PENNON GROUP PLC **25 November 2010**

HALF YEAR REPORT ON THE SIX MONTHS ENDED 30 SEPTEMBER 2010

Pennon Group announces its unaudited results for the half year ended 30 September 2010.

A presentation for City audiences will be held today, Thursday 25 November 2010, at 9am at the Auditorium, The Merrill Lynch Financial Centre, 2 King Edward Street, London, EC1. A live webcast of the results presentation will be available at pennon-group.co.uk /investor/presentations, and a recording of the presentation will be available thereafter.

For further information today, 25 November 2010, please contact :

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FINANCIAL HIGHLIGHTS

- Profit before tax up 0.7% to £96.2m[1]
    - South West Water down 0.6% to £70.2m[1]
    - Viridor up 28.8% to £28.6m
- Underlying earnings per share[1] [2] up 1.4% to 21.0p
- Dividend
    - interim dividend per share up 7.9% to 7.5p
- Strong liquidity and funding position
    - £175m new/refinanced facilities since 31 March 2010
    - £790m cash/committed facilities at 30 September 2010 (includes restricted cash of £86m)
- Group businesses well positioned in current economic conditions

(1) Reflects the application of IFRIC18 “Transfers of assets from customers”, effective from 1 July 2009.

(2) Underlying earnings per share excludes deferred tax, as detailed in note 8 to the half year financial information.

OPERATIONAL HIGHLIGHTS

South West Water

- Strong start to the new 2010 – 2015 regulatory contract
- Step change in operating efficiency delivered
- Average funding cost 4.0%
- Industry leader in tackling leakage - lowest ever leakage in 2009/10
- 2010 fourteenth consecutive summer without hosepipe bans or drought orders
- Drinking water quality industry-leading at 99.98%
- H1 benefited from strong summer demand and asset sales not expected to be repeated in H2

Viridor

- Continued strong growth in PBIT plus joint ventures [(1)] and PBT
  - contributions from Greater Manchester 25 year waste PFI contract and Lakeside Energy from Waste (EfW) plant
  - recyclate prices recovered
- Circa 45% of profits from recovering value in waste
- Runcorn EfW Plant Phases I and II under construction
- Planning permission achieved for Cardiff EfW plant
- Reconomy recycling companies acquired for £23.8m during the period and Pearsons acquired for £16.0m in November 2010
  - Viridor largest operator of Materials Recycling Facilities in the UK

(1) Comprises share of PAT and interest receivable on shareholder loans

Ken Harvey, Chairman, said, "I am pleased to report another successful half year for the Group. South West Water continues to improve its performance and Viridor has once again delivered excellent profit growth. The Group's first half results reflect some features, such as increased demand from summer usage and asset sales in South West Water, which are not expected to be repeated in the second half. In addition, Viridor's growth reflects the recovery in H2 2009/10 of recyclate prices compared with the low levels in the first half of 2009/10. However, looking forward, South West Water is well placed to outperform the assumptions for the K5 period and Viridor expects to continue to deliver strong long-term growth through successfully leading the way in exploiting opportunities arising from the Government's landfill diversion, recycling and renewable energy targets."

GROUP OVERVIEW

- Revenue rose by 10.8% to £593.2m.

- Operating profit unchanged at £133.3m[(1)].

- Net interest payable increased from £37.7m to £39.0m.

- Profit before tax up 0.7% to £96.2m[(1)].

- Underlying earnings per share up by 1.4% to 21.0p[(1)]. Statutory earnings per share increased from 19.9p to 24.7p[(1)].

- Group capital expenditure £70.9m (H1 2009/10 – £98.0m) [(1)].

- Investment in joint ventures of £7.2m (H1 2009/10 – £22.5m).

- Net borrowings £1,877m, a decrease of £18m since 31 March 2010. Gearing, being net borrowings to (shareholders' funds plus net borrowings), was 74% (H1 2009/10 – 77%).

- The Group has substantial cash resources and committed facilities - well placed in current financial market conditions.

- South West Water net debt to RCV was 58% (31 March 2010 – 60%).

- Net interest cover (excluding pensions net interest, IFRIC 12 contract interest receivable and discount unwind on provisions) was 3.4 times (H1 2009/10 – 3.8 times).

[(1)] Reflects the application of IFRIC18 "Transfers of assets from customers", effective from 1 July 2009.

DIVIDENDS

The interim dividend of 7.5p per share represents an increase of 7.9% for the half-year. It will be paid on 1 April 2011 to shareholders on the register on 21 January 2011.

The Company is also continuing to offer a scrip dividend alternative. The final date for receipt of Forms of Election/Mandate in respect of the scrip dividend alternative for the interim dividend will be 11 March 2011.

The Board’s stated policy is to grow the Group dividend by 4% above inflation per annum up to the end of 2014/15.

SOUTH WEST WATER

Financial Highlights

Revenues rose 1.9% (£4.4m) to £230.9m as result of tariff increases, new connections and higher demand offset by the effects of customers switching to a metered tariff and lower other sales. Approved tariff increases, including the 1.1% K factor, amounted to £4.2m. Customers switching from unmeasured to metered charging reduced turnover by £3.3m, but 2,800 new customer connections contributed £0.9m of additional turnover. Customer demand was 3.1% higher than the same period last year resulting from dry weather in the early part of the year. 70% of South West Water's domestic customers are now metered.

South West Water's operating profit decreased by £0.3m to £100.4m. Operating costs, including depreciation and restructuring costs, increased from £125.8m to £130.5m. Cost increases of £4.2m (including inflation), additional costs from new capital schemes of £6.5m (including £2.0m of depreciation and additional asset maintenance costs of £4.5m relating to the increased emphasis on maintenance in the 2010-2015 (K5) investment programme) were offset by £4.4m of efficiency savings, increased property disposals of £1.4m and £0.3m of other savings. In addition, the adoption of IFRIC 18 "Transfers of assets from customers" resulted in £1.1m costs in relation to new service connections being capitalised (reflecting the assets being created) rather than included in operating costs.

In K4 South West Water implemented a significant programme of organisational restructuring. This initiative has continued into K5 and £2.4m (H1 2009/10 - £1.9m) was incurred on restructuring in the first half of 2010/11. It is expected that a further £1.6m will be provided in the second half of 2010/11.

Profit before tax decreased by £0.4m (0.6%) to £70.2m with a net interest charge £0.1m higher than last year at £30.2m.

Capital expenditure in the half year was £40.3m compared to £71.5m in the first half of 2009/10 (which included £18.3m for the substantial K4 water mains rehabilitation project). Major investments included construction on the Exeter water treatment works flood defence scheme and infrastructure works connecting Stannon Lake (the company's fourth largest reservoir) into the distribution network. The second half capital expenditure is expected to be significantly higher.

Operational Highlights

Improving customer service and delivering operational efficiencies are at the heart of South West Water's strategy and the company is pleased to report industry-leading performances on tap water quality, security of supply and leakage.

