



06

Interim Report



Pennon Group Plc

- Operating profit up 11.7% to £105.6 million before amortisation of intangibles



– up 8.2% to £84.2 million



– up 29.8% to £21.8 million

- Profit before tax up 16.9% to £71.1 million
- Earnings per share up 18.8% to 16.4p⁽¹⁾
- Interim dividend per share up 6.4% to 5.85p
- South West Water capital expenditure up 21.0% to £83.7 million
- 3 for 1 stock split took place July 2006

(1) Before deferred tax.

**SOUTH WEST WATER**

- On target to deliver 2005 – 2010 Regulatory Contract
- Profit increase reflecting strong growth in RCV 2005 – 2010 reaching £2.6 billion by end of K4
- South West bathing waters 100% compliant with mandatory standards (all 144 beaches for the first time)
- Tenth consecutive year without hosepipe bans and drought orders
- Drinking water quality at all time high as direct result of mains rehabilitation

Viridor

- Particularly strong growth in profits
- Wyvern Waste Services Limited acquired for £25 million and performing well
- Long-term waste management PPP contract signed with Somerset County Council
- Lakeside energy from waste plant joint venture under construction and on schedule to open in 2008
- Treatment and disposal contract extension to 2027 secured with Borough of Poole



“These excellent results demonstrate further profitable growth in the Group and affirm our strategy of focusing on our two businesses, South West Water and Viridor. South West Water remains on target to meet the current regulatory contract and Viridor continues to deliver a very strong performance based on both organic growth and acquisitions as a result of its successful focused strategy.”

A handwritten signature in black ink, which appears to read 'Ken Harvey'. The signature is written in a cursive style with a long horizontal stroke at the end.

Ken Harvey, Chairman

GROUP OVERVIEW

- Revenue rose by 13.8% to £373.6 million.
- Operating profit before amortisation of intangibles rose by 11.7% to £105.6 million.
- Profit before tax increased 16.9% to £71.1 million.
- Earnings per share before deferred tax increased by 18.8% to 16.4p. Earnings per share after deferred tax rose by 54.1% to 15.1p.
- Group capital expenditure was £113.9 million (H1 2005 – £93.1 million).
- Wyvern Waste Services Limited was acquired during the half year for £25 million (including £3 million cash on the balance sheet).
- Net borrowings were £1,494 million, an increase of £67 million since 31 March 2006. Gearing, being net borrowings to shareholders' funds plus net borrowings, was 72% (2005 – 63%). Interest cover was 3.1 times for the half year to 30 September 2006 (2005 – 2.8 times). South West Water net debt to RCV was 64% (31 March 2006 – 62%).
- The interim dividend of 5.85p per share represents an increase of 6.4% over the equivalent figure for the half year to 30 September 2005. It will be paid on 11 April 2007 to shareholders on the register on 26 January 2007. A DRIP (Dividend Re-investment Plan) alternative will be available.
- A 3 for 1 stock split of Pennon's share capital was effected in July 2006 in order to increase the liquidity of its shares.
- Efficient financing initiatives at both Group and subsidiary level. South West Water financing costs are amongst the lowest in the sector.

STRATEGY

The Board's priority continues to be the creation of shareholder value through its strategic focus on water, sewerage and waste management. The interim results are testament to the success of the Board's strategy of focusing on these business areas. The move to a more highly geared structure in 2006 has allowed the Group to return value to both shareholders and customers. As confirmed at the time of the Group's interim results in December 2005, the Board's policy is to grow the Group dividend by 3% above inflation per annum up to 2009/10.

SOUTH WEST WATER

South West Water turnover rose by £18.6 million to £195.9 million. Approved tariff increases, including the 9.8% K factor, amounted to £22.0 million. Customers switching from unmeasured to metered charging caused a reduction of £3.7 million in turnover. 56% of South West Water's domestic customers are now metered. 3,700 new customer connections contributed £1.6 million of turnover. Other factors, including a small decrease in measured demand, reduced turnover by £1.3 million.

