

29 November 2017

Half Year Results 2017/18 for the half year ended 30 September 2017

Delivering for our customers and communities

Chris Loughlin, Pennon Chief Executive said:

“Pennon has delivered robust performance in the first half of 2017/18 across both water and waste activities. Our priority continues to be to provide an outstanding level of service to our customers and communities, while offering a sector-leading dividend policy for our shareholders. In water, our focus on cost savings means bills are lower now than they were 8 years ago, whilst at the same time we are continuing to invest significantly in our plants and distribution network. This means we have delivered significant improvements in clean water and bathing water quality and our leakage levels have halved since privatisation. Good progress is being made to bring Viridor’s remaining four energy recovery facilities in the portfolio on stream, with three in commissioning in 2017/18 and the final facility under construction. The expansion of Viridor’s Energy Recovery Facility portfolio will support Pennon’s earnings growth to 2020 and beyond.”

Financial Highlights

Underlying¹	H1 2017/18	H1 2016/17	Change
Revenue	£723.9m	£685.5m	+5.6%
EBITDA	£253.5m	£245.4m	+3.3%
Adjusted EBITDA ²	£285.8m	£277.2m	+3.1%
Operating Profit	£162.4m	£153.9m	+5.5%
Profit Before Tax (PBT)	£131.1m	£128.1m	+2.3%
Non-underlying items before tax ³	(£1.3m)	(£25.7m)	-
Statutory Profit Before Tax	£129.8m	£102.4m	+26.8%
Tax	(£17.5m)	(£13.3m)	(31.6%)
Statutory Profit After Tax (PAT)	£112.3m	£89.1m	+26.0%
Earnings per share ⁴	25.3p	23.6p	+7.2%
Statutory Earnings per share	21.8p	17.7p	+23.2%
Dividend per share ⁵	11.97p	11.09p	+7.9%

¹ Before non-underlying items. Underlying earnings are presented to provide a more useful comparison of business trends and performance

² Underlying EBITDA plus share of Joint Venture EBITDA and IFRIC 12 interest receivable

³ Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of the Group’s financial performance

⁴ Before deferred tax and non-underlying items and proportionately adjusted for the first return due on the 2017 perpetual capital securities (hybrid) in H1 2017/18 and the periodic return due March 2017 in H1 2016/17

⁵ The RPI rate used is 3.9% as of September 2017

- Underlying PBT up +2.3% following:
 - higher Water revenues driven by customer demand
 - final Bournemouth Water integration phase complete, £12 million synergies delivered in 18 months, with £27 million cumulative expected to 2020
 - growth at Viridor driven by strong performance from Energy Recovery Facilities (ERFs), availability at >90%⁶ for H1 2017/18
 - continuing group efficiencies with £11 million p.a. of the c.£17 million p.a. expected from 2019 already secured
- Strong operating cashflows, reflecting robust operational performance
- Maintaining momentum with cumulative Return on Regulated Equity (RORE) at 11.8%⁷, unique WaterShare mechanism to share transparently the benefits of outperformance in period
- Sustainable, low cost funding position underpinning continuing capital investment
- Perpetual capital securities issuance delivering balance sheet flexibility
- Statutory PBT up 26.8% to £129.8 million
- Statutory earnings per share growth of +23.2% to 21.8p
- Interim dividend per share +7.9% to 11.97p.

⁶ Including 100% of joint ventures, excluding Bolton ERF availability due to fire