Pure water

South West Water's customers enjoy the best tap water quality in the country which is 99.98% compliant - the national average is 99.95%. Tap water quality has been boosted by the company's £216 million water mains rehabilitation programme undertaken between 2005 and 2010 which relined or replaced over 2,200 kilometres of pipe.

2010 was the 14th consecutive summer in which there were no hosepipe bans or drought orders in the South West Water region and the company has a comprehensive strategy to ensure a continued secure supply of water for the region.

The company also makes sure as much of the treated water as possible reaches customers' taps. South West Water has met or bettered its target every year since leakage reduction targets were first set in 1999, as well as being industry-leading in terms of fewest litres lost per day per kilometre of pipe.

Pure service

South West Water's emphasis on excellent service is delivering tangible improvements for customers, reflected in reducing levels of service contacts (particularly repeat contacts). Customer satisfaction levels are rising. Service improvements undertaken in the past two years to reduce customer complaints are bearing fruit, with complaint levels falling for the second year running.

South West Water achieved its best ever Overall Performance Assessment (OPA) score of 411 for 2009/10, the highest amongst the quoted water companies. The OPA has been replaced by a new customer service measure - the Service Incentive Mechanism (SIM) - and complaint levels will be a key constituent of this. Targets in respect of this mechanism have been put in place.

Pure environment

South West Water has embarked on an innovative programme of work called 'Upstream Thinking' to improve raw water quality in a sustainable way. Improved raw water quality will reduce the amount we need to spend on chemicals and treatment processes, as well as having important spin-off benefits for the environment. Work to re-wet uplands, restore grasslands and revise farming practices is under way and by working with farmers, environmental bodies and statutory bodies the company aims to achieve multiple benefits.

The region features the highest proportion of high quality rivers in England. Of the 144 bathing waters in the South West Water region, 139 or 96.5% achieved good status (mandatory standard), of which 130 or 90.3% achieved excellent status (guideline standard) in the 2010 bathing water season. This compares with 139 or 96.5% good (mandatory), of which 121 or 84% achieved excellent (guideline) the previous year.

Efficiency

A strong start has been made towards achieving the step change in the target operating cost. The company is seeking to front-end load delivery of efficiencies of 2.8% per annum targeted for K5. Some £4.4m, equal to 6.1% p.a., of operating cost efficiencies were delivered in the first half of 2010/11. This is being achieved through changing operational ways of working; right-sourcing and innovative contracting arrangements; energy procurement and reduced usage; and the re-alignment of administration and support services.

South West Water has now purchased 94% of its K5 energy requirements at a lower market price than that assumed in the Final Determination.

Performance on the K5 capital programme, with its increased emphasis on maintenance of existing assets (66% of total compared to 43% in K4), is being targeted to achieve 5% outperformance of the Final Determination. South West Water continues to deliver capital projects in line with Ofwat, Drinking Water Inspectorate and Environment Agency expectations. Stable serviceability was maintained for all service areas.

Overall customer debt cash collections were stable despite the difficult economic environment. Whilst there is a marginal increase in the bad debt charge, as a percentage of revenue raised it is consistent with the prior year end.

Focus for K5

The focus for K5 is to continue to strike the right balance for investors, customers and other stakeholders. The company has already delivered substantial efficiencies over the last two decades and will continue to focus on delivering further efficiency whilst satisfying its regulatory demands and improving services to its customers.

The South West Water strategy :

- targets outperformance of the regulatory contract
- continues to rigorously control costs
- delivers investment through increased capital maintenance that will secure operating cost savings and protect the service improvements made over the last 20 years whilst preparing for future increased investment requirements.

VIRIDOR

Strategy

Viridor’s strategy is to grow and add value by proactively developing new recycling operations to meet ambitious EU/UK targets; successfully exploiting the huge potential in waste-based renewable energy generation; and capitalising on its strong position in landfill waste disposal.

Financial Highlights

Revenue was up 17% to £363.1m, of which the acquisitions in 2009 of London Recycling and Intercontinental Recycling and in 2010 the Reconomy recycling companies accounted for £17.8m. Existing business increased by £35.5m (including an increase in landfill tax collected of £8.2m).

Viridor’s earnings before interest, tax, depreciation and amortisation (EBITDA) rose 1% to £55.6m. PBIT increased by 4% to £33.4m. PBIT plus joint ventures increased 16% to £38.4m, reflecting the joint venture projects, Lakeside and Viridor Laing Greater Manchester.

Profit before tax at £28.6m was up 29% on the previous half year.

Capital expenditure for the half year was £30.5m (2009/10 - £26.4m). In addition, £7.2m was invested in joint ventures (H1 2009/10 - £22.5m).

Landfill

Total landfill disposal volumes decreased by 0.3m tonnes (12%) to 1.8m tonnes in the half year primarily as a result of increased recycling and landfill diversion by our third party industrial and commercial customers. The recession was also a factor. Average gate fees increased by 0.4% to £21.76 per tonne. Consented landfill void reduced from 77m cubic metres at 31 March 2010 to 73m cubic metres at 30 September 2010, reflecting usage during the period and the lapse of planning permission at a redundant site.

Contracts & Other

Profits in “contracts and other” increased 35% with significant contributions from Lakeside local authority volumes and various PFI/PPP contracts. Other municipal contracts were also ahead, more than offsetting reduced profits from sludge contracts.

Recycling

The UK is required under the EU Landfill Directive to reduce the amount of biodegradable municipal waste going to landfill sites. (Municipal waste accounts for around one third of Viridor’s landfill market. The alternatives to landfill sites for final waste disposal in the UK are currently limited.) To meet the requirements of the Landfill Directive, local authorities have been set statutory targets by the Government for the recycling of household waste and must also implement strategies for the diversion of biodegradable municipal waste away from landfill. The Chancellor’s Budget announcement of 22 June 2010, continuing the increase in landfill tax of £8 a year from £48 per tonne currently to £80 per tonne in 2014/15, will further enhance the long-term economics of recycling and energy recovery. In addition, recyclate costs are typically significantly lower than the cost of using virgin materials for manufacturers.

Overall recycling revenues per tonne in H1 2010/11 were very strong and back to the peak levels seen in the first half of 2008/09. Recycling volumes traded increased by 175k tonnes (25%) to a little over 0.9m tonnes, with an improved recyclate mix. Underlying volume growth was 18% - 119k tonnes of the increase came from the existing business (53k tonnes from acquisitions). Profits per tonne are appreciably higher in recycling than from landfill.

