8 June 2005

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2005

NORTHUMBRIAN WATER GROUP PLC

Northumbrian Water Group plc is pleased to announce its preliminary results for the year ended 31 March 2005.

HIGHLIGHTS

- Turnover of £578.6 million for the year to 31 March 2005 (ten months to 31 March 2004: £442.1 million; 2003/04 pro forma: £520.8 million). This increase principally reflects the successful application to the Office of Water Services (Ofwat) for an interim increase of price limits (IDoK) at NWL.

- Profit before tax of £108.8 million; (ten months to 31 March 2004 before exceptionals: £56.5 million; 2003/04 pro forma before exceptionals: £65.0 million). Interest charges include a credit of £14.1 million amortisation of debt fair value (ten months and pro forma to 31 March 2004: £5.3 million).

- Proposed final dividend of 7.13 pence per share, giving a total dividend of 10.00 pence per share for the year (2003/04: 6.95 pence per share, for the ten month period and 8.34 pence per share on a pro forma basis). Dividends from the core business, NWL, are in line with Ofwat final determination assumptions.

- Dividend policy of around 3% real growth p.a. for the regulatory period 2005-10.

- Financial position strengthened by Kielder securitisation, IDoK, improved ratings and £100 million issue to 2033 Eurobond.

- Continuing high levels of drinking water quality, customer service and environmental protection.

- Periodic review of price limits by Ofwat concluded. This removes uncertainty and sets the increase in NWL's price limits for 2005-10 at 15% before inflation.

John Cuthbert, Managing Director, said today: "Northumbrian Water has built on the performance for the first half of 2004 to deliver strong full year results. We have further improved our operating performance and strengthened our financial position, which led to S&P's upgrade in January this year. Our proposed dividend policy reflects the confidence of the Board following this substantial financial restructuring. As well as delivering value to shareholders, the Group has continued to provide customers with an excellent level of service and remains committed to environmental protection."

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Notes to Editors

Northumbrian Water Group plc (the Company or NWG) is the holding company of Northumbrian Services Limited (NSL), which in turn owns a number of companies (together the Group). Of these, the largest are Northumbrian Water Limited (NWL), Entec UK Limited (Entec) an environmental and engineering consultancy, Analytical & Environmental Services Limited (AES) an environmental monitoring company and Fastflow Pipeline Services Limited (Fastflow) which provides water and gas network renewal and refurbishment services. Northumbrian Water International (NWI), a division of NSL, manages waste water treatment plants in Scotland and the Republic of Ireland, and water operations in Gibraltar.

NWL, the largest company within the Group, 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 for customer service and environmental protection. NWL currently provides water and sewerage services to 2.6 million people in north east England, and water services to 1.7 million people in south east England.

NWG was incorporated on 12 May 2003 but did not trade in the period from 12 May 2003 to 23 May 2003. The financial statements for 2003/04 included the ten months trading figures to 31 March 2004, together with a pro forma statement comprising the actual ten months trading results and eight weeks of pre-acquisition profits. The 2003/04 pro forma results are provided here for comparison purposes.

GROUP FINANCIAL PERFORMANCE

The Group's turnover was £578.6 million for the year to 31 March 2005 (ten months to 31 March 2004: £442.1 million; 2003/04 pro forma: £520.8 million), largely reflecting NWL's successful application to Ofwat for an IDoK for 2004/05.

Operating profit for the year was £204.7 million (ten months to 31 March 2004: £143.6 million; 2003/04 pro forma: £164.3 million). At NWL, operating costs have increased by a net £4.5 million, although operating costs for the appointed business in 2004/05 are £7.6 million lower than those in the 1999 final determination (see water section for further detail).

Net interest payable was £99.1 million for the year (ten months to 31 March 2004 before exceptionals: £92.8 million; 2003/04 pro forma before exceptionals: £105.3 million) and includes £14.1 million amortisation of debt fair value (ten months and pro forma to 31 March 2004: £5.3 million) and £3.8 million of one-off gains from the cancellation of interest rate hedging and settlement of outstanding tax claims.