⁷ See page 20

Operational Highlights

- Continued strong performance in water, customers at the heart of our delivery plans
 - Sharing outperformance with South West Water customers, cumulatively benefiting from £68 million to H1 2017/18
- Maintaining momentum on ODIs (Outcome Delivery Incentives) delivering against 33 of 36⁸. Cumulative net ODI reward of £7.0 million⁹ to H1 2017/18
- Continued strong focus on efficiency, cumulative K6 TOTEX outperformance reaches £159 million
- Pennon Water Services, one of only four associated retailers to have achieved net growth in the new competitive non-household market. Focused on value enhancing contracts
- ERFs performing well, average availability continues to be greater than 90%, with operational ERFs delivering in excess of base case expectations
- Recycling self-help measures continue, success in new Asian markets (partially mitigating impacts of China's changing quality requirements) – cautious about recycling pricing in H2 2017/18
- Long-term partnership with Greater Manchester Waste Disposal Authority continues – satisfactory financial outcome reached
- Securing further growth to support earnings
 - Three ERFs in commissioning:
 - Glasgow's Recycling and Renewable Energy Centre¹⁰. First generated electricity at the end of February 2017 with the Materials Recycling Facility (MRF) and Anaerobic Digestion (AD) plant operating through the year and ERF in final commissioning
 - Beddington and Dunbar in commissioning
 - One ERF (Avonmouth) in early stages of construction:
 - Progressing well with work on the foundations underway.

⁸ South West Water has 26 and Bournemouth Water 10 ODIs including SIM and those which end of AMP measures. 33 meeting target or within appropriate tolerances.

⁹ £7.0m cumulative net reward reflecting £9.1m net reward which will be recognised at the end of the regulatory period and £2.1m net penalty which can be reflected during the regulatory period

¹⁰ Expenditure in excess of original target by £45m as at 30 September 2017, subject to contractual recovery from previous EPC contractor.

Presentation of Results

A presentation for City audiences will be held today, Wednesday 29 November 2017, at 09.30am at the London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS.

A live webcast of the presentation can also be accessed using the following link:

<http://www.pennon-group.co.uk/investor-information>

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About Pennon Group

As one of the largest environmental infrastructure groups in the UK, Pennon is at the top end of the FTSE 250. Pennon has assets of around £6.0 billion and a workforce of around 5,000 people.

The merged water company of South West Water and Bournemouth Water provides water and wastewater services to a population of c.1.7 million in Cornwall, Devon and parts of Dorset and Somerset and water only services to c.0.5 million in parts of Dorset, Hampshire and Wiltshire.

Since 1989 South West Water has invested around £7 billion to improve water and wastewater services. This investment means that we will supply some of the best quality drinking water in the UK and have achieved record bathing water quality in recent years.

South West Water was awarded enhanced status for its 2015-2020 Business Plan, and has the highest potential returns in the water sector to 2020.

Viridor is a leading UK recycling, energy recovery and waste management company, providing services to more than 150 local authorities and major corporate clients as well as over 32,000 customers across the UK.

Pennon Water Services provides water and wastewater retail services to over 160,000 non-household customer accounts across Great Britain, and is an 80:20 venture with South Staffordshire Group.

Upcoming Events

26 March 2018	Trading Statement
25 May 2018	Full Year Results 2017/18
5 July 2018	Annual General Meeting
24 September 2018	Trading Statement
27 November 2018	Half Year Results 2018/19

10 year sector-leading dividend policy

Pennon's long established 10 year dividend policy of 4% year-on-year growth above RPI inflation to 2020 results in an expected doubling of dividend over 10 years (2010-2020)¹¹. This policy reflects the Board's confidence in our long term strategy and is underpinned by the highest potential Return on Regulated Equity in the water sector over K6 (2015-2020) and the growth in earnings being delivered by Viridor's ERFs.

For H1 2017/18, the Board has recommended an interim dividend of 11.97p, up 7.9%. The interim dividend will be paid on 4 April 2018 to shareholders on the register on 26 January 2018.

Following a review of the Group's capital structure and the successful refinancing of the perpetual capital securities the Board has decided to withdraw the scrip dividend alternative and, in its place, is offering shareholders the opportunity to invest their dividend in a Dividend Reinvestment Plan (DRIP).

Interim Dividend Payment Information:

12 January 2018	Posting of interim dividend DRIP alternative
25 January 2018	Ex-dividend date
26 January 2018	Record date
9 March 2018	Final date for receipt of DRIP applications
4 April 2018	Interim dividend payment date

PENNON BUSINESS REVIEW

Pennon's focus is on providing an outstanding level of service to our customers and communities, while creating value for our shareholders. Pennon is investing significantly in its UK water and waste infrastructure and expects capital expenditure of c. £1.7 billion between 2015 and 2020. The Group generates strong operating cash flows, and has a strong liquidity and balance sheet position, underpinning a well established sector-leading dividend policy.