Viridor is now the largest operator of Materials Recycling Facilities (MRFs) in the UK. In June 2010 the company acquired a number of companies known as ‘Reconomy Recycling Solutions’ (Reconomy), a leading regional materials recycling business, for a consideration of £23.8m on a debt-free basis. The business operates in East Anglia and the South Midlands, and comprises MRFs in Wellingborough (near Northampton), Soham (Cambridgeshire) and Corby (Northants), along with associated collection and transfer activities. It produces approximately 150,000 tones of recycled material per annum. In November, after the half year end, we acquired Pearsons Group Holdings Limited, a leading materials recycling company in East Anglia, for £16m on a debt-free basis. The business operates materials reclamation and associated facilities at Thetford in Norfolk. Its total input volumes are around 50,000 tonnes per annum and it has recently upgraded its facilities to a combined licensed capacity of 139,000 tonnes. Both acquisitions have an excellent geographic and business fit with Viridor's existing operations in the East of England and are expected to be earnings enhancing before amortisation of intangibles in their first full year.

Demonstrating how the company has transformed its recycling, renewable energy and resource management capabilities, Viridor was named Recycling and Waste Management Business of the Year in July at the National Recycling Awards 2010, the industry's leading awards for best practice. Circa 45% of Viridor's profits are now from recovering value in waste, either by recycling or renewable energy generation.

Renewable Energy Generation – Landfill Gas Power Generation

Viridor's landfill gas power generation output increased by a further 3% to 280 Gigawatt hours (GWh) (the figure excludes a small amount of sub-contract capacity in Suffolk) during the half year. All of the increase was accredited for full Renewables Obligation Certificates (ROCs). As previously highlighted, we sold forward at peak prices in May 2008 to March 2010 to take advantage of favourable market conditions; these very high price contracts have now ended leading to reduced prices this year. Average revenues per Megawatt hour (MWh) fell by 15% to £69 per MWh from £82 per MWh at 30 September 2009. At 30 September 2010, our landfill gas power generation operational capacity was 103MW, (excluding Suffolk sub-contract of 3MW), of which 64% was eligible for ROCs. The remaining 36% is NFFO contracts apart from a small amount which is sub-contracted. Viridor's NFFO contracts end in tranches, after which the capacity can transfer to ROCs (about 60% will move across in 2013/14 with the balance between 2011/12 and 2016/17).

Waste and Renewable Energy

Energy recovery from waste currently accounts for around 25% of total UK renewable energy (20% from landfill gas and 5% from thermal treatment). This 25% equates to 1.5% of total UK electricity production (from both renewable and non-renewable sources). Viridor sees huge potential for increased energy generation from waste and estimates that waste could account for a total of 6% of total UK electricity generation by 2015 compared to 1.5% at present. We have called upon the new Government to set this as a UK target.

Viridor's total operational capacity is currently 130MW with around a further 110MW consented but not operational (these figures include joint venture capacity on a pro rata basis). As outlined below, Viridor is targeting total renewable energy capacity of 300MW plus in five years' time.

In addition to the 103MW of landfill gas capacity, Viridor operates energy from waste facilities and is pursuing a number of other renewable energy opportunities :

- The **Lakeside** joint venture with Grundon Waste Management comprises a 410,000 tonnes per annum and up to 37MW EfW plant at Colnbrook, near Heathrow. The project was handed over by the contractors to Lakeside Energy from Waste in January 2010 and is operational and trading profitably.

- The Greater Manchester Waste PFI subcontract includes the existing **Bolton** EfW facility (120,000 tonnes per annum, 9MW).

- Planning permission was achieved in September 2008 and preliminary works are under way for both phases of the 750,000 tonnes, 120MW **Runcorn/Ineos Chlor** EfW/CHP plant.

- Planning permission has been achieved for the 60,000 tonnes, 3MW **Exeter** EfW. The contract is being finalised.

- Planning permission has also been achieved for the 350,000 tonnes, 30MW plant at **Trident Park, Cardiff.**

- Oxfordshire County Council has resolved to grant planning permission for the 300,000 tonnes, 24MW plant at **Ardley, near Oxford** and is awaiting the Secretary of State's consideration.

- Other possible long-term EfW opportunities include plants at **Dunbar** and **Avonmouth** (both have had planning permission turned down locally and are being appealed) and near **Plymouth**.

- Construction of four anaerobic digestion (AD) plants for **Greater Manchester** totalling 8MW of electricity has commenced. Planning permission has also been obtained for two further plants at **Beddington (near Croydon)** and **Walpole (Somerset)**.

Council Contracts/PPPs/PFIs

The increasing landfill tax referred to above is the fundamental driver behind Viridor's increasing business with councils, including Public Private Partnership (PPP) and Private Finance Initiative (PFI) and other contracts. This is a key part of Viridor's strategy.

Financial Close on the Greater Manchester Waste PFI 25-year contract was achieved in April 2009. It is the UK's largest ever combined waste and renewable energy project, managing 1.3m tonnes of waste per year. The total potential energy generation is approaching 140MW, including Phases I and II of the Runcorn plant, the four AD plants and the existing 9MW Bolton EfW plant noted above.

Viridor Laing (Greater Manchester) Limited (VLGM) is a joint venture between Viridor and John Laing Infrastructure. Operation of the associated facilities (both existing facilities and those which are to be developed) is being carried out on a sub-contract basis by Viridor. In October 2009 it was confirmed that all required VLGM facilities planned for development had received planning permission. As of 30 September 2010, 29 of these 42 facilities had been completed and handed over to Viridor to operate.

In October 2010 Viridor signed the Engineering Procurement and Construction (EPC) contract for the second phase of the Runcorn plant. Phase I is being built primarily for the Greater Manchester Waste PFI contract and Phase II will be available for the market generally, as steeply rising landfill tax drives residual waste disposal away from landfill towards EfW. Phase II will come on stream in 2014/15 when landfill tax will hit £80 per tonne.

The Greater Manchester Waste PFI project was listed among the top 100 infrastructure projects worldwide in Infrastructure Journal/KPMG global review and was winner of the social infrastructure category for its "world-class facilities".

In addition to the above contracts, Viridor continues to bid selectively for other PPP projects. It is preferred bidder for **Oxfordshire**; provisional preferred bidder for **Cheshire**; and one of the last two for the **South West Devon Waste Partnership** and the **South Lanarkshire** projects. Viridor is also one of the last three for the **South London Waste Partnership** and the **Peterborough EfW** and **MRF** contracts; one of four still in the bidding for **Gloucestershire**; and one of five in **South East Wales**. Most of these contracts include renewable energy plants and recycling opportunities and some also will have Combined Heat and Power.

The Government recently announced the withdrawal of PFI credits from seven major local authority waste treatment projects. Viridor is bidding for some of these and believes that steeply increasing landfill tax is the fundamental driver of the proposed investments which will be needed, with or without PFI credits. The cuts outlined in the Government's spending review may lead to some delays or changes in the nature of the contracts (PPP versus merchant facilities).

GROUP FINANCIAL POSITION

The Group funding strategy utilises a mix of fixed, floating and index-linked rate borrowings. A substantial portion of debt is finance leasing which provides a long maturity profile and secured credit margins.