The tax charge for the year was £10.4 million (ten months to 31 March 2004: £14.0 million credit; 2003/04 pro forma: £13.5 million credit) comprising corporation tax of £1.5 million (ten months to 31 March 2004: £9.1 million credit; 2003/04 pro forma: £8.8 million credit) and deferred tax of £8.9 million (ten months to 31 March 2004: £4.9 million credit; 2003/04 pro forma: £4.7 million credit).

The corporation tax charge was offset by modest prior year credits compared to 2004 and, unlike 2004, there are no exceptional items. The deferred tax charge was offset by prior year credits but increased by approximately £4.0 million due to a reduction in discount resulting from a decrease in long term gilt yields over the year.

Profit on ordinary activities after tax for the year to 31 March 2005 was £98.4 million (ten months to 31 March 2004: £59.5 million; 2003/04 pro forma: £67.5 million), largely reflecting increased price limits at NWL and the interest credits noted above.

CAPITAL STRUCTURE

In excess of 88% of the Group debt is arranged on a fixed interest basis and has an average maturity of 18 years. The Group seeks to mitigate the risk and exposure it does have to changes in interest rates by matching long term assets with long term liabilities, such as long term bonds.

Since flotation of the Group in May 2003, the Group has taken a number of actions to strengthen the capital structure. The first of these occurred before the current period, in December 2003, when Ofwat responded favourably to an application by NWL to increase its price limits in real terms in 2004/05.

On 12 May 2004, the Group announced the securitisation of NWL's contract with the Environment Agency (EA) to operate the Kielder Water transfer scheme. The net proceeds of £212.1 million arising from a 30 year bond were used to repay short term acquisition debt of £205.0 million.

The European Investment Bank (EIB) 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, which 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.

In December 2004, NWL's finance subsidiary issued a £100 million increase to its 2033 Eurobond. The proceeds were 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 (5.75%) was similar to the all-in cost of the original £250 million raised in December 2002.

Working capital facilities of £125 million have been arranged for a five year term by NSL in May 2005, to part refinance the NSL bond when it matures in June 2006. The balance required will be covered by available cash at NSL. Similar facilities, with 364 day and five year maturities, were also arranged for NWL, totalling £150 million, to provide additional working capital during the initial phase of the 2005-10 capital investment programme.

NWG's net debt increased by £11.5 million to £1,881.0 million compared with 31 March 2004. The Group's gearing at 31 March 2005, based on its net debt divided by NWL's Regulatory Capital Value (RCV) at 31 March 2005 of £2,468.3 million, was 76% (73% excluding the unamortised debt fair value). Cash interest cover for the Group is 2.7 times, reflecting the better trading performance.

Gearing for NWL's appointed business at 31 March 2005, based on its net debt divided by its RCV at that date was 59% (2004: 59%), whilst cash interest cover improved to 3.4 times.

CREDIT RATING

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 and increased its rating to BBB+ stable on 25 January 2005.

OFWAT FINAL DETERMINATION

Ofwat published its final determination for NWL on 2 December 2004, allowing NWL to raise its price limits by 15% above the rate of inflation over the years 2005-10. This was a significant increase on the draft determination of 7.8%. NWG announced on 15 December 2004 that the NWL board had accepted the review. The final determination includes allowances for increases to base operating expenditure for energy costs and pension contributions, and takes into account the impact of new Inland Revenue tax rules on the business. It also sets the investment programme and outputs that NWL must deliver over the next five years. The regulator's final determination was more balanced than the draft determination announced earlier in the year, but it still contains tough and challenging efficiency targets.

WATER
Turnover was £508.2 million for the year to 31 March 2005 (ten months to 31 March 2004: £386.2 million; 2003/04 pro forma: £454.6 million). The increased turnover during the year is mainly due to price increases following an IDoK by Ofwat. NWL successfully applied for an increase in its price limits to fund unanticipated additional costs caused by increased customer bad debt, water quality monitoring and new obligations requiring capital expenditure. In addition, a separate determination compensated for loss of revenue arising from the actual demand for water being lower than that allowed for by Ofwat at its 1999 price review.

Operating costs for the period were £306.4 million (ten months to 31 March 2004: £252.8 million; 2003/04 pro forma: £301.9 million). Depreciation increased by £9.8 million due to further capital investment. Other cost increases reflecting general inflationary price rises have been offset by operational efficiency savings and the non-recurrence of exceptional costs from 2003/04. Operating costs for the appointed business in 2004/05 are £7.6 million lower than those in the 1999 final determination, despite incurring additional costs not funded in that determination. This reflects the continual drive in the business to identify and deliver efficiencies.

