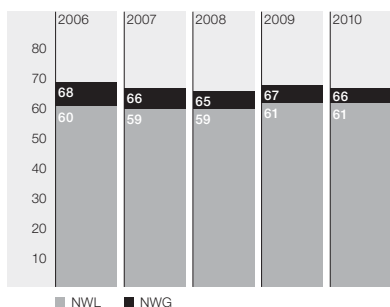
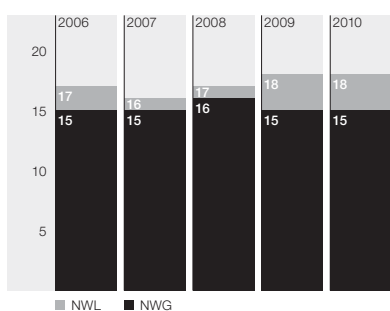


Financial performance

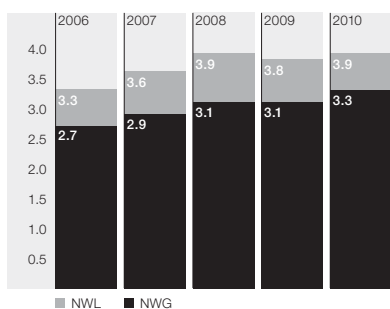
Gearing to RCV %



Cash flow to net debt %



Cash interest cover times



NWG and its subsidiaries use a range of indicators to monitor performance. For NWG, the key performance indicators (KPIs) are all financial. The non-financial KPIs relating to NWL are summarised on page 4. The definition, purpose and source of each KPI are shown on pages 56 and 57.

Performance against the financial KPIs is set out below:

KPI	Target		Performance			
	NWG	NWL	Current year		Previous year	
			NWG	NWL	NWG	NWL
Gearing to RCV (%)	<75	<70 ¹	66 ³	61 ²	67	61
Cash interest cover (times)	>2.5	>3.0	3.3	3.9	3.1	3.8
Cash flow to net debt (%)	>13	>13	15	18	15	18

Notes:

1. Less than 65% for the regulated business of NWL.
2. NWL's Regulatory Capital Value (RCV), as advised by Ofwat, at 31 March 2010 was £3,095 million (2009: £2,998 million).
3. NWG's pro forma RCV at 31 March 2010 was £3,420.5 million (2009: £3,324.4 million) (see below).

The pro forma Group RCV includes £218.8 million (2009: £215.6 million) and £106.7 million (2009: £110.8 million) for the Kielder securitisation and PFI contracts, respectively. Adding these to NWL's RCV of £3,095.0 million (2009: £2,998.0 million), results in a pro forma Group RCV of £3,420.5 million (2009: £3,324.4 million).

The Group's gearing on this pro forma basis has decreased from 67% to 66%, with net debt increasing by £32.7 million to £2,262.4 million over the year.

Gearing at NWL, and for the regulated business, is also stable at 61% and 60%, respectively. NWL net debt increased over the period by £52.5 million to £1,896.8 million.

Cash interest cover has improved slightly over the year.

The Group also prepares detailed medium term business plans and annual budgets, which are reviewed and submitted to the Board for approval. Targets are set to measure performance and regular financial forecasts are made. Business plans and budgets include an assessment of the key risks and success factors facing each business unit. On a monthly basis, management compares the actual operational and financial performance of each business with plan and budget and this is reported to the Board.

Financial results and dividends

	Year to 31.3.2010 £m
Profit for the year	122.9
Interim dividend paid (ordinary – 4.39 pence per share)	22.7
Final dividend proposed (ordinary – 8.85 pence per share)	45.8

NWL has now procured its entire electricity requirement through to March 2015.

Revenue for the year to 31 March 2010 was £704.7 million (2009: £694.1 million). Water and sewerage charges at the Group's principal subsidiary, NWL, were increased by 3% (in line with the November 2008 Retail Price Index) but that increase was partially offset by reductions in non-household revenue as a consequence of the current economic downturn.