The Group has now fixed or put in place swaps to fix the interest rate on at least 50% of South West Water's net debt for the entire K5 period. The average rate achieved on the fixed rate debt is circa 3.8%. In addition, £354m of South West Water's debt is index-linked at an overall real rate of 1.66%. The Group's average interest rate is impacted by the cost of carry of pre-funding, with interest rates on cash deposits currently at very low levels. SWW's average rate for H1 2010/11 comprises debt interest of 3.6% and pre-funding costs of 0.4%. Pennon Group Plc incurred net interest costs of £2.1m, reflecting funding raised to support future Viridor investment.

The Group had a strong liquidity and funding position as at 30 September 2010 and is well placed in current financial market conditions :

- cash balances of £540m (SWW £331m), including £86m restricted cash
- committed undrawn facilities of £250m

During the six months to 30 September 2010 the following finance initiatives were implemented :

- replacement of £100m Put Bond with £150m 2040 $5^{7}/_{8}$% Bond
- renewal of £75m term loans
- £100m of new term loans and RCFs

In addition to the above EIB funding of £125m is currently under negotiation.

Circa £200m of SWW debt will mature over the rest of K5 (this is just over 11% of SWW's gross debt and equivalent to only 8% of RCV) and only £290m is due to mature over K6.

The fair value benefit (ie the difference between the book value and fair value of Group debt) has reduced over the half year from £289m at 31 March 2010 to £218m at 30 September 2010. The Group's average debt maturity remains at 23 years.

PENSIONS

The Group's defined benefit pension schemes had a deficit (net of deferred tax) under IAS 19 at 30 September 2010 of circa £84m (£115m gross).

The net deficit represents less than 4% of current market capitalisation.

Schemes' assets increased from £402m to £409m and schemes' fund liabilities have increased from £510m to £524m.

An Actuarial Valuation as at 31 March 2010 is currently under way.

TAXATION

The mainstream corporation tax charge for the half year was £22.2m (H1 2009/10 – £23.1m) giving a mainstream effective current tax rate of 23% (H1 2009/10 – 24%).

Deferred tax for the half year was a credit of £13.1m (H1 2009/10 charge – £3.0m) which included a credit of £12.3m from the impact of the reduction in the rate of corporation tax from April 2011.

On 16 November 2010, as part of the PwC Building Public Trust Awards, Pennon Group Plc won the "Tax Reporting in the FTSE 250 Award". The awards reward commitment of the largest listed companies in the UK to communicating their sustainable performance. The tax award recognises the most transparent disclosure of tax strategy, tax performance and the wider impact of tax.

PRINCIPAL RISKS AND UNCERTAINTIES

In accordance with DTR 4.2.7 of the Disclosure and Transparency Rules the principal risks and uncertainties for the remaining six months of the financial year of the Group are : variations in RPI impacting the cost of SWW index-linked borrowings; reductions in waste volumes generally arising from weak economic conditions and specific impacts on landfill arising from the impact of the UK Government's waste strategy; changing recyclate prices driven by global supply/demand trends as outlined above; and increased pension net liabilities due to market forces affecting liabilities and investment value. The other principal risks and uncertainties facing the Group are set out on pages 21, 26-27 and 30-31 of the Group's 2010 Annual Report and Accounts which can be viewed on or downloaded from the Group's website, pennon-group.co.uk/investor/reports, or obtained from the Company Secretary at the Company's registered office.

STRATEGY AND PROSPECTS

The Pennon Board's priority continues to be the creation of shareholder value through its strategic focus on water and sewerage services; waste management; recycling; and renewable energy.

South West Water has successfully delivered the K4 regulatory contract and has made a strong start to K5. Viridor expects to continue to deliver strong long-term growth through successfully leading the way in exploiting opportunities arising from the Government's landfill diversion, recycling and renewable energy targets – circa 45% of its profits already come from recovering value in waste.

Ken Harvey
Chairman
24 November 2010

FINANCIAL TIMETABLE FOR THE YEAR ENDED 31 MARCH 2011

19 January 2011	Ordinary shares quoted ex dividend
21 January 2011	Record date for interim cash dividend
February 2011	Interim Management Statement
11 March 2011	Scrip election date for interim dividend
1 April 2011	Interim cash dividend payment date
24 May 2011	2010/11 Preliminary Results
Late June / early July	Annual Report & accounts published
28 July 2011 *	Annual General Meeting
August 2011	Interim Management Statement
10 August 2011 *	Ordinary shares quoted ex dividend
12 August 2011 *	Record date for final cash dividend
19 September 2011 *	Scrip election date for final dividend
7 October 2011 *	Final cash dividend payment date

* These dates are provisional and, in the case of the final dividend, subject to obtaining shareholder approval at the 2011 Annual General Meeting.

CAUTIONARY STATEMENT IN RESPECT OF FORWARD-LOOKING STATEMENTS

This Half Year Report contains forward-looking statements relating to the Pennon Group's operations, performance and financial position based on current expectations of, and assumptions and forecasts made by, Pennon Group management. Various known and unknown risks, uncertainties and other factors could lead to substantial differences between the actual future results, financial situation development or performance of the Group and the estimates and historical results given herein. Undue reliance should not be placed on forward-looking statements which are made only as of the date of this document. Nothing in this report should be construed as a profit forecast. The Group accepts no obligation publicly to revise or update these forward-looking statements or adjust them as a result of new information or for future events or developments, except to the extent legally required.

PENNON GROUP PLC

Consolidated income statement for the half year ended 30 September 2010

	Note	**Unaudited** **Half year ended 30 September 2010 £m**	Unaudited Half year ended 30 September 2009 (Restated note 4) £m	Year ended 31 March 2010 (Restated note 4) £m
Revenue	5	**593.2**	535.5	1,068.9
Operating costs				
Manpower costs		**(73.9)**	(66.6)	(137.3)
Raw materials and consumables used		**(39.5)**	(33.2)	(76.3)
Other operating expenses		**(275.6)**	(232.6)	(453.6)
Depreciation and amortisation		**(70.9)**	(69.8)	(135.4)
Operating profit	5	**133.3**	133.3	266.3
Finance income	6	**21.9**	17.0	34.4
Finance costs	6	**(60.9)**	(54.7)	(116.0)
Share of post-tax profit/(loss) from joint ventures		**1.9**	(0.1)	1.1
Profit before tax	5	**96.2**	95.5	185.8
Taxation	7	**(9.1)**	(26.1)	(44.3)
Profit for the period		**87.1**	69.4	141.5
Profit attributable to equity shareholders		**87.1**	69.4	141.5
Earnings per share (pence per share)	8			
- Basic		**24.7**	19.9	40.4
- Diluted		**24.5**	19.8	40.3

The notes on pages 25 to 35 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of comprehensive income for the half year ended 30 September 2010