Operating profit for the year was £201.8 million (ten months to 31 March 2004: £133.4 million; 2003/04 pro forma: £152.7 million), which reflects an increase in turnover of £53.6 million, offset slightly by a net increase in operating costs of £4.5 million.

Net capital investment excluding inter group costs, at NWL, for the year was £208.8 million (ten months to 31 March 2004: £156.7 million; 2003/04 pro forma: £161.6 million). NWL has met its regulatory outputs required to meet quality objectives and delivered the capital efficiencies assumed by Ofwat. Capital maintenance investment has remained in line with the Ofwat forecast. Lower customer demand has resulted in lower investment relating to the supply demand balance and has meant that the regulated business has invested less than the Ofwat forecast for 2000-05.

To safeguard the quality of its water supplies, NWL's investment in new and refurbished assets continued. The new water treatment works at Wearhead in County Durham was commissioned, serving the Wear Valley and Sunderland areas. An extension to the water treatment works at Lound, serving the Lowestoft area in Suffolk, was also completed. Work began at Horsley and Whittle Dene in Northumberland to provide additional treatment facilities to remove minute traces of pesticides occasionally present in the water.

Further progress has been made with the long term project to increase water resources in Essex by enlarging Abberton reservoir. An allowance for the costs of the project during the next five years was made in NWL's final determination.

During the year, capital investment projects were also completed at Marske and Skinningrove on the Cleveland coast. New underground storm water storage tanks were constructed at Marske to protect the quality of the adjacent designated bathing water. At Skinningrove, the new sewage treatment works will improve the quality of the local watercourse and the sea. Preparations were made for the provision of storm water storage tanks at Redcar.

NWL continues to provide its customers with excellent levels of service and is still the only water and sewerage company to have achieved a star rating for all aspects of its service standards by Ofwat. However, for the third year running its performance was affected by exceptional adverse weather conditions. Severe summer storms in August 2004 resulted in sewer flooding, and torrential rainfall in January 2005 increased the flow in the River Tyne to such an extent that the river washed away water mains serving Hexham, which is unprecedented, and the town was without water for several days. A customer relations disaster was avoided because of the efforts of our employees and their speed of response to what was a major emergency.

The investment allowed in the Ofwat final determination towards the cost of tackling discoloured water will bring improvements for affected customers over the next five years and should also improve NWL's future score in the Ofwat performance measures. The same is true of the investment allowed to reduce sewer flooding.

The number of companies taking advantage of NWL's innovative effluent treatment service at Bran Sands on Teesside was increased with the signing of a 25 year contract to treat effluent from fine chemicals company Degussa.

Following a successful pilot trial, a contract was signed with Lafarge for the use of the sewage sludge pellets produced by NWL's sludge driers at Bran Sands as a fuel in the manufacture of cement. The contract reduces NWL's disposal costs and provides a secure and sustainable outlet for the sludge. NWL was also successful in a bid to supply water services to the new racecourse being built at Great Leighs, to the north of Chelmsford.

NWL gained certification to ISO 14001, a framework of control for an Environmental Management System for the whole of its business in December 2004. This was a significant achievement, which builds on the pioneering certification of its sewage treatment and recreation activities.

In 2004, NWL's sewage treatment works continued to perform to the highest levels and all met their consents during the year. Compliance is measured by the EA and reported by Ofwat against standards set by the Urban Waste Water Treatment Directive and the Water Resources Act. In 2004, works achieved 100% compliance.

August 2004 was the wettest August in the UK since 1956, with more than twice the normal average rainfall for that month. This rainfall was widespread, heavy and prolonged, with only eight dry days recorded in some areas. Flooding was experienced in Hartlepool, Darlington and Bishop Auckland. As a result, NWL is unlikely to achieve the highest levels of service in Ofwat's sewer flooding categories when its results for 2004/05 are published.