South West Water's operating profit rose 8.2% to £84.2 million. Operating costs, including depreciation, increased by £12.2 million to £111.7 million. Additional costs from new capital schemes of £4.7 million, inflation of £5.2 million (including energy and chemicals) and £3.7 million of other cost increases (including infrastructure expenditure charged to operating costs), were partially offset by £1.4 million of efficiency savings. Detailed plans are in place and the company is on track to achieve the operating cost efficiency targets set by Ofwat for the period up to 2010.

South West Water has put in place a comprehensive strategy to help ensure a continued secure supply of water for the region following two successive dry winters and summers. In 2005/06 three of our key reservoirs were replenished by pumping water from downstream river flows to supplement the natural rain water inflow. The pump infrastructure was installed several years ago to provide enhanced drought protection and these facilities are currently in use to augment reservoir inflow over the coming winter. Ofwat's latest report on leakage confirms that South West Water remains one of the leading companies in managing water leakage and continues to deliver results in line with Ofwat's leakage target of 84 megalitres per day. These activities contributed to the tenth year of no water restrictions in our region.

In addition, the purchase of Park Lake in November 2006, a former china clay pit on Bodmin Moor, is a significant addition to water resources in Cornwall further enhancing their robustness. The new lake will be the region's fourth largest reservoir. Work will now be carried out to build the appropriate infrastructure and it is anticipated that the water from this new source will become available from 2007/08 (subject to obtaining the necessary Environment Agency (EA) permissions).

Drinking water quality and river water quality are at an all time high and the region features the highest proportion of high quality rivers in England. In 2006, for the first time 100% of the designated bathing waters in the South West Water region achieved the European mandatory standard, and 91.7% achieved the still more stringent guideline standard.

Ofwat's recently published 2005/06 'Levels of Service Report' confirms that South West Water has maintained last year's step change improvement in its Overall Performance Assessment (OPA) ranking, consolidating its 6th position out of the 10 water and sewerage companies.

Capital expenditure in the half year increased by £14.5 million to £83.7 million. £49.4 million was invested in water supply improvements including water mains renovation and water treatment works enhancement. Continued high levels of investment in the £240 million water mains renovation programme to replace or reline 3,200kms of water mains will be a key element during the remainder of the K4 period. A further 330kms of water mains were laid, replaced or refurbished during the half year, in line with the Drinking Water Inspectorate's (DWI) agreed programme for completion by 2010.

Waste water investment expenditure totalled £34.3 million for the half year. All of the major projects in the company's 15 year original "Clean Sweep" coastal sewage treatment programme have been completed and as noted above the region is now attaining record levels of bathing water quality compliance.

South West Water continues to deliver capital projects in line with Ofwat and EA expectations. The company is targeting 5% efficiency outperformance of Ofwat's allowed K4 capital programme of £762 million (2002/03 prices) and is on track to achieve this.

A major project, "Service +", is currently underway to improve the service to customers in relation to the company's day to day operational activities and reduce costs. A new Service Centre in Exeter, which utilises the latest mobile computing technology, is now operational and is managing contacts with customers on service issues and the activities of field operations staff.

Regulatory Capital Value (RCV) is expected to grow by 31% over the K4 period to £2.6 billion by March 2010 – the highest forecast percentage increase of any quoted UK water company. After adjusting for the growth in gearing, the company again expects its growth in RCV to outstrip significantly the anticipated growth in net borrowings.

VIRIDOR

Viridor traded particularly strongly in the six months ended 30 September 2006, building further on the growth achieved over the past five years. Revenue was up 17.2% to £178.2 million, including a £9.5 million contribution from the Wyvern Waste Services Limited (Wyvern Waste) acquisition, a full six month contribution from Brett Waste Management Limited adding £4.2 million, and £8.3 million from increased landfill tax.

Viridor's operating profit before intangibles amortisation (PBITA) for the half year rose by 29.8% to £21.8 million, compared to £16.8 million in 2005/06. The increase reflected a full half year contribution from last year's Brett Waste Management acquisition, the performance of Wyvern Waste, a one-off profit of £0.6 million on disposal of Viridor's interest in Devon Waste Management Limited and 11% growth in underlying business.

Earnings before interest, tax, depreciation and amortisation (EBITDA) rose 25.2% from £31.8 million to £39.8 million. Profit before tax at £12.8 million was up 22% on the previous first half. Capital expenditure for the half year was £29.9 million (H1 2005 – £23.9 million).