	Unaudited		
	Half year ended 30 September 2010	Half year ended 30 September 2009 (Restated note 4)	Year ended 31 March 2010 (Restated note 4)
	£m	£m	£m
Profit for the period	**87.1**	69.4	141.5
Other comprehensive income/(loss)			
Actuarial losses on defined benefit pension schemes	**(5.9)**	(54.7)	(44.4)
Cash flow hedges			
Net fair value (losses)/gains	**(21.9)**	6.1	-
Share of other comprehensive loss from joint ventures	**(1.9)**	-	(3.2)
Tax on items taken directly to or transferred from equity	**6.8**	15.3	17.4
Other comprehensive loss for the period net of tax	**(22.9)**	(33.3)	(30.2)
Total comprehensive income for the period	**64.2**	36.1	111.3
Total comprehensive income attributable to equity shareholders	**64.2**	36.1	111.3

The notes on pages 25 to 35 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated balance sheet at 30 September 2010

	Note	Unaudited 30 September 2010 £m	Unaudited 30 September 2009 (Restated note 4) £m	31 March 2010 (Restated note 4) £m
ASSETS				
Non-current assets				
Goodwill		**270.9**	250.8	256.6
Other intangible assets		**4.8**	4.8	5.1
Property, plant and equipment		**2,842.0**	2,809.3	2,825.8
Other non-current assets		**88.0**	72.3	101.0
Derivative financial instruments		**-**	0.7	-
Investments in joint ventures		**0.2**	2.2	0.2
		3,205.9	3,140.1	3,188.7
Current assets				
Inventories		**6.6**	6.7	6.4
Trade and other receivables		**234.3**	217.0	194.7
Derivative financial instruments		**3.7**	-	3.4
Cash and cash deposits	12	**539.5**	427.8	493.9
		784.1	651.5	698.4
LIABILITIES				
Current liabilities				
Borrowings	12	**(77.8)**	(316.9)	(229.0)
Derivative financial instruments		**(1.2)**	(0.9)	(3.6)
Trade and other payables		**(257.4)**	(250.8)	(196.0)
Current tax liabilities		**(85.6)**	(54.8)	(83.8)
Provisions		**(17.5)**	(21.9)	(23.9)
		(439.5)	(645.3)	(536.3)
Net current assets		**344.6**	6.2	162.1
Non-current liabilities				
Borrowings	12	**(2,338.7)**	(2,008.8)	(2,160.2)
Other non-current liabilities		**(17.2)**	(27.5)	(16.0)
Derivative financial instruments		**(38.0)**	(12.7)	(14.1)
Retirement benefit obligations		**(115.1)**	(129.1)	(107.9)
Deferred tax liabilities		**(291.6)**	(314.2)	(311.5)
Provisions		**(77.1)**	(77.8)	(78.2)
		(2,877.7)	(2,570.1)	(2,687.9)
Net assets		**672.8**	576.2	662.9
Shareholders' equity				
Share capital	10	**145.9**	144.5	145.3
Share premium account		**10.3**	11.7	10.9
Capital redemption reserve		**144.2**	144.2	144.2
Retained earnings and other reserves		**372.4**	275.8	362.5
Total shareholders' equity		**672.8**	576.2	662.9

The notes on pages 25 to 35 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of changes in equity

	Share capital (note 10) £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves (Restated note 4) £m	Total equity (Restated note 4) £m
					Unaudited
At 1 April 2009	144.5	11.7	144.2	300.2	600.6
Profit for the period	-	-	-	69.4	69.4
Other comprehensive loss for the period	-	-	-	(33.3)	(33.3)
Total comprehensive income for the period	-	-	-	36.1	36.1
Transactions with equity shareholders					
Dividends paid or approved	-	-	-	(73.4)	(73.4)
Adjustment in respect of share-based payments	-	-	-	1.3	1.3
Equity component of convertible bond issued	-	-	-	10.0	10.0
Proceeds from treasury shares re-issued	-	-	-	1.6	1.6
	-	-	-	(60.5)	(60.5)
At 30 September 2009	144.5	11.7	144.2	275.8	576.2

	Share capital (note 10) £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Total equity £m
					Unaudited
At 1 April 2010	145.3	10.9	144.2	362.5	662.9
Profit for the period	-	-	-	87.1	87.1
Other comprehensive loss for the period	-	-	-	(22.9)	(22.9)
Total comprehensive income for the period	-	-	-	64.2	64.2
Transactions with equity shareholders					
Dividends paid or approved	-	-	-	(79.6)	(79.6)
Adjustment for shares issued or to be issued under the scrip dividend alternative	0.6	(0.6)	-	22.8	22.8
Adjustment in respect of share-based payments	-	-	-	1.2	1.2
Proceeds from treasury shares re-issued	-	-	-	1.3	1.3
	0.6	(0.6)	-	(54.3)	(54.3)
At 30 September 2010	**145.9**	**10.3**	**144.2**	**372.4**	**672.8**

The notes on pages 25 to 35 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of cash flows for the half year ended 30 September 2010

	Note	**Unaudited** **Half year ended 30 September 2010**	Unaudited Half year ended 30 September 2009 (Restated note 4)	Year ended 31 March 2010 (Restated note 4)
		£m	£m	£m
Cash flows from operating activities				
Cash generated from operations	11	**187.8**	180.9	365.4
Interest paid		**(43.5)**	(30.1)	(84.2)
Tax paid		**(20.4)**	(13.1)	(3.8)
Net cash generated from operating activities		**123.9**	137.7	277.4
Cash flows from investing activities				
Interest received		**6.4**	6.5	14.5
Acquisition of subsidiary undertakings (net of cash and debt acquired)		**(5.3)**	(9.3)	(9.3)
Investment in joint ventures		**-**	(0.1)	(0.1)
Loans advanced to joint ventures		**(7.2)**	(22.5)	(30.7)
Proceeds from business disposal		**-**	1.0	-
Purchase of property, plant and equipment		**(71.1)**	(102.8)	(197.2)
Proceeds from sale of property, plant and equipment		**2.6**	0.8	3.5
Net cash used in investing activities		**(74.6)**	(126.4)	(219.3)
Cash flows from financing activities				
Proceeds from treasury shares re-issued		**1.3**	1.6	1.9
Convertible bond issued (net proceeds)		**-**	121.9	121.9
Return/(deposit) of restricted funds		**5.4**	(52.3)	(73.3)
Proceeds from new borrowing		**132.0**	-	237.2
Repayment of borrowings		**(98.9)**	(42.7)	(234.9)
Finance lease sale and leaseback		**-**	12.8	38.9
Finance lease principal repayments		**(13.3)**	(5.4)	(18.5)
Dividends paid		**(17.5)**	(23.6)	(63.8)
Net cash received from financing activities		**9.0**	12.3	9.4
Net increase in cash and cash equivalents		**58.3**	23.6	67.5
Cash and cash equivalents at beginning of period	12	**389.5**	322.0	322.0
Cash and cash equivalents at end of period	12	**447.8**	345.6	389.5

The notes on pages 25 to 35 form part of this condensed half year financial information.