NWI is the trading division of NSL responsible for managing the Group's interests in contracts in Scotland, Ireland and Gibraltar. Turnover was £23.1 million in 2004/05 (ten months to 31 March 2004: £17.6 million; 2003/04 pro forma: £20.7 million), reflecting the commissioning and subsequent operation of the Cork plant. Operating profit for the year was £2.3 million (ten months to 31 March 2004: £2.1 million; 2003/04 pro forma: £2.2 million).

RELATED SERVICES

The Group's non-water companies' turnover was £87.7 million for the year (ten months to 31 March 2004: £70.2 million; 2003/04 pro forma: £82.1million) and operating profit was £4.8 million (ten months to 31 March 2004: £3.2 million; 2003/04 pro forma: £3.4 million). The related services companies continue to build their businesses and to expand their client bases.

Entec is one of the UK's largest environmental and engineering consultancy companies, employing around 600 people delivering projects to both the Group and a range of external organisations in the public and private sectors. Over the last five years it has grown strongly to reach a turnover of £41.5 million for the year, up 5% on the previous year (ten months to 31 March 2004: £33.8 million), with 77% of revenue now being generated outside the Group.

Fastflow is the Group's specialist underground asset management business, providing water, sewer and gas network renewal and refurbishment services. During 2004/05 it employed an average of around 220 people. Turnover was £15.6 million during the year 2004/05, representing a reduction of 3% compared pro forma with 2003/04 (ten months to 31 March 2004: £13.4 million), due to the cyclical nature of water industry asset management programmes.

AES is a leading environmental monitoring company providing high quality monitoring services, analysis and technical consultancy to major industrial groups, environmental regulators and local authorities throughout the UK and Ireland. AES employs over 300 people in eight locations. Although turnover from NWL decreased, total turnover for the year increased marginally to £13.2 million compared to the pro forma figures (ten months to 31 March 2004: £10.9 million) reflecting strong growth in external markets.

AES expanded in Wales after setting up a new office in Cwmbran as a base for its team of air quality scientists and occupational hygienists and will continue to extend its range of services during the coming year by offering a range of health and safety training courses.

EARNINGS PER SHARE AND DIVIDENDS

Basic and diluted earnings per share were 19.1 pence (ten months to 31 March 2004: 11.5 pence; 2003/04 pro forma: 14.4 pence). Earnings per share, adjusted for deferred tax and the amortisation of debt fair value were 18.1 pence (ten months to 31 March 2004: 11.2 pence, before exceptionals, deferred tax and the amortisation of debt fair value; 2003/04 pro forma: 14.2 pence).

A final dividend of 7.13 pence per share for the year ended 31 March 2005 will be recommended by the Board to the AGM on 28 July 2005 and, if approved, will be paid on 16 September 2005 to shareholders on the register at the close of business on 19 August 2005. Together with the interim dividend of 2.87 pence per share, the dividend for the year will be 10.00 pence per share (ten months to 31 March 2004: 6.95 pence per share). This represents an increase of 20% on the dividend for the 2003/04 pro forma trading period. The dividend cover for the year is 1.9 times and 1.8 excluding deferred tax and the amortisation of debt fair value.

The proposed dividend reflects increased confidence following the substantial improvements made to the Group's balance sheet over the last year and the removal of uncertainty following the Ofwat Periodic Review of prices.

The board of our main subsidiary, NWL, has proposed a dividend policy consistent with the underlying assumptions adopted by Ofwat in its recent final determination.

Looking to the end of the current regulatory period, NWG expects to be able to maintain a progressive dividend policy with real increases of around 3% p.a.

The Board believes this provides shareholders with a sustainable policy consistent with the regulatory environment within which NWL operates and reflects the ongoing benefits at the Group from refinancing. The policy is also consistent with maintaining Group and NWL gearing at around current levels over the medium term (excluding the unamortised fair value adjustment, due to acquisition debt at 23 May 2003).

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
The Group will publish its results under IFRS for the six months to 30 September 2005 and for the year ending 31 March 2006. The Group does not currently anticipate adopting IFRS at subsidiary level within the Group.

The major differences in accounting policies expected to have an impact on the Group are deferred tax, retirement benefits, fixed asset accounting, business combinations and intangible assets. The adoption of IFRS will have no impact on cash flow or dividends for the Group.