Profit on ordinary activities before interest for the year was £275.8 million (2009: £273.6 million). Operating costs increased by £8.4 million (2%) to £428.9 million. At NWL, operating costs have increased from £380.1 million to £388.9 million. This increase principally reflects the impact of increases in salaries, abstraction and rates plus one-off charges for bad debt relating to the closure of a major customer (£1.7 million) and a provision for early retirement and severance costs (£5.4 million). These increases have been partially offset by efficiencies, including the benefit of reduced power prices and the commissioning of the advanced anaerobic digestion plant at Bran Sands on Teesside during the year.

Energy costs at NWL for the year to 31 March 2010 were £36.4 million (2009: £38.8 million) and are expected to reduce by around £4.0 million for the following year. This reflects the full year impact of the Bran Sands advanced anaerobic digestion plant and lower commodity prices. These savings will be sustained as NWL has now procured its entire electricity requirement through to March 2015 at prices below the level funded in the final determination.

Interest charges decreased by £15.2 million within which net cash interest charges increased by £3.1 million. The non-cash elements of the decrease reflect deflation of the principal on the index linked bonds (£29.0 million), a reduction in the expected return on pension assets (£12.7 million), a decrease in the interest cost of pension plan obligations (£2.4 million) and an increase in other non-cash movements of £0.4 million.

Profit on ordinary activities before tax for the year was £170.2 million, 11% higher than the previous year (2009: £152.7 million). The current tax charge of £37.8 million (2009: £32.1 million) principally reflects increased profitability and the timing of relief for prepaid pension contributions.

The deferred tax charge of £9.5 million (2009: £132.5 million) is significantly lower due to the one-off charge of £117.2 million in 2009, following the withdrawal of industrial buildings allowances in the Finance Act 2008.

The effective tax rate for the period was 28% (2009: 31% – excluding the one-off deferred tax charge of £117.2 million).

Financial performance continued

Earnings per share and dividend cover

Basic and diluted earnings per share (EPS) for the year were 23.67 pence and 23.62 pence respectively. In 2009, the basic and diluted loss per share was 2.45 pence. EPS from continuing operations, adjusted for deferred tax, were 25.51 pence (2009: 22.05 pence). From 2009/10, the Group has not adjusted for the credit in respect of the amortisation of debt fair value as this is no longer considered material and has now reached a stable level. The credit for the year ended 31 March 2010 is £5.3 million (2009: £5.6 million) and would have an impact on the adjusted EPS of 1.02 pence per share (2009: 1.08 pence per share).

A final dividend of 8.85 pence per share for the year ended 31 March 2010 will be recommended by the Board to shareholders at the AGM on 29 July 2010 and, if approved, will be paid on 10 September 2010 to shareholders on the Company's Register of Members at the close of business on 13 August 2010. Together with the ordinary interim dividend of 4.39 pence per share, the ordinary dividends paid and proposed for the year will be 13.24 pence per share (2009: 12.79 pence per share). This represents an increase of 3.5%, based on average inflation over the year of 0.5%, on the ordinary dividend for the previous year and is consistent with the Board's decision to maintain a progressive dividend policy with real increases of around 3% per annum. The board of our main subsidiary, NWL, has proposed a dividend policy consistent with the underlying growth assumptions adopted by Ofwat at its price reviews in 2004 and 2009.

The dividend cover for the year, excluding deferred tax, was 2.0x (2009: 1.8x). The cover level has increased principally as a consequence of the application of lower RPI to the index linked bonds.

Northumbrian Water Share Scheme Trustees Limited, which at the date of this report held 914,518 shares to be used in the future to satisfy the vesting and exercise of awards under the Company's Long Term Incentive Plan (LTIP), has waived the right to all dividends on the shares it holds. Further details of the LTIP can be found in the directors' remuneration report.

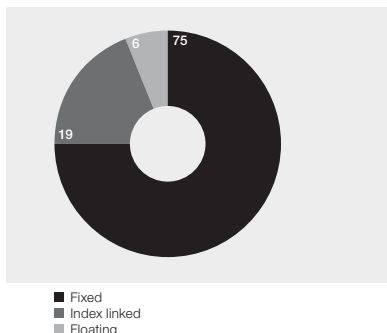
Accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as it applies to the financial statements of the Group for the year ended 31 March 2010.