PENNON GROUP PLC

Notes to the condensed half year financial information

1. General information

Pennon Group Plc is a company registered in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 35. Pennon Group's business is operated through two main subsidiaries. South West Water Limited holds the water and sewerage appointments for Devon, Cornwall and parts of Dorset and Somerset. Viridor Limited's business is waste management, recycling and renewable energy.

This condensed half year financial information was approved by the Board of Directors on 24 November 2010.

The financial information for the year ended 31 March 2010 does not constitute full financial statements within the meaning of section 434 of the Companies Act 2006. The full financial statements for that year were approved by the Board of Directors on 24 June 2010 and have been delivered to the Registrar of Companies. The independent auditors' report on these financial statements was unqualified, and did not contain a statement under section 498 of the Companies Act 2006.

2. Basis of preparation

This condensed half year financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 "Interim financial reporting" as adopted by the European Union (EU). This condensed half year financial information should be read in conjunction with the Pennon Group Plc Annual Report and Accounts for the year ended 31 March 2010, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

This condensed half year financial information has been reviewed but not audited by the independent auditors pursuant to the Auditing Practices Board guidance on the "Review of Interim Financial Information".

3. Accounting policies

Except as described below, the accounting policies adopted in this condensed half year financial information are consistent with those applied and set out in the Pennon Group Plc Annual Report and Accounts for the year ended 31 March 2010 and are also in accordance with all IFRS and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) expected to be applicable for the year ended 31 March 2011 in issue which have been adopted by the European Union.

The tax charge for September 2010 and September 2009 has been derived by applying the anticipated effective annual rate to the first half year profit before tax.

The following new standard and revised standard, which are mandatory for the first time in the financial year beginning 1 April 2010, are relevant for the Group.

IFRS 3 "Business combinations" (revised)

The revised standard requires all payments to purchase a business to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income. All transactions costs are to be expensed. The Group has accounted for the acquisition made in the six months to 30 September 2010 in accordance with this revised standard.

3. **Accounting policies (continued)**

IFRIC 18 “Transfers of assets from customers”

From 1 July 2009 where an item of property, plant and equipment provided by a customer, or an equivalent payment to provide such property, plant and equipment, gives access to the supply of goods or services then the asset exchanged generates revenue. The application of this interpretation has resulted in the new accounting policy below and the restatement of the comparative periods, as detailed in note 4.

Transfers of assets from customers

Where an item of property, plant & equipment that must be used to connect customers to the network is received from a customer, or where cash is received from a customer for the acquisition or construction of such an item, that asset is recorded and measured on initial recognition at its fair value. The credit created by the recognition of the asset is recognised in the income statement. The period over which the credit is recognised depends upon the nature of the service provided by the company as determined by the agreement with the customer. Where the service provided is solely a connection to the network, the credit is recognised at the point of connection. If an ongoing service is identified as part of the agreement, the period over which revenue is generally determined by the terms of the agreement with the customer. If the agreement does not specify a period, the revenue is recognised over a period no longer than the useful life of the transferred asset used to provide the ongoing service.

The following new standards and interpretations, which are mandatory for the first time in the financial year beginning 1 April 2010, are relevant but have had no material impact.

IFRS 1 “First-time adoption of IFRS” (revised)
IFRS 1 “First-time adoption of IFRS” (amendment)
IFRS 2 “Share-based payment” (amendment)
Improvements to IFRS 2009
IAS 27 “Consolidated and separated financial statements” (revised)
IAS 32 “Financial instruments: presentation” (amendment)
IAS 39 “Financial instruments: Recognition and measurement”
IFRIC 15 “Agreement for the construction of real estate”
IFRIC 16 “Hedges of a net investment in a foreign operation”
IFRIC 17 “Distribution of non-cash assets to owners”

At the date of the approval of this condensed half year financial information the following standards and interpretations, which have not been applied in this financial information, were in issue, but not yet effective :

IFRS 1 “First-time adoption of IFRS” (amendment) (limited exemption from IFRS 7 disclosure)
IFRS 9 “Financial instruments” (not yet endorsed for use in the EU)
IAS 24 “Related party disclosure” (revised)
IFRIC 19 “Extinguishing financial liabilities with equity instruments”

4. **Acquisitions and restatements**

At 30 September 2009 and 31 March 2010 the accounting for the acquisitions of London Recycling Limited (renamed Viridor London Recycling Limited) and Intercontinental Recycling Limited (renamed Viridor Polymer Recycling Limited) was provisional. Completion of the accounting for the acquisitions has resulted in an increase to goodwill of £2.2m, an increase in property, plant and equipment of £1.1m, a decrease in trade and other receivables of £0.2m, an increase in trade and other payables of £0.2m, an increase in current tax liabilities of £0.2m, an increase in provisions of £2.4m and an increase in deferred tax of £0.3m. Comparative figures at 30 September 2009 and 31 March 2010 have been restated accordingly.

4. **Acquisitions and restatements (continued)**

On 24 June 2010 the entire issued share capital of the following subsidiaries of Reconomy (Acquisition) Limited were acquired for a cash consideration of £5.3m (net of cash balances and debt acquired) by Viridor Waste Management Limited :

Oakley Waste Management Limited (renamed Viridor Waste (Corby) Limited)
Basecall Limited

These companies also own :

Alibone Recycling Limited (renamed Viridor Waste (Earls Barton) Limited)
Anglia Recycling Limited (renamed Viridor Waste (East Anglia) Limited)

The acquisitions have been accounted for using the acquisition method. Provisional goodwill of £14.3m has been capitalised.

The provisional goodwill arising on these acquisitions is attributed to the profitability of the acquired business and the anticipated future operating synergies arising from the combination.

Acquisition since 30 September 2010

On 4 November 2010 the entire issued share capital of Pearsons Group Holdings Limited was purchased by Viridor Waste Management Limited for a cash consideration of £14.9m (excluding debt acquired). The acquisition will be accounted for using the acquisition method in the 2010/11 financial year.

Restatements

The application of IFRIC 18, effective from 1 July 2009, has resulted in the following restatements to the financial information presented for 30 September 2009 and 31 March 2010. At 30 September 2009 the impacts were a decrease in other operating expenses of £0.7m (31 March 2010 £2.0m) increasing profit in the period by £0.7m (31 March 2010 £2.0m) and an increase in property, plant and equipment of £0.7m (31 March 2010 £2.0m).

The consolidated statement of cash flows for the half year ended 30 September 2009 has been reanalysed to include loans advanced to joint ventures as an investing activity, previously disclosed as a working capital movement.