The full impact of the adoption of IFRS on the financial statements will be communicated in a presentation to analysts and investors, planned for September 2005.

BOARD APPOINTMENTS
As we announced last year, Jenny Williams and Bernard Guirkinger joined the Board on 27 May 2004, Jenny as an independent non-executive director and Bernard as a Suez representative. Alain Chaigneau, the second Suez representative, who stood down from the Board on 17 March 2005, was replaced by Christophe Cros on the same day. Following the disposal by Suez of its 25% shareholding in NWG, both Bernard and Christophe resigned on 28 April 2005.

OUTLOOK
We retain the focus on our core water and waste water competence. That focus underpins our expectation that we will continue to build upon the track record of service delivery, environmental performance and stakeholder value on which our reputation is based.

Our proposed dividend policy reflects the confidence of the Board following the substantial financial restructuring and of the regulatory review of prices. It is consistent with the regulatory expectations of our core business and the Board believes it provides a sustainable return to shareholders.

John Cuthbert
Managing Director
8 June 2005

GROUP PROFIT AND LOSS ACCOUNT

	Year to 31.3.2005 £m	Period to 31.3.2004 £m
Turnover: Group and share of joint ventures	**585.5**	448.6
Less share of joint ventures' turnover	**(6.9)**	(6.5)
Group turnover	**578.6**	442.1
Operating costs		
- operating costs before exceptional costs	**(373.9)**	(296.3)
- exceptional costs	**-**	(2.2)
Operating profit	**204.7**	143.6
Share of associated undertakings' operating profit	**2.2**	2.5
Share of joint ventures' operating profit	**1.0**	1.0
Interest and similar charges		
- net interest payable and similar charges	**(99.1)**	(92.8)
- exceptional amortisation of financing costs	**-**	(8.8)
Profit on ordinary activities before taxation	**108.8**	45.5
Taxation on profit on ordinary activities		
- current taxation	**(1.3)**	9.4
- deferred taxation	**(8.9)**	4.9
- share of associates' and joint ventures' tax	**(0.2)**	(0.3)
Profit on ordinary activities after taxation	**98.4**	59.5
Minority interests	**0.5**	(0.1)
Profit attributable to shareholders	**98.9**	59.4
Dividends paid and proposed	**(51.8)**	(36.0)
Retained profit for the financial year	**47.1**	23.4
Basic earnings per share	**19.1p**	11.5p
Adjusted earnings per share (excluding deferred tax, amortisation of debt fair value and exceptionals)	**18.1p**	11.2p
Diluted earnings per share	**19.1p**	11.5p
Dividend per share	**10.00p**	6.95p

All the above results relate to continuing activities.

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Year to 31.3.2005 £m	Period to 31.3.2004 £m
Profit for the financial year		
Group	**98.8**	58.7
Associates	**(0.4)**	-
Joint ventures	**0.5**	0.7
Profit for the financial year attributable to the members of the parent company	**98.9**	59.4
Exchange differences	**0.4**	-
Total recognised gains and losses relating to the year	**99.3**	59.4

GROUP BALANCE SHEET

	31.3.2005 £m	31.3.2004 £m
Fixed assets		
Intangible assets	**64.3**	64.4
Tangible assets	**2,806.6**	2,692.8
Investments in joint ventures: share of gross assets	**12.1**	12.5
share of gross liabilities	**(8.5)**	(9.1)
	3.6	3.4
Investments in associates	**1.4**	1.8
Other investments	**0.4**	0.4
	2,876.3	2,762.8
Current assets		
Stocks	**4.5**	4.8
Debtors: amounts receivable within one year	**121.9**	118.1
Debtors: amounts receivable after more than one year	**13.0**	14.3
Cash at bank and short term deposits	**118.0**	44.8
	257.4	182.0
Creditors: amounts falling due within one year	**(280.6)**	(247.5)
Net current liabilities	**(23.2)**	(65.5)
Total assets less current liabilities	**2,853.1**	2,697.3
Creditors: amounts falling due after more than one year	**(1,946.3)**	(1,866.4)
Provisions for liabilities and charges	**(172.9)**	(165.1)
Accruals and deferred income	**(164.5)**	(142.8)
Net assets	**569.4**	523.0
Capital and reserves		
Called up share capital	**51.9**	51.9
Share premium account	**446.3**	446.3
Other reserve	**(0.9)**	(0.5)
Profit and loss account	**71.0**	23.4
Equity shareholders' funds	**568.3**	521.1
Minority equity interests	**1.1**	1.9
Total capital and reserves	**569.4**	523.0