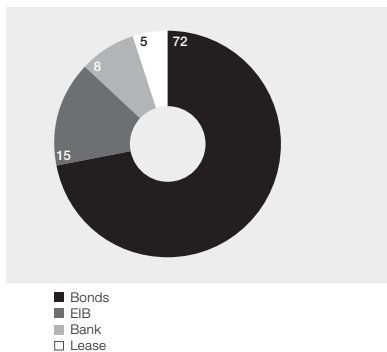
Capital structure and liquidity

The Group has not entered into any new debt facilities during the period and its capital structure and gearing ratios remain largely unchanged.

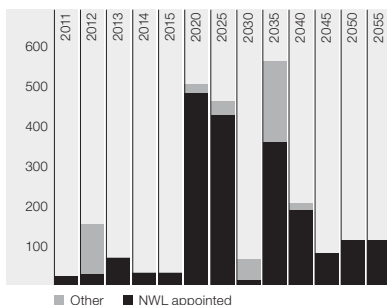
NWG's interest structure %



NWG's funding source %



NWG's gross debt maturity profile £m



The Group and NWL's regulated business debt structure also remain largely unchanged with 75% (NWL: 71%) fixed at an average rate of 5.8% (NWL: 5.96%), 19% (NWL: 22%) index linked at an average real rate of 1.85% (all NWL) and 6% (NWL: 7%) on a variable rate basis. The blended average rate for the Group and NWL's regulated business for the year ended 31 March 2010 was 4.62% and 4.45% (2009: 5.91%, 6.05%), respectively.

Total cash and short term cash deposits available to meet the requirements of the business through to the end of 2011 amounted to £189.1 million at 31 March 2010.

Credit rating

The credit rating for NWL has remained consistent throughout the year at BBB+ stable (Fitch and S&P) and Baa1 stable (Moody's).

Treasury policy

The main purposes of the Group's treasury function are to assess the Group's ongoing capital requirement, to maintain short term liquidity and to raise funding, taking advantage of any favourable market opportunities. It ensures access to medium term committed back up facilities renewable on a five year basis.

It also invests any surplus funds the Group may have, based on its forecast requirements and in accordance with the Group's treasury policy. On occasions, derivatives are used as part of this process, but the Group's policies prohibit their use for speculation. Full details are provided in note 20 to the financial statements. The Group is operating in compliance with its policies.

Pensions

The Group operates both a defined benefit pension scheme, which closed to new entrants on 31 December 2007, and an occupational defined contribution arrangement which began on 1 January 2008.

The deficit (under IAS 19) of the defined benefit scheme of £119.4 million, at 31 March 2009, has increased to £133.1 million at 31 March 2010. This is mainly due to a reduction in the discount rate assumption to 5.5% (2009: 6.1%), partially offset by an increase in the market value of the scheme's assets since March 2009.

The triennial actuarial valuation of the defined benefit scheme as at 31 December 2007 resulted in a surplus of £42.0 million (6%) on an 'ongoing' basis, which took into account the prepaid contributions (in 2006 and 2007) for the period up to 31 December 2010. While the actuarial valuation incorporates longer term forecasts and assumptions than the IAS 19 valuation, the prevailing market conditions are difficult and we will continue to monitor carefully. Furthermore, the final determination to March 2015 reflected NWL's request to fund £6.0 million per annum in respect of the defined benefit pension deficit from 1 January 2012.

Financial performance continued

Creditors

The Company's policy is to agree payment terms with suppliers and to pay on time according to those agreed terms. The Company's policy is to make payment not more than 30 days after receipt of a valid invoice, except as otherwise agreed. The ratio, expressed in days, between the amount invoiced by its suppliers during the year and the amount owed to its trade creditors at 31 March 2010, was 21 days (2009: 20 days).

Information pursuant to the Takeovers Directive

Structure of the Company's share capital

As at 31 March 2010, the Company had 518,623,845 ordinary 10 pence shares admitted to trading.

Rights and obligations attaching to the shares

The rights attaching to the shares in the Company are set out in the Articles and may be changed with the approval of the shareholders. Subject to the provisions of the Companies Acts, shares may be issued with or have attached thereto such preferred, deferred, qualified or other rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine or, if there has not been any such determination, as the Board may determine.

Shareholders are entitled to requisition a general meeting of the Company and to attend, vote and speak at general meetings, in accordance with the Companies Acts and the Articles. Shareholders have the right to appoint proxies.