In addition at 31 March 2010, the application of IFRIC12 “Service concession arrangements” accounting was completed. Comparative amounts at 30 September 2009 have been restated accordingly, resulting in an increase in the deferred tax liability of £1.3m and a decrease in opening retained earnings of £1.3m.

Notes to the condensed half year financial information (continued)

5. **Operating segments**

Operating segments are reported in a manner consistent with internal reporting provided to the Chief Operating Decision-Maker, which has been identified as the Pennon Group Plc Board.

	Unaudited		
	Half year ended 30 September 2010	Half year ended 30 September 2009 (Restated note 4)	Year ended 31 March 2010 (Restated note 4)
	£m	£m	£m
Revenue			
Water and sewerage	**230.9**	226.5	444.2
Waste management	**363.1**	309.8	626.5
Other	**5.2**	4.6	8.5
Less intra-segment trading *	**(6.0)**	(5.4)	(10.3)
	593.2	535.5	1,068.9
Segment result			
Operating profit before depreciation and amortisation (EBITDA)			
Water and sewerage	**149.3**	147.6	287.1
Waste management	**55.6**	55.0	114.8
Other	**(0.7)**	0.5	(0.2)
	204.2	203.1	401.7
Operating profit			
Water and sewerage	**100.4**	100.7	193.5
Waste management	**33.4**	32.0	72.8
Other	**(0.5)**	0.6	-
	133.3	133.3	266.3
Profit before tax			
Water and sewerage	**70.2**	70.6	129.5
Waste management	**28.6**	22.2	55.1
Other	**(2.6)**	2.7	1.2
	96.2	95.5	185.8

* 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.

Factors such as seasonal weather patterns can affect sales volumes, income and costs in both the water and sewerage and waste management segments.

PENNON GROUP PLC

Notes to the condensed half year financial information (continued)

6. Net finance costs

	Unaudited		
	Half year ended 30 September 2010 £m	Half year ended 30 September 2009 £m	Year ended 31 March 2010 £m
Finance income			
Interest receivable	**2.6**	3.4	6.1
Interest receivable on shareholder loans to joint ventures	**3.1**	1.2	3.1
Interest receivable on service concession arrangements	**1.5**	1.4	2.7
Expected return on defined benefit pension schemes' assets	**14.7**	11.0	22.5
	21.9	17.0	34.4
Finance costs			
Bank and other borrowings	**(28.3)**	(17.3)	(41.6)
Interest element of finance lease rentals	**(15.8)**	(23.0)	(45.7)
Other finance costs	**(0.8)**	(0.7)	(2.2)
Interest cost on retirement benefit obligations	**(13.9)**	(12.6)	(24.8)
Unwinding of discounts on provisions	**(2.1)**	(2.0)	(3.8)
	(60.9)	(55.6)	(118.1)
Net gains/(losses) on derivative instruments :			
Ineffectiveness on derivatives designated as cash flow hedges	**-**	(0.2)	-
On derivatives deemed held for trading	**-**	1.1	2.1
	(60.9)	(54.7)	(116.0)
Net finance costs	**(39.0)**	(37.7)	(81.6)

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Notes to the condensed half year financial information (continued)

7. **Taxation**

	Unaudited		
	Half year ended 30 September 2010 £m	Half year ended 30 September 2009 £m	Year ended 31 March 2010 £m
Analysis of charge :			
UK corporation tax	**22.2**	23.1	43.0
Deferred tax – other	**(0.8)**	3.0	1.3
Deferred tax arising on change of rate of corporation tax	**(12.3)**	-	-
Total deferred tax (credit)/charge	**(13.1)**	3.0	1.3
	9.1	26.1	44.3

UK corporation tax is calculated at 28% (2010 28%) of the estimated assessable profit for the year. The tax charge for September 2010 and September 2009 has been derived by applying the anticipated effective annual tax rate to the first half year profit before tax.

Deferred tax includes a non-recurring credit of £12.3m reflecting the reduction in the rate of UK corporation tax from 28% to 27% effective from 1 April 2011.

The effective tax rate for the period was 23% and after the deferred tax credit 9%.

Tax on amounts included in the consolidated statement of comprehensive income, or directly in equity, is included in those statements respectively.

8. **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.

The weighted average number of shares and earnings used in the calculations were:

	Unaudited		
	Half year ended 30 September 2010	Half year ended 30 September 2009	Year ended 31 March 2010
Number of shares (millions)			
For basic earnings per share	**353.0**	348.8	350.0
Effect of dilutive potential ordinary shares from share options	**2.3**	1.5	1.5
For diluted earnings per share	**355.3**	350.3	351.5

Notes to the condensed half year financial information (continued)

8. Basic and diluted earnings per share (continued)

Underlying basic and diluted earnings per share

Underlying earnings per share are presented to provide a more useful comparison on business trends and performance. The term underlying is not a defined term under IFRS and may not be comparable with a similarly titled profit measure reported by other companies. Underlying earnings have been calculated:

	Unaudited								
	Half year ended 30 September 2010			Half year ended 30 September 2009 (Restated note 4)			Year ended 31 March 2010 (Restated note 4)		
	Profit after tax	**Earnings per share**		Profit after tax	Earnings per share		Profit after tax	Earnings per share	
		Basic	**Diluted**		Basic	Diluted		Basic	Diluted
	£m	**p**	**p**	£m	p	p	£m	p	p
Statutory earnings per share	**87.1**	**24.7**	**24.5**	69.4	19.9	19.8	141.5	40.4	40.3
Deferred tax	**(13.1)**	**(3.7)**	**(3.7)**	3.0	0.8	0.8	1.3	0.4	0.4
Underlying earnings per share	**74.0**	**21.0**	**20.8**	72.4	20.7	20.6	142.8	40.8	40.7

PENNON GROUP PLC

Notes to the condensed half year financial information (continued)

9. Dividends

Amounts recognised as distributions to equity holders in the period :	**Unaudited**		
	Half year ended 30 September 2010 £m	Half year ended 30 September 2009 £m	Year ended 31 March 2010 £m
Interim dividend paid for the year ended 31 March 2010 : 6.95p (2009 6.75p) per share	**24.5**	23.6	23.6
Final dividend approved for the year ended 31 March 2010 : 15.60p (2009 14.25p) per share	**55.1**	49.8	49.8
	79.6	73.4	73.4

Proposed interim dividend	**Unaudited**		
	Half year ended 30 September 2010 £m	Half year ended 30 September 2009 £m	Year ended 31 March 2010 £m
Proposed interim dividend for the year ended 31 March 2011 : 7.50p (2010 6.95p) per share	**26.8**	24.5	24.5

The proposed interim dividend has not been included as a liability in this condensed half year financial information.

The interim dividend of 7.50p per share will be paid on 1 April 2011 to shareholders on the register on 21 January 2011.