GROUP CASH FLOW STATEMENT

	Year to 31.3.2005 £m	Period to 31.3.2004 £m
Reconciliation of total operating profit to net cash inflow from operating activities		
Total operating profit	**204.7**	143.6
Depreciation	**92.6**	72.9
Loss/(profit) on disposal of tangible fixed assets	**1.3**	(0.5)
Other non-cash movements	**0.1**	-
Amortisation of goodwill	**0.1**	-
Movement in provisions	**(1.1)**	(1.5)
Amortisation of capital grants	**(3.9)**	(3.2)
Decrease in stocks	**0.3**	1.2
(Increase)/decrease in debtors	**(9.2)**	15.5
Decrease in creditors	**(1.5)**	(9.5)
Net cash inflow from operating activities	**283.4**	218.5

	Year to 31.3.2005 £m	Period to 31.3.2004 £m
Cash flow statement		
Net cash inflow from operating activities	**283.4**	218.5
Net cash inflow from dividends received from joint ventures	**0.3**	-
Net cash outflow from returns on investments and servicing of finance	**(111.0)**	(101.9)
Net cash inflow from taxation	**6.7**	-
Net cash outflow on capital expenditure and financial investments	**(173.1)**	(148.4)
Acquisition of business (net of expenses)	**-**	(789.2)
Equity dividends paid	**(38.9)**	(12.0)
Net cash outflow before management of liquid resources and financing	**(32.6)**	(833.0)
Management of liquid resources	**(19.7)**	293.6
Issue of new shares	**-**	368.5
Purchase of own shares	**(0.4)**	(0.5)
Other financing net cash inflow	**90.5**	184.7
Net cash inflow from financing	**90.1**	552.7
Increase in cash in the year	**37.8**	13.3

	Year to 31.3.2005 £m	Period to 31.3.2004 £m
Reconciliation of net cash flow to movement in net debt		
Increase in cash in the year	**37.8**	13.3
Cash inflow from increase in net borrowings	**(90.5)**	(184.7)
Cash outflow/(inflow) from management of liquid resources	**19.7**	(293.6)
Issue costs on new borrowings	**11.7**	-
Increase in net debt resulting from cash flows	**(21.3)**	(465.0)
Other non-cash items	**14.9**	5.3
Inception of new finance lease contracts	**(5.1)**	(5.2)
Increase in net debt in the year	**(11.5)**	(464.9)
Net borrowings at the start of the year	**(1,869.5)**	-
Loans and finance leases acquired with subsidiaries net of short term deposits	**-**	(1,404.6)
Net debt at the end of the year	**(1,881.0)**	(1,869.5)

Notes to the financial statements

1 Basis of preparation

The results for NWG and its subsidiaries (together the Group) cover the year to 31 March 2005. The comparative results cover the period from incorporation of NWG (12 May 2003) to 31 March 2004. NWG did not trade in the period from 12 May 2003 to 23 May 2003. To provide comparative figures, the pro forma figures for the 12 months ended 31 March 2004 are included (see note 6), which include the 10 months trading results of NSL to 31 March 2004, with the addition of the NWG acquisition accounting from 23 May 2003. The pro forma figures include 8 weeks of pre-acquisition profits.

The results for the year ended 31 March 2005 have been prepared on the basis of accounting policies consistent with those set out in the financial statements of the Group for the year ended 31 March 2005.