Pennon continues to seek and identify further growth opportunities within the UK, assessing the long-term viability of the market and achieving an appropriate risk/reward balance. In waste, growth is predominantly coming from the portfolio of Energy Recovery Facilities and we continue to expect demand in the residual waste market to exceed capacity into the long-term. In the water business, incremental growth is being achieved through the successful merger of Bournemouth Water with combined licences and operations and a new retail venture for business customers with South Staffs/Cambridge Water which was launched on 1 April 2017.

¹¹ Future dividends growth based on policy of 4% + RPI forecast to 2020

Robust operational & financial performance in water and waste businesses

The Group has performed well in H1 2017/18, and is on track to deliver in line with management expectations for the full year 2017/18.

South West Water, including the merged Bournemouth Water, continues to deliver and outperform the sector leading business plan targets. In the 18 months since the merger £12 million of net synergies has been delivered and we are on track to deliver the c.£27 million anticipated by 2020, with back office costs reduced by c.25%, and shared best practice delivering operational improvements across the combined business.

The water business is on track to deliver against all business plan commitments, including those under financial ODIs, by 2020 and is striving for ever greater efficiency to reduce costs for customers. Totex outperformance has already achieved cumulative savings of £159 million and financing outperformance has delivered £83 million in the first half of the K6 (2015-2020) regulatory period. This focus on cost efficiency has resulted in South West Water's average bills for the year being below where they were 8 years ago. Strong operational and financial performance underpins our sector-leading RORE, which is consistently tracking above 11%. We are sharing the benefits of outperformance with our water customers through a unique 'WaterShare' mechanism with £68 million identified for sharing with customers to date.

Viridor is performing well and the fundamentals in the UK waste market are strong with demand for ERFs expected to continue to exceed capacity into the long term. Viridor has negotiated a reset to the contract with the Greater Manchester Waste Disposal Authority (GMWDA), which had a mutually satisfactory outcome¹². The operational ERF portfolio is consistently achieving availability at >90%¹³ with the operational performance of the facilities above management's base case expectations. Three of the four remaining ERFs are in commissioning and construction is progressing with the fourth remaining ERF at Avonmouth.

The business is retaining flexibility in its landfill strategy as competitors' sites have closed across the country and with under capacity in the UK ERF market, Viridor continues to see demand for landfill across the UK, particularly as ERFs are still being completed. Viridor is retaining flexibility with respect to its site closure strategy, keeping sites open for longer and investing in new cells where it is commercially attractive and necessary for appropriate waste disposal.

Recycling 'self-help' measures continue to deliver results with margins increasing by £1/tonne in H1 2017/18, despite lower volumes arising from the optimisation of the asset base, higher costs from China's increased quality requirements and shipping costs due to uncertainty in the shipping market. Success in new Asian markets will assist in partially mitigating the impacts from the

¹² There will continue to be a long term partnership with GMWDA, and Viridor and its joint venture will continue to own and operate Runcorn I ERF facility, as well as securing an 18 month contract to operate the recycling facilities on improved terms

¹³ Includes 100% capacity for joint ventures, excludes Bolton ERF due to fire

changes in the Chinese market, although Pennon anticipates pressure on recycle pricing in H2 2017/18.

Striving for ever greater cost efficiency across the Group, benefitting customers

Pennon remains focused on driving greater synergies and savings across the Group, sharing best practice and ensuring it is well placed to capitalise on emerging opportunities.

Both Viridor and South West Water have a breadth and depth of experience in managing large asset bases and in using engineering excellence, technology and innovation to deliver efficiency and effectiveness. By sharing knowledge across the Group and harnessing our combined skills we can provide even better services to our extensive customer base of local authorities, major corporate clients, businesses and household customers.