On 13 May 2006, Viridor acquired Wyvern Waste Services Limited from Somerset County Council for £25 million (including £3 million cash on the balance sheet) as part of a 25 year Public Private Partnership (PPP) contract with the County. The acquisition comprised 5 million cubic metres of consented landfill void, 7 megawatts of power generation capacity and associated recycling and transfer operations. The business is performing well and the operational integration of the company is already complete. This acquisition and associated contract fit well with Viridor's existing operations.

Total landfill disposal volumes rose 1.6% to 2.2 million tonnes compared to the previous half year. After adjusting for acquisitions and a significant one-off sludge contract at Masons in the first half of 2005/06, underlying volumes fell by 0.1 million tonnes.

Gate fees rose by 11% to £19 per tonne, reflecting the increasing scarcity of UK landfill capacity. Consented landfill capacity grew from 87 million cubic metres at last year end to a current 91 million cubic metres reflecting the Wyvern Waste acquisition and planning gains less usage in the period.

Viridor's power generation prices rose 7.2% to £62 per megawatt hour. Excluding the Wyvern Waste acquisition (the contracts for which are mainly under NFFO) the increase was 16.5% to £67 per megawatt hour, reflecting the strong brown energy price in the first half of 2006 and the ongoing shortage of renewable energy in the UK, which is driving the premium price achieved by renewables. The timing of sales contracts for this financial year was particularly favourable and brown energy prices subsequently have been significantly lower. Output increased a further 17.8% compared to the previous first half (excluding Wyvern Waste 7.1%). Viridor's current capacity (including the contribution from Wyvern Waste) increased 9 megawatts to 70 megawatts in the six months to 30 September 2006, 46% of which is eligible for Renewable Obligation Certificates (ROCs). The Government is targeting 10% of electricity from renewable energy sources by 2010 and 15% by 2015, with an aspiration of 20% by 2020. Only around 4% of electricity in the UK is currently generated from renewable sources.

In September 2005, Viridor set up Lakeside Energy from Waste Limited, a joint venture with Grundon Waste Management Limited, to build and operate an energy from waste (EFW) plant. The 50 : 50 joint venture is in line with Viridor's strategy of capitalising on opportunities arising from the Government's developing waste strategy and will assist local authority customers in meeting their landfill diversion targets and avoiding penalties under the Landfill Allowance Trading Scheme (LATS). A number of these councils are existing waste disposal customers of Viridor or Grundon. The plant will have a capacity of 400,000 tonnes per annum and it will also provide power generation capacity of 32 megawatts of electricity which will be fed into the national grid. The plant is being built at a strategically located site at Colnbrook near Slough, which has the relevant permissions and permits. Total investment is projected to be circa £160 million, 86% of which is non-recourse debt financing with the balance split equally between Viridor and Grundon. The plant is under construction and scheduled to be commissioned in second half calendar 2008.

Significant new projects won in the half year include a 21 year 70kt per annum disposal contract extension to 2027 for Poole; a 7 year 120kt per annum landfill contract for Plymouth starting in April 2008 and a 5 year 100kt per annum landfill contract for Greater Manchester also commencing in April 2008.

Viridor provides waste services to 4 of the top 5 recycling counties in the UK. Viridor also partners the London Borough of Sutton and the Suffolk Recycling Consortium which have been awarded 'Beacon Status' for waste management and recycling. This status is conferred by Government for excellence, innovation and improvements in efficiency and effectiveness in delivering waste services.

Viridor continues to explore other suitable PFI or PPP opportunities as part of its overall strategy. In May 2006 Greater Manchester Waste Disposal Authority announced that the Viridor/Laing partnership was one of two parties shortlisted to submit Best And Final Offers (BAFO) for its waste management services contract. The BAFO was submitted to the Authority in November 2006 and a decision on preferred bidder is expected in January 2007.

PENSIONS

The Group pension schemes had a deficit (net of deferred tax) under IAS 19 at 30 September 2006 of circa £29 million, unchanged from 31 March 2006. Investment growth and a further prepayment of £9 million (circa £6 million net of tax) have been offset by an increase in liabilities.