Restrictions on the transfer of shares

Any shareholder may transfer a certificated share, as defined in the Articles, by an instrument of transfer in the usual form or in such other form as the Board may approve. However, the transfer of an uncertificated share, as defined in the Articles, need not be in writing and shall comply with any rules adopted by the Board under Article 13.7. The Board may, however, in its absolute discretion and without assigning any reason, decline to register any transfer of any share that is not a fully paid up share or on which the Company has a lien, provided that such discretion may not be exercised in such a way as to prevent dealings in the shares from taking place on an open and proper basis. The Board may also decline to register any transfer unless:

- in the case of a certificated share, the instrument of transfer, duly stamped, is lodged with the Company accompanied by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;
- in the case of a certificated share, the instrument of transfer is in respect of only one class of share; and
- in the case of a transfer to joint holders of a certificated or uncertificated share, the number of joint holders to whom the share is to be transferred does not exceed four.

If the share to be transferred is an uncertificated share, the Board may refuse to register a transfer if the Uncertificated Securities Regulations 2001 allow it to do so.

Additionally, where a member or other person on whom a Disclosure Notice has been served (pursuant to section 793 of the Companies Act 2006) and has not, within the period specified, supplied to the Company the information required in respect of any shares, the Board may impose a sanction declining to register any transfer of shares, other than a sale to a bona fide unconnected third party.

Significant shareholdings

Details of shareholders with significant holdings in the Company's issued share capital are set out below:

	Number of shares at 31.3.2010	% share capital	Number of shares at 1.6.2010	% share capital
Ontario Teachers' Pension Plan Board	138,588,471	26.72	138,588,471	26.72
Amvescap PLC	80,154,509	15.46	83,064,881	16.01
Pictet Asset Management SA	31,240,570	6.02	31,719,613	6.12
Legal & General Investment Management Ltd	15,701,506	3.03	15,114,135	2.91

The holdings include, where applicable, the aggregate of investment management clients' interests within the respective asset management companies and may have since changed without triggering a further notification.

Restrictions on voting rights

In accordance with the Company's Articles, no member shall, unless the Board otherwise determines, be entitled to be present or to vote, either personally or by proxy, unless all calls or other sums presently payable by him in respect of shares in the Company have been paid.

Additionally, where a member or other person on whom a Disclosure Notice (pursuant to section 793 of the Companies Act 2006) has been served and has not, within the period specified, supplied to the Company the information required in respect of any shares, the Board may impose a sanction preventing the member from attending and voting at any general meeting.

Financial performance continued

Shares required to fulfil vested awards made under the Northumbrian Water Group plc Employee Trust are acquired through Northumbrian Water Share Scheme Trustees Limited. In line with ABI guidelines, dividends and voting rights are waived on these shares. At 31 March 2010, the Employee Trust held a total of 914,518 shares.

The deadline for delivering either written or electronic proxy voting forms is 48 hours before the appointed time of the meeting.

Appointment and replacement of directors

The Company may by ordinary resolution appoint any person to be a director. The Board may also appoint directors, either to fill casual vacancies or as an addition to the Board, but any director so appointed shall hold office only until the next following AGM and shall then be eligible for election. Heidi Mottram and Margaret Fay, who were appointed to the Board since the last AGM, will be eligible for election at this year's AGM. Additionally, the Company's Articles provide for the annual re-election of all directors. Details of all the directors seeking re-election at this year's AGM are set out in the Notice of Meeting.

The main duty of the Nomination Committee is to identify and nominate candidates to fill Board vacancies for approval by the Board. The work of the Nomination Committee is described in the corporate governance report.

The Company may, by special resolution, or by ordinary resolution of which special notice has been given in accordance with the provisions of the Companies Acts, remove any director before the expiration of his period of office and may, by ordinary resolution, appoint another person in his place. Any person so appointed shall be subject to retirement at the same time as if he had become a director on the day on which the director in whose place he is appointed was last appointed a director.

Amendments to the Company's Articles

The Company may amend its Articles by passing a special resolution of its members. The Company will be proposing a Special Resolution at this year's AGM to adopt new Articles. The proposed changes are explained in the Appendix to the Notice of Meeting.