The cost savings and synergy targets of c.£17 million p.a. from 2019, identified by the Shared Services Review, is on track and the run rate is already at c.£11 million p.a.

In the water business in particular, we see consolidation as a sustainable way to deliver greater efficiency, lower bills and delivering benefits for customers. This has been demonstrated through the Bournemouth Water acquisition with c.£27 million of cumulative synergies targeted by 2020, of which £12 million have already been delivered through a 25% reduction in back office costs and sharing best practise improving performance.

Energy hedging

Pennon has adopted a group portfolio management approach to energy hedging, and has the ability to hedge its market position for periods up to five years ahead, further helping to protect revenues.

The Group is fully hedged for its energy (generation net of internal usage of electricity) for the remainder of the financial year and c.66% hedged for the three years to 2020. In addition, the Group has a natural hedging opportunity which represents one third of Viridor's energy generation, as South West Water is a net user of electricity.

Driving growth

New non-household retail venture with South Staffordshire Plc

Pennon Water Services, the separate legal entity providing retail services to non-household customers across Great Britain, is one of only four retailers previously associated with the water sector to have successfully grown its customer base since entering the retail market on 1 April 2017.

Now serving over 160,000 customer accounts across 17 different wholesale regions, Pennon Water Services has achieved net growth of c.5,100¹⁴ customer accounts, and has facilitated around seven¹³ per cent of all switches in the market.

Step up in earnings from ERFs under construction

Viridor anticipates generating significant growth in EBITDA over the coming years, with a step up expected from 2018/19 as the additional facilities come on stream. The focus for the ERF portfolio remains on optimising operational performance and efficient, effective maintenance schedules.

Focused on PR19, innovating for the future

PR19 will be a challenging Price Review, but South West Water is well-placed to respond and deliver outstanding services to customers. The Ofwat Methodology for PR19 published in July 2017 indicates a relatively more prescriptive price review than PR14. South West Water is focused on ensuring plans will continue to reflect the priorities of customers in the South West and Bournemouth areas and will be tested with customers, stakeholders and regulators.

In September 2017 we published our WaterFuture 2050 plan which sets out South West Water's vision and strategy over the long term. We anticipate that significant investment will be at least comparable to historic levels with c.£6 billion to c.£9 billion estimated investment required over the 30 years to 2050. This investment is informed by Defra's guidance to Ofwat, direct engagement with Ofwat and customer and stakeholder engagement. Key areas of investment are:

- Resilience
- Environmental protection and enhancement
- Security of supply
- Flood protection
- Transformational improvement to customer service

The WaterFuture 2050 plan also addresses ambitious, transformational service improvements which build on stretching improvements in our 'enhanced' PR14 plan, focusing on customers' priorities.

South West Water is supportive of Ofwat's approach for greater incentives for outperformance, particularly in those areas customers value the most. The focus on customers is clear and South West Water is extending its exemplary approach to customer engagement delivered during the last price review and raising the bar further using new interactive tools and techniques for greater customer participation. We anticipate that our range of approaches will result in over half of our customers actively providing feedback on our plan.

¹⁴ As at 20 November 2017. c.5,100 new accounts, net growth c.1,750

In addition South West Water is continuing to focus on affordable bills and tailored support for those customers in vulnerable circumstances with an extensive range of affordability measures which we will be expanding further over the next period.

South West Water continues to lead the sector in a number of areas delivering RORE outperformance across Totex savings, financing with the lowest effective rates in the industry and delivering net ODI rewards. The business is focused on maintaining this momentum over the remaining K6 regulatory period and is confident in its ability to remain at the frontier of cost efficiency for the water sector. This is a positive platform as we develop our plans for the next regulatory period 2020-25.