FINANCING INITIATIVES

The total interest charge increased by £0.7 million to £33.6 million. The average interest rate on net debt for the Group overall has been reduced to 4.6% (2005/06 5.7%) and for South West Water to 4.3%. This is believed to be amongst the lowest in the sector.

The Group funding strategy utilises a mix of fixed, floating and index linked rate borrowings. To reduce the risk of adverse interest rate movements, South West Water has swap arrangements in place to fix the interest rate on circa 70% of its net debt for the period up to March 2007 and on around 60% of its debt up to March 2010. In addition circa 10% of South West Water debt is index linked to 2041.

TAXATION

The mainstream corporation tax charge for the half year to September 2006 was £13.0 million (H1 2005 – £8.1 million) giving a mainstream effective tax rate of 18%.

The deferred tax charge for the half year to 30 September 2006 was £4.6 million (H1 2005 – £15.3 million).

RETURN OF CAPITAL

The Company completed the redemption of the outstanding B shares for a total of £5.7 million in April 2006. Accordingly circa £145 million has now been returned through a B share issue. The £55 million on-market share buy back scheme is being progressed with £3.5 million of shares bought back to date.

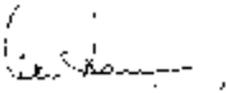
BOARD CHANGES

As indicated at the Group's Preliminary results in June 2006, Bob Baty, Chief Executive South West Water, retired at the end of July 2006. Chris Loughlin joined the Board in August 2006 as an Executive Director of Pennon and Chief Executive of South West Water.

STRATEGY AND PROSPECTS

The Board's strategy is to focus on its two businesses, South West Water and Viridor.

The Board is confident that South West Water will successfully deliver the K4 regulatory contract and significantly grow its Regulatory Capital Value up to 2010. Viridor's successful strategy of creating long-term sustainable profit growth is expected to continue through capitalising on its landfill asset base, exploiting its landfill gas power generation potential and pursuing profitable opportunities in line with the Government's developing waste strategy. In addition, the Group has put in place a long-term funding structure to enable it to continue to finance its activities efficiently.



Ken Harvey, Chairman
30 November 2006

	— Unaudited —		Before exceptional items	Exceptional items (note 5)	Total
	Half year ended 30 September 2006	Half year ended September 2005	Year ended 31 March 2006	Year ended March 2006	Year ended March 2006
Note	£m	£m	£m	£m	£m
Revenue	4	373.6	328.2	645.7	645.7
Profit on disposal of investment		0.6	-	-	-
Operating costs					
Manpower costs		(44.7)	(39.2)	(79.9)	(79.9)
Raw materials and consumables used		(22.3)	(19.4)	(40.7)	(40.7)
Other operating expenses		(145.4)	(125.8)	(245.9)	(260.4)
Depreciation		(56.2)	(49.3)	(102.5)	(102.5)
Amortisation of intangibles		(1.1)	(0.8)	(1.6)	(1.6)
Operating profit	4	104.5	93.7	175.1	160.6
Interest payable and similar charges		(48.4)	(48.4)	(96.8)	(147.0)
Interest receivable		14.8	15.5	32.5	40.4
Share of post-tax profit from joint venture		0.2	-	0.1	0.1
Profit before tax	4	71.1	60.8	110.9	54.1
Tax on ordinary activities	6	(17.6)	(23.4)	(35.0)	(16.3)
Profit for the period		53.5	37.4	75.9	37.8
Profit attributable to equity shareholders		53.5	37.4	75.9	37.8
Earnings per share (pence per share) * 7					
- Basic		15.1	9.8		9.9
- Diluted		15.0	9.7		9.8
- Adjusted (before deferred tax)		16.4	13.8		25.2
Dividend per share (pence per share) * 8		5.85	5.5		17.2
Dividend proposed for the period (£m)	8	20.8	19.4		61.0

All operating activities are continuing operations.