2 Segmental analysis of turnover and operating profit

	Year to 31.3.2005 £m	Period to 31.3.2004 £m
Turnover		
UK water	**508.2**	386.2
Water international	**23.1**	17.6
	531.3	403.8
Related services	**87.7**	70.2
Joint ventures	**6.9**	6.5
Total turnover	**625.9**	480.5
Inter segment	**(40.4)**	(31.9)
Total: Group and share of joint ventures	**585.5**	448.6
Group	**578.6**	442.1
Joint ventures	**6.9**	6.5
	585.5	448.6
Operating profit		
UK water	**201.8**	133.4
Water international	**2.3**	2.1
	204.1	135.5
Related services	**4.8**	3.2
	208.9	138.7
Central unallocated costs and provisions	**(4.2)**	4.9
Group operating profit	**204.7**	143.6
Share of associated undertakings' profit	**2.2**	2.5
Share of joint ventures' profit	**1.0**	1.0
Net interest payable and investment income	**(99.1)**	(101.6)
Profit on ordinary activities before taxation	**108.8**	45.5

3 Dividends

A final dividend payment of 7.13 pence per ordinary share will be recommended by the Board to shareholders at the AGM scheduled for 28 July 2005. If approved, the final dividend will be paid on 16 September 2005 to shareholders whose names appear on the Company's Register of Members at the close of business on 19 August 2005. Together with the interim dividend of 2.87 pence per ordinary share, paid on 4 February 2005, the total dividend for the year will be 10.00 pence per ordinary share.

	Year to 31.3.2005 £m	Period to 31.3.2004 £m
Interim paid of 2.87 pence (2004: 2.32 pence) per 10 pence ordinary share	**14.9**	12.0
Final proposed of 7.13 pence (2004: 4.63 pence) per 10 pence ordinary share	**36.9**	24.0
	51.8	36.0

4 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:

	Year to 31.3.2005 £m	Period to 31.3.2004 £m
Adjusted earnings		
Profit attributable to shareholders	**98.9**	59.4
Deferred tax	**8.9**	(4.9)
Amortisation of debt fair value	**(14.1)**	(5.3)
Exceptional current tax	**-**	(2.3)
Exceptional operating costs	**-**	2.2
Exceptional amortisation of financing costs	**-**	8.8
Adjusted earnings	**93.7**	57.9
Basic and diluted EPS	**19.1p**	11.5p
Adjusted EPS	**18.1p**	11.2p

5 Taxation

	Year to 31.3.2005 £m	Period to 31.3.2004 £m
Current tax		
UK corporation tax charge/(credit)		
- current tax	**3.0**	1.4
- prior periods	**(1.8)**	(10.9)
Overseas tax	**0.1**	0.1
	1.3	(9.4)
Deferred tax charge/(credit)		
Undiscounted		
- current year	**26.7**	17.9
- prior periods	**(7.6)**	(1.3)
	19.1	16.6
Discount	**(10.2)**	(21.5)
	8.9	(4.9)
Share of associates' tax (credit)/charge	**(0.1)**	0.2
Share of joint ventures' tax charge	**0.3**	0.1
	0.2	0.3
Total tax charge/(credit) on profit on ordinary activities	**10.4**	(14.0)

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.

	31.3.2005 £m	31.3.2004 £m
Deferred tax provision		
Undiscounted	**448.6**	429.5
Discount	**(280.9)**	(270.7)
Discounted deferred tax	**167.7**	158.8

6 Pro forma results

The Group has disclosed the comparative pro forma figures for the acquired group, NSL, for the year ending 31 March 2004. This includes eight weeks of pre-acquisition trading results and the accounting effect of the acquisition on 23 May 2003.

GROUP PROFIT AND LOSS ACCOUNT

		Year to 31.3.2004 (Pro forma)		
	Year to 31.3.2005 £m	Before exceptional items £m	Exceptional items £m	Total £m
Turnover: Group and share of joint ventures	**585.5**	528.3	-	528.3
Less share of joint ventures' turnover	**(6.9)**	(7.5)	-	(7.5)
Group turnover	**578.6**	520.8	-	520.8
Operating costs				
- operating costs before exceptional costs	**(373.9)**	(354.3)	-	(354.3)
- exceptional costs	**-**	-	(2.2)	(2.2)
Operating profit	**204.7**	166.5	(2.2)	164.3
Share of associated undertakings' operating profit	**2.2**	2.5	-	2.5
Share of joint ventures' operating profit	**1.0**	1.3	-	1.3
Interest and similar charges				
- net interest payable and similar charges	**(99.1)**	(105.3)	-	(105.3)
- exceptional amortisation of financing costs	**-**	-	(8.8)	(8.8)
Profit on ordinary activities before taxation	**108.8**	65.0	(11.0)	54.0
Taxation on profit on ordinary activities				
- current taxation	**(1.3)**	6.6	2.3	8.9
- deferred taxation	**(8.9)**	4.0	0.7	4.7
- share of associates' and joint ventures' tax	**(0.2)**	(0.1)	-	(0.1)
Profit on ordinary activities after taxation	**98.4**	75.5	(8.0)	67.5
Minority interests	**0.5**	(0.6)	-	(0.6)
Profit attributable to shareholders	**98.9**	74.9	(8.0)	66.9
Dividends paid and proposed	**(51.8)**	(36.0)	-	(36.0)
Retained profit for the period	**47.1**	38.9	(8.0)	30.9
Basic earnings per share	**19.1p**			14.4p
Adjusted earnings per share (excluding deferred tax, amortisation of debt fair value and exceptionals)	**18.1p**			14.2p
Diluted earnings per share	**19.1p**			14.4p
Dividends per share	**10.00p**			8.34p

