12.5.03 to 31.3.04 £m (audited)
Current tax				
UK corporation tax charge/(credit)				
– current tax	**3.3**	–	–	1.4
– prior years	**–**	(1.8)	(1.9)	(10.9)
Overseas tax	**0.1**	–	–	0.1
	3.4	(1.8)	(1.9)	(9.4)
Associates and joint ventures	**0.1**	(0.4)	(0.2)	0.3
	3.5	(2.2)	(2.1)	(9.1)
Deferred tax				
Undiscounted				
– current year	**11.8**	6.3	5.1	17.9
– prior years	**–**	–	–	(1.3)
	11.8	6.3	5.1	16.6
Discount	**(6.4)**	(9.1)	(8.1)	(21.5)
	5.4	(2.8)	(3.0)	(4.9)
Associates and joint ventures	**0.1**	0.7	0.5	–
	5.5	(2.1)	(2.5)	(4.9)

The current tax and undiscounted deferred tax charge are calculated at the estimated effective tax rates for the year. Deferred tax discount reflects the impact of applying factors based on the returns on the relevant UK Government gilts to forecast reversals of the undiscounted liability.

	NWG At 30.9.04 £m (unaudited)	NSL At 30.9.03 £m (unaudited)	NWG At 31.3.04 £m (audited)
Deferred tax provision			
Undiscounted	**441.3**	423.7	429.5
Discount	**(277.1)**	(257.4)	(270.7)
Discounted deferred tax	**164.2**	166.3	158.8

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 2004 which comprises the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Consolidated Cash Flow Statement and the related notes 1 to 5. 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 financial statements, 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 United Kingdom Auditing Standards 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 2004.

Ernst & Young LLP
Newcastle upon Tyne
7 December 2004

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