*The earnings per share and dividend per share for September 2005 and March 2006 have been restated to reflect the sub-division of the Company's ordinary shares by way of a three for one split on 31 July 2006.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME & EXPENSE
for the half year ended 30 September 2006

	— Unaudited —		
	Half year ended 30 September 2006	Half year ended 30 September 2005 (restated note 3)	Year ended 31 March 2006
	£m	£m	£m
Profit for the period	53.5	37.4	37.8
Actuarial losses on defined benefit schemes	(5.4)	(2.2)	(2.8)
<i>Cash flow hedges</i>			
Net fair value gains/(losses)	6.0	(6.3)	1.0
Tax on items taken directly to or transferred from equity	1.6	0.7	0.8
Net gains/(losses) not recognised directly in income statement	2.2	(7.8)	(1.0)
Total recognised income for the period	55.7	29.6	36.8
Adjustments on adoption of IAS 32/39 1 April 2005	-	8.6	8.6
	55.7	38.2	45.4
Attributable to equity shareholders	55.7	38.2	45.4

	— Unaudited —		
	30 September 2006	30 September 2005 (restated note 3)	31 March 2006
Note	£m	£m	£m
Assets			
Non-current assets			
Goodwill	108.5	98.6	98.6
Other intangible assets	12.1	6.4	5.7
Property, plant and equipment	9 2,485.4	2,283.3	2,415.9
Trade and other receivables	4.5	4.1	6.0
Investments accounted for using equity method	1.5	1.2	1.3
	2,612.0	2,393.6	2,527.5
Current assets			
Inventories	5.2	5.3	5.0
Trade and other receivables	135.1	120.3	94.5
<i>Financial assets</i>			
Derivative financial instruments	6.5	0.4	3.1
Cash and cash equivalents	90.4	215.8	99.4
	237.2	341.8	202.0
Liabilities			
Current liabilities			
<i>Financial liabilities</i>			
Borrowings	(71.1)	(53.7)	(54.7)
Derivative financial instruments	(0.4)	(7.6)	(3.0)
Trade and other payables	(212.0)	(195.1)	(170.1)
Current tax liabilities	(37.6)	(37.3)	(24.0)
Provisions for liabilities and charges	(12.9)	(7.5)	(11.4)
	(334.0)	(301.2)	(263.2)
Net current (liabilities)/assets	(96.8)	40.6	(61.2)
Non-current liabilities			
<i>Financial liabilities</i>			
Borrowings	(1,513.6)	(1,360.9)	(1,471.8)
Other non-current liabilities	(2.1)	(3.5)	(2.2)
Retirement benefit obligations	(41.7)	(39.6)	(41.7)
Deferred tax liabilities	(307.0)	(299.9)	(302.8)
Provisions for liabilities and charges	9 (77.8)	(34.0)	(66.6)
	(1,942.2)	(1,737.9)	(1,885.1)
Net assets	573.0	696.3	581.2
Shareholders' equity			
Share capital	144.9	142.6	184.2
Share premium account	11.5	155.8	10.2
Capital redemption reserve	143.8	-	98.4
Retained earnings and other reserves	272.8	397.9	288.4
Total shareholders' equity	10 573.0	696.3	581.2

	— Unaudited —		
	Half year ended 30 September 2006	Half year ended 30 September 2005	Year ended 31 March 2006
Note	£m	£m	£m
Cash flows from operating activities			
Cash generated from operations	11	136.6	82.2
Interest paid (including exceptional item)		(24.0)	(33.9)
Tax paid		(0.1)	(0.3)
			(2.2)
Net cash generated from operating activities		112.5	48.0
			101.0
Cash flows from investing activities			
Interest received (including exceptional item)		3.9	15.6
Acquisition of subsidiaries (net of cash acquired)		(22.4)	(44.5)
Investment in joint venture		-	(1.0)
Proceeds from business disposal		-	5.0
Proceeds from investment disposal		0.6	-
Purchase of property, plant and equipment		(121.6)	(86.4)
Proceeds from sale of property, plant and equipment		1.3	1.5
			4.8
Net cash used in investing activities		(138.2)	(109.8)
			(232.1)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital		1.7	1.5
Purchase of ordinary shares subsequently cancelled		(3.5)	-
Purchase of ordinary shares by the Pennon Employee Share Trust		(2.3)	-
Release of restricted deposits		-	-
Net proceeds from new borrowing		110.0	77.5
Repayment of borrowings		(58.8)	(93.1)
Finance lease drawdowns		-	1.5
Finance lease principal repayments		(0.8)	(5.1)
Dividends paid		(19.4)	(16.1)
B Share payments		(5.7)	-
			(137.8)
Net cash received from/(used in) financing activities		21.2	(33.8)
			90.8
Net decrease in cash and cash equivalents		(4.5)	(95.6)
			(40.3)
Cash and cash equivalents at beginning of period		80.3	120.6
			120.6
Cash and cash equivalents at end of period		75.8	25.0
			80.3