The Group has also presented the comparative pro forma cash flow figures for the acquired group, NSL, for the year ending 31 March 2004. This includes eight weeks of pre-acquisition cash flows and the accounting effect of the acquisition on 23 May 2003.

GROUP CASH FLOW STATEMENT

	Year to 31.3.2005 £m	Period to 31.3.2004 £m Pro forma
Reconciliation of total operating profit to net cash inflow from operating activities		
Total operating profit	**204.7**	164.3
Depreciation	**92.6**	88.4
Loss/(profit) on disposal of tangible fixed assets	**1.3**	(0.7)
Amortisation of goodwill	**0.1**	-
Other non-cash movements	**0.1**	0.1
Movement in provisions	**(1.1)**	(1.1)
Amortisation of capital grants	**(3.9)**	(3.2)
Decrease in stocks	**0.3**	0.8
(Increase)/decrease in debtors	**(9.2)**	4.3
(Decrease)/increase in creditors	**(1.5)**	2.5
Net cash inflow from operating activities	**283.4**	255.4

Cash flow statement		
Net cash inflow from operating activities	**283.4**	255.4
Net cash inflow from dividends received from joint ventures	**0.3**	-
Net cash outflow from returns on investments and servicing of finance	**(111.0)**	(102.5)
Net cash inflow from taxation	**6.7**	-
Net cash outflow on capital expenditure	**(173.1)**	(177.6)
Acquisition of business (net of expenses)	**-**	(877.2)
Equity dividends paid	**(38.9)**	(43.2)
Net cash outflow before use of liquid resources and financing	**(32.6)**	(945.1)
Management of liquid resources	**(19.7)**	408.0
Issue of new shares	**-**	368.5
Purchase of own shares	**(0.4)**	(0.5)
Other financing net cash inflow	**90.5**	182.4
Net cash inflow from financing	**90.1**	550.4
Increase in cash in the period	**37.8**	13.3

Reconciliation of net cash flow to movement in net debt		
Increase in cash in the period	**37.8**	13.3
Cash inflow from increase in net borrowings	**(90.5)**	(182.4)
Cash outflow/(inflow) from management of liquid resources	**19.7**	(408.0)
Issue costs on new borrowings	**11.7**	-
Increase in net debt resulting from cash flows	**(21.3)**	(577.1)
Other non-cash items	**14.7**	5.3
Inception of new finance lease contracts	**(5.1)**	(5.5)
Increase in net debt in the year	**(11.5)**	(577.3)
Net borrowings at the start of the year	**(1,869.5)**	-
Loans and finance leases acquired with subsidiaries net of short term deposits	**-**	(1,292.2)
Net debt at the end of the year	**(1,881.0)**	(1,869.5)

7 The Board approved the preliminary statement covering the year ended 31 March 2005 on 7 June 2005. The financial information set out above does not constitute the Group's statutory financial statements for the year ended 31 March 2005 nor for the period ended 31 March 2004 within the meaning of Section 240 of the Companies Act 1985. The financial information is based on the audited statutory financial statements for both periods, upon which the auditors have issued unqualified audit opinions. The financial statements for the period ended 31 March 2004 have been delivered to the Registrar of Companies. The financial statements for the year ended 31 March 2005 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.