10. **Share capital**

Allotted, called up and fully paid

1 April 2009 to 30 September 2009	Number of shares		
	Treasury shares	Ordinary shares	£m
At 1 April 2009 Ordinary shares of 40.7p each	5,724,131	349,440,143	144.5
For consideration of £1.6m, shares re-issued under the Company's Sharesave Scheme	(557,854)	557,854	-
At 30 September 2009 ordinary shares of 40.7p each	5,166,277	349,997,997	144.5

1 April 2010 to 30 September 2010	Number of shares		
	Treasury shares	Ordinary shares	£m
At 1 April 2010 Ordinary shares of 40.7p each	5,092,574	352,058,253	145.3
Shares issued under the scrip dividend alternative	-	1,440,813	0.6
Shares re-issued under the Company's Performance and Co-investment Plan	(328,240)	328,240	-
For consideration of £1.3m, shares re-issued under the Company's Sharesave Scheme	(390,168)	390,168	-
At 30 September 2010 ordinary shares of 40.7p each	**4,374,166**	**354,217,474**	**145.9**

Shares held as treasury shares may be sold, re-issued for any of the Company's share schemes, or cancelled.

The weighted average market price of the Company's shares at the date of exercise of Sharesave Scheme options during the half year was 577p (2009 462p).

PENNON GROUP PLC

Notes to the condensed half year financial information (continued)

11. Cash flow from operating activities

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

	Unaudited		
	Half year ended 30 September 2010	Half year ended 30 September 2009 (Restated note 4)	Year ended 31 March 2010 (Restated note 4)
Cash generated from operations	**£m**	£m	£m
Profit for the period	**87.1**	69.4	141.5
Adjustments for:			
Employee share schemes	**1.2**	1.3	2.8
Profit on disposal of property, plant and equipment	**(1.6)**	(0.4)	(3.6)
Depreciation charge	**70.6**	69.2	135.1
Amortisation of intangible assets	**0.3**	0.6	0.3
Share of post-tax (profit)/loss from joint ventures	**(1.9)**	0.1	(1.1)
Finance income	**(21.9)**	(17.0)	(34.4)
Finance costs	**60.9**	54.7	116.0
Taxation charge	**9.1**	26.1	44.3
Changes in working capital *(excluding the effect of acquisition of subsidiaries) :*			
(Increase)/decrease in inventories	**(0.1)**	-	0.3
Increase in trade and other receivables	**(19.3)**	(34.1)	(32.4)
Increase in trade and other payables	**8.5**	11.5	9.3
Increase/(decrease) in retirement benefit obligations	**2.1**	4.7	(4.8)
Decrease in provisions	**(7.2)**	(5.2)	(7.9)
Cash generated from operations	**187.8**	180.9	365.4

12. Net borrowings

	Unaudited		
	30 September 2010	30 September 2009	31 March 2010
	£m	£m	£m
Cash and cash deposits	**539.5**	427.8	493.9
Borrowings – current			
Bank overdrafts	**(5.4)**	(11.5)	(12.7)
Other current borrowings	**(52.6)**	(274.1)	(184.1)
Finance lease obligations	**(19.8)**	(31.3)	(32.2)
Total current borrowings	**(77.8)**	(316.9)	(229.0)
Borrowings – non-current			
Bank and other loans	**(879.7)**	(539.2)	(681.5)
Other non-current borrowings	**(258.5)**	(276.1)	(273.6)
Finance lease obligations	**(1,200.5)**	(1,193.5)	(1,205.1)
Total non-current borrowings	**(2,338.7)**	(2,008.8)	(2,160.2)
Total net borrowings	**(1,877.0)**	(1,897.9)	(1,895.3)

Bank overdrafts at the balance sheet dates arise from the timing of the payment of unpresented cheques.

PENNON GROUP PLC

Notes to the condensed half year financial information (continued)

12. **Net borrowings (continued)**

For the purposes of the cash flow statement cash and cash equivalents comprise:

	Unaudited		
	30 September 2010 £m	30 September 2009 £m	31 March 2010 £m
Cash and cash deposits as above	**539.5**	427.8	493.9
Bank overdrafts as above	**(5.4)**	(11.5)	(12.7)
	534.1	416.3	481.2
Less : deposits with a maturity of three months or more (restricted funds)	**(86.3)**	(70.7)	(91.7)
	447.8	345.6	389.5

13. **Capital expenditure**

	Unaudited		
	Half year ended 30 September 2010 £m	Half year ended 30 September 2009 (Restated note 4) £m	Year ended 31 March 2010 (Restated note 4) £m
Property, plant and equipment			
Additions	**70.9**	98.0	192.2
Net book value of disposals	**1.0**	0.4	13.6
Capital commitments			
Contracted but not provided	**76.9**	94.6	104.1
Share of commitment contracted but not provided by joint ventures	**130.4**	120.5	135.2

14. **Contingent liabilities**

There have been no material changes to the Group's contingent liabilities since 31 March 2010.

15. **Related party transactions**

The Group's significant related parties are its joint ventures in Lakeside Energy from Waste Holdings Limited and Viridor Laing (Greater Manchester) Holdings Limited, for which disclosures were made in the Pennon Group Plc Annual Report and Accounts for the year ended 31 March 2010. There was no material change in transactions with Lakeside Energy from Waste Holdings Limited in the period. Sales of goods and services during the period to Viridor Laing (Greater Manchester) Limited, a wholly-owned subsidiary of Viridor Laing (Greater Manchester) Holdings Limited, amounted to £42.3m (2009 £37.0m) and amounts receivable at 30 September 2010 were £34.4m (2009 £26.7m).

Pennon Group Plc
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Rydon Lane
Exeter
EX2 7HR
pennon-group.co.uk

Registered in England No 2366640

PENNON GROUP PLC

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors named below confirm on behalf of the Board of Directors that this unaudited condensed half year financial information has been prepared in accordance with IAS 34 "Interim financial reporting" as adopted by the European Union and to the best of their knowledge the interim management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8 of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the period and their impact on the unaudited condensed half year financial information; a description of the principal risks and uncertainties for the remaining six months of the current financial year; and the disclosure requirements in respect of material related party transactions.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

The Directors of Pennon Group Plc are listed on page 40 of the Annual Report and Accounts of the Company for the year ended 31 March 2010 and there have been no changes since that date.

For and on behalf of the Board of Directors

K G Harvey
Chairman

D J Dupont
Group Director of Finance

24 November 2010

PENNON GROUP PLC

INDEPENDENT REVIEW REPORT TO PENNON GROUP PLC

Introduction

We have been engaged by the Company to review the condensed half year financial information in the half-yearly financial report for the six months ended 30 September 2010, which comprises the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated statement of changes in equity, the Consolidated statement of changes in cash flows and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial information.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial information included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial information in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed half year financial information in the half-yearly financial report for the six months ended 30 September 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
24 November 2010
Bristol