1. BASIS OF PREPARATION

These unaudited interim financial statements have been prepared in accordance with the Listing Rules of the Financial Services Authority. In preparing these interim financial statements the same accounting policies have been applied as those set out in the Pennon Group Plc Annual Report and Accounts for the year ended 31 March 2006. The Group has chosen not to adopt IAS 34, "Interim Financial Reporting", and therefore, these interim financial statements are not in full compliance with International Financial Reporting Standards (IFRS).

The financial information has been prepared in accordance with all IFRS and interpretations of the Internal Financial Reporting Interpretations Committee (IFRIC) expected to be applicable for the year ended 31 March 2007 and have been determined in accordance with IFRS in issue that are either endorsed by the European Union and effective at 31 March 2007 or are expected to be endorsed and effective at 31 March 2007.

2. FINANCIAL INFORMATION

The financial information for the year ended 31 March 2006 does not constitute full financial statements within the meaning of section 240 of the Companies Act 1985. The full financial statements for that year 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.

3. RESTATEMENTS AT 30 SEPTEMBER 2005

As a result of applying IAS 32/39 at 1 April 2005 the comparative consolidated statement of recognised income and expense at 30 September 2005 has been restated to show an £8.6 million increase in net assets comprising a reduction of £0.9 million for the Group's debt interest rate swaps, a reduction of £0.8 million reflecting the amortised proceeds of trade receivables and an increase of £10.3 million (net of tax), following release of deferred income which does not qualify as a hedge under IFRS.

At 30 September 2005 the accounting for the acquisition of Brett Waste Management Limited (renamed Viridor Waste Kent Limited) was provisional. Completion of the accounting for the acquisition by 31 March 2006 resulted in an increase in goodwill of £3.3 million, a decrease in intangible assets of £3.9 million and a decrease in trade and other payables of £0.6 million. Comparative figures at 30 September 2005 have been restated accordingly.

4. SEGMENTAL REPORTING

	Unaudited		
	Half year ended 30 September 2006 £m	Half year ended 30 September 2005 £m	Year ended 31 March 2006 £m
Revenue			
Water and sewerage	195.9	177.3	348.5
Waste management	178.2	152.0	298.9
Other	4.1	3.9	7.3
Less intra-segment trading *	(4.6)	(5.0)	(9.0)
	373.6	328.2	645.7
Segment result			
Operating profit before interest, tax, depreciation, amortisation and exceptional items (EBITDA)			
Water and sewerage	122.0	112.3	213.4
Waste management	39.8	31.8	66.7
Other	-	(0.3)	(0.9)
	161.8	143.8	279.2
Operating profit before amortisation and exceptional items			
Water and sewerage	84.2	77.8	141.5
Waste management	21.8	16.8	35.9
Other	(0.4)	(0.1)	(0.7)
	105.6	94.5	176.7
Operating profit before exceptional items			
Water and sewerage	84.2	77.8	141.5
Waste management	20.7	16.0	34.3
Other	(0.4)	(0.1)	(0.7)
	104.5	93.7	175.1
Operating profit			
Water and sewerage	84.2	77.8	127.0
Waste management	20.7	16.0	34.3
Other	(0.4)	(0.1)	(0.7)
	104.5	93.7	160.6
Profit before tax and exceptional items			
Water and sewerage	55.6	49.4	87.4
Waste management	12.8	10.5	21.9
Other	2.7	0.9	1.6
	71.1	60.8	110.9

The exceptional items are detailed in note 5.

*Intra-segment trading between and to other segments by the water and sewerage and waste management segments is under normal commercial terms and conditions that would also be available to unrelated third parties. Intra-segment revenue of the Other segment is at cost.