Powers of the Board

The Articles provide that the business of the Company shall be managed by the Board, which may exercise all such powers of the Company as are not required (by the Companies Acts or the Articles) to be exercised by the Company in general meeting. Subject to the Companies Acts, the Articles and any directions given by special resolution, the Board may, inter alia:

- establish local or divisional boards or agencies to manage any of the Company's affairs and appoint any persons to be members of such local or divisional boards, or agents, and fix their remuneration;

- appoint attorney(s) for such purposes and with such powers, authorities and discretions and for such period and subject to such terms and conditions as it may think fit;
- delegate its powers to any director;
- sign, draw, accept, endorse or otherwise execute all cheques, promissory notes, drafts, bills of exchange and other instruments and all receipts for moneys paid to the Company in such manner as the Board shall from time to time determine;
- exercise all of the powers of the Company to grant and pay pensions, annuities, gratuities, superannuation or other allowances and benefits in favour of any person; and
- exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and to issue debentures and other securities for any debt, liability or obligation of the Company or of any third party.

Allotment of shares

Subject to the provision of the Companies Acts, the Articles and any authorising resolutions passed in general meeting, the shares of the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and upon such terms and conditions as the Board may determine. The directors will again be seeking authority from shareholders at this year's AGM for the directors to allot shares during the ensuing year although, at present, the Company has no intention of doing so.

Purchase of own shares

Subject to the provisions of the Companies Acts and the Articles and to any confirmation or consent required by law, the Company may from time to time purchase its own shares. The Company will again be seeking authority from shareholders at this year's AGM to purchase its own shares during the ensuing year although, at present, the Company has no intention of doing so.

Significant agreements

As at 31 March 2010, NWL had £362.4 million of loans provided by the European Investment Bank (EIB) and the applicable terms include change of control clauses. If, after consultation with NWL, the EIB is of the opinion that a change of control has had, or is likely to have, a material adverse effect, then the EIB could give 30 days notice of requesting early repayment of the loans plus, in certain circumstances, a premium depending on prevailing market interest rates.

Carbon management plan

Northumbrian Water Limited published its carbon management plan to meet its target of a reduction of 50% in gross emissions by 2020 from a 2008 base (35% from a reduction in operational emissions and the rest from decarbonisation of the grid).

The carbon management plan includes energy efficiency, renewable energy and water efficiency and supports our activities to help us adapt to a changing climate. It represents a sustainable and responsible way forward for the business, our customers and the environment. The projects under way, which will help us to achieve our carbon reduction target, are outlined below:

- investment of £33.0 million in new thermal hydrolysis advanced anaerobic digestion at Bran Sands, which provides 50% (c.4.7 MW) of the energy requirements of the site. This will enable waste sludge to generate methane to fuel gas engines and produce green electricity. A similar plant will be constructed at Howdon, which is planned for completion in 2013/14. Together these plants will increase our use of renewable energy by 20%, as well as reduce our overall energy demand;
- hydroelectric installations at four reservoirs including the UK's largest man-made reservoir, Kielder Water. Work on a new £2.5 million hydroelectric project at our Selsset Reservoir has begun and will generate up to 750 kilowatts of electricity – 4,000 megawatt hours a year. Renewable energy is also being generated with hydroelectric plants at Derwent, Lartington and Wear Valley reservoirs in addition to biogas combined heat and power plants at Stressholme, Hexham and Aycliffe;

- limiting tertiary UV disinfection outside the bathing water season at five major works reduces energy consumption and carbon emissions with no detrimental effect on the marine environment; and
- encouraging customers, through our 'using water wisely' campaign, to recognise that if they waste water, they also waste energy (information and tools are available for customers on our websites).

Through these projects, and by reviewing the efficiency of our pumps across the business, we have reduced the amount of energy used by almost 9% over the last five years.

Northumbrian Water Limited has successfully achieved the Carbon Trust Standard for its efforts in reducing greenhouse gas emissions. The standard provides an objective benchmark against which our commitment and success in addressing our climate change impact was assessed and is significant as it demonstrates progress against our ambitious carbon management plan.

Alongside this work, we are continuing to develop our understanding of the potential impacts of a changing climate on the functions of the business. The latest 'UKCP09' projections of the future climate were published by the 'UK Climate Impacts Programme' last summer and provide a valuable resource for understanding the potential impacts on the business.