5. EXCEPTIONAL ITEMS

The exceptional items for the year ended 31 March 2006 were :	£m
Customer payment	(14.5)
Operating profit	(14.5)
Bond retirement	(50.2)
Receipt on transfer of lease	7.9
Profit before tax	(56.8)
Tax arising on exceptional items	18.7
	(38.1)

The customer payment and bond retirement related to financial restructuring in the Company and South West Water Limited.

The receipt on transfer of lease related to a consent fee paid to South West Water Limited arising from the sale of finance leases between financial institutions.

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	— Unaudited —		Before exceptional items	Exceptional items (note 5)	Total
	September 2006	September 2005	March 2006	March 2006	March 2006
	£m	£m	£m	£m	£m
Tax on profit on ordinary activities comprises :					
United Kingdom corporation tax	13.0	8.1	14.8	(18.7)	(3.9)
Deferred tax	4.6	15.3	20.2	-	20.2
	17.6	23.4	35.0	(18.7)	16.3

The tax charge for September 2006 and September 2005 has been derived by applying the anticipated effective annual tax rate to the first half year profit before tax.

7. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, excluding those held in the employee share trust, which are treated as cancelled. For diluted earnings per share, the weighted average number of ordinary shares is adjusted to include all dilutive potential ordinary shares.

7. BASIC AND DILUTED EARNINGS PER SHARE *(continued)*

A reconciliation of the weighted average number of shares and earnings used in the calculations is set out below.

	Unaudited		
	September 2006	September 2005 (restated)	March 2006 (restated)
Weighted average number of ordinary shares (millions)			
For basic earnings per share	353.7	382.5	381.9
Effect of dilutive potential ordinary shares:			
Share options	3.2	3.3	3.3
For diluted earnings per share	356.9	385.8	385.2

The weighted average number of ordinary shares at September 2005 and March 2006 have been restated to reflect the sub-division of the Company's ordinary shares by way of a three for one split on 31 July 2006.

Adjusted basic and diluted earnings per share

Adjusted earnings per share have been calculated to exclude the impact of the exceptional items and deferred tax on the results, as these items can have a distorting effect on earnings from year to year and therefore warrant separate consideration. Adjusted earnings have been calculated as follows:

	Unaudited			Profit after tax £m	September 2005 (restated)		Profit after tax £m	March 2006 (restated)	
	September 2006	Basic	Diluted		Basic	Diluted		Basic	Diluted
	Profit after tax £m	Earnings per share Basic p	Earnings per share Diluted p	£m	p	p	£m	p	p
Earnings per share	53.5	15.1	15.0	37.4	9.8	9.7	37.8	9.9	9.8
Exceptional items	-	-	-	-	-	-	38.1	10.0	9.9
Deferred tax	4.6	1.3	1.3	15.3	4.0	4.0	20.2	5.3	5.2
Adjusted earnings per share	58.1	16.4	16.3	52.7	13.8	13.7	96.1	25.2	24.9

All operating activities are continuing operations.

8. DIVIDENDS

	— Unaudited —		
	September 2006 £m	September 2005 £m	March 2006 £m
Interim dividend paid for the year ended 31 March 2006 : 5.5p (2005 4.6p) per share	19.4	17.7	17.7
Final dividend approved for the year ended 31 March 2006 : 11.7p (2005 9.7p) per share	41.6	37.4	37.4
	61.0	55.1	55.1

	— Unaudited —		
	September 2006 £m	September 2005 £m	March 2006 £m
Proposed interim dividend for the year ended 31 March 2007 of 5.85p (2006 5.5p) per share	20.8	19.4	19.4

The proposed interim dividend has not been included as a liability in these financial statements. The Company is intending to offer a Dividend Re-investment Plan (DRIP) in respect of the proposed interim dividend and full details will be sent to shareholders on 23 February 2007. The final date for receipt of DRIP application forms will be 16 March 2007.

The interim dividend of 5.85p per share will be paid on 11 April 2007 to shareholders on the register on 26 January 2007.

Dividend per share for the comparative periods has been restated to reflect the sub-division of the Company's ordinary shares by way of a three for one split on 31 July 2006.

9. LANDFILL RESTORATION

At 31 March 2006, following a change in accounting methodology, a landfill restoration provision of £32.3 million was recognised with a matching addition to tangible fixed assets.

10. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Unaudited Total £m
Profit for the period	-	-	-	53.5	53.5
Other recognised income and expense for the period	-	-	-	2.2	2.2
Dividends declared	-	-	-	(61.0)	(61.0)
Shares issued for cash consideration	0.4	1.3	-	-	1.7
Shares cancelled and cost of buy back	(0.3)	-	0.3	(3.5)	(3.5)
Deferred shares redeemed	(39.4)	-	39.4	-	-
B Shares redeemed	-	-	5.7	(5.7)	-
Own shares acquired by the Pennon Employee Share Trust	-	-	-	(2.3)	(2.3)
Adjustment in respect of share- based payment	-	-	-	1.0	1.0
Deferred tax in respect of share- based payment	-	-	-	0.2	0.2
	(39.3)	1.3	45.4	(15.6)	(8.2)
At 1 April 2006	184.2	10.2	98.4	288.4	581.2
At 30 September 2006	144.9	11.5	143.8	272.8	573.0

11. CASH FLOW FROM OPERATING ACTIVITIES

Reconciliation of operating profit to net cash inflow from operating activities:

	———— Unaudited ————		March 2006 £m
	September 2006 £m	September 2005 £m	
Cash generated from operations			
Profit for the period	53.5	37.4	37.8
Adjustments for:			
Employee share schemes	1.0	0.9	1.7
Deferred income released to profits	(0.1)	(0.4)	(0.3)
Profit on disposal of property, plant and equipment	(0.3)	(0.7)	(1.1)
Profit on disposal of investment	(0.6)	-	-
Depreciation charge	56.2	49.3	102.5
Amortisation of intangible assets	1.1	0.8	1.6
Share of post-tax profit from joint venture	(0.2)	-	(0.1)
Interest payable and similar charges	48.4	48.4	147.0
Interest receivable	(14.8)	(15.5)	(40.4)
Taxation	17.6	23.4	16.3
Changes in working capital <i>(excluding the effect of acquisition of subsidiaries)</i>			
Increase in inventories	(0.2)	(0.2)	(0.3)
(Increase)/decrease in trade and other receivables	(28.7)	(23.3)	2.0
Decrease in long-term deposits	-	(2.9)	-
Increase in trade and other payables	10.2	8.2	8.4
Decrease in retirement benefit obligations	(3.7)	(42.4)	(39.7)
Decrease in provisions for liabilities and charges	(2.8)	(0.8)	(3.3)
Net cash generated from operations	136.6	82.2	232.1

12. NET BORROWINGS

	——— Unaudited ———		March 2006 £m
	September 2006 £m	September 2005 £m	
Cash and cash equivalents	90.4	215.8	99.4
<i>Borrowings – current</i>			
Bank overdraft	(14.0)	(10.2)	(18.5)
Other current borrowings	(18.3)	(14.5)	(8.2)
Finance lease obligations	(38.8)	(29.0)	(28.0)
Total current borrowings	(71.1)	(53.7)	(54.7)
<i>Borrowings – non-current</i>			
Bank loans	(367.6)	(247.7)	(312.7)
Other non-current borrowings	(218.4)	(314.4)	(232.2)
Finance lease obligations	(927.6)	(798.8)	(926.9)
Total non-current borrowings	(1,513.6)	(1,360.9)	(1,471.8)
Total net borrowings	(1,494.3)	(1,198.8)	(1,427.1)

13. ACQUISITIONS AND DISPOSALS

On 13 May 2006 the entire issued share capital of Wyvern Waste Services Limited, (now renamed Viridor Waste (Somerset) Limited), was purchased by Viridor Waste Management Limited for a cash consideration of £25.4 million including costs of £0.4 million. The acquisition has been accounted for using the acquisition method and provisional goodwill is expected to be £9.9 million with intangible fixed assets of £7.5 million capitalised. The intangible fixed assets are being amortised evenly over the Directors' estimate of useful economic life. Cash balances on acquisition amounted to £3.0 million.

On 5 September 2006 Viridor Waste Management Limited disposed of its 15% interest in the issued share capital of Devon Waste Management Limited for a cash consideration of £0.6 million.



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