PENNON FINANCIAL PERFORMANCE

Pennon Group

Underlying¹⁵	H1 2017/18	H1 2016/17	Change
Revenue	£723.9m	£685.5m	+5.6%
EBITDA	£253.5m	£245.4m	+3.3%
Adjusted EBITDA ¹⁶	£285.8m	£277.2m	+3.1%
Depreciation and amortisation	(£91.1m)	(£91.5m)	+0.4%
Operating Profit	£162.4m	£153.9m	+5.5%
Net interest	(£36.6m)	(£28.6m)	(28.0%)
Share of JV PAT	£5.3m	£2.8m	+89.3%
Profit Before Tax (PBT)	£131.1m	£128.1m	+2.3%
Non-underlying items before tax ¹⁷	(£1.3m)	(£25.7m)	-
Statutory Profit Before Tax	£129.8m	£102.4m	+26.8%
Tax	(£17.5m)	(£13.3m)	(31.6%)
Statutory Profit After Tax (PAT)	£112.3m	£89.1m	+26.0%
PAT (attributable to holders of hybrid capital)	£21.5m	£16.2m	+32.7%
PAT (attributable to minority interests)	(£0.1m)	-	-
PAT (attributable to shareholders)	£90.9m	£72.9m	+24.7%
Earnings per share ¹⁸	25.3p	23.6p	+7.2%
Statutory Earnings per share	21.8p	17.7p	+23.2%
Dividend per share ¹⁹	11.97p	11.09p	+7.9%
Capital investment ²⁰	£245.1m	£183.3m	+33.7%
South West Water	£97.6m	£79.7m	+22.5%
Viridor ¹⁹	£147.1m	£103.6m	+42.0%
Other	£0.4m	-	-
	30 September 2017	31 March 2017	Change
Net debt	£2,790.9m	£2,664.9m	+4.7%

¹⁵ Before non-underlying items

¹⁶ Underlying EBITDA plus share of Joint Venture EBITDA and IFRIC 12 interest receivable

¹⁷ Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance

¹⁸ Before deferred tax and non-underlying items and proportionately adjusted for the first return due on the 2017 perpetual capital securities in H1 2017/18 and the periodic return due March 2017 in H1 2016/17

¹⁹ The RPI rate used is 3.9% as of September 2017

²⁰ Including construction spend related to service concession arrangements

Non-underlying Items

Non-underlying items for the half year total a charge of £1.3 million before tax (H1 2016/17 £25.7 million²¹) and net non-underlying items after tax result in a credit of £3.0 million (H1 2016/17 £8.3 million charge). The net charge before tax for H1 2017/18 is a result of:

- The movement in the fair value of long-dated derivatives associated with South West Water's 2040 bond of £7.8 million charge (H1 2016/17 £15.0 million²²)
- Reset of Viridor's Greater Manchester contracts – credit of £6.5 million, representing a gain on the re-profiling of cash flows (£22.5 million), favourable settlement of all construction related claims (£3.2 million) net of a write down of shareholder loans (£19.2 million).

The tax impact of these non-underlying items is a credit of £4.3 million.

As a result of the reset, all external bank debt loaned into Viridor Laing and TPSCo has been repaid by the GMWDA, lower ongoing gate fees have been agreed in respect of Runcorn I and all claims relating to construction of VLGM's assets have been settled.

On reset of the Greater Manchester contracts, ownership of Viridor Laing (Greater Manchester) Holdings Limited (Viridor Laing) passed to the Greater Manchester Waste Disposal Authority (GMWDA). Viridor Laing (Greater Manchester) Holdings Limited was previously a joint venture between Viridor (50%) and John Laing (50%).

The ownership of INEOS Runcorn (TPS) Holdings Limited (TPSCo), a joint venture between Viridor, John Laing and Inovyn Chlorvinyls Limited, remains unchanged. This joint venture owns the Runcorn I ERF.

Viridor has retained its long term operating contract for this ERF and will continue to operate the recycling and reprocessing assets, constructed by Viridor Laing, for a period of not less than 18 months. The subsequent contract will be subject to a 3 part re-procurement process, commencing later in 2017. Viridor will be eligible to bid for the new contracts with new contract terms.

²¹ In the first half of 2016/17, in addition to the derivative charge noted above, there were non-underlying charges for restructuring costs (£10.7m) and a deferred tax credit of £20.1m relating to the enacted reduction in the UK rate of corporation tax from 18% to 17% in 2020

²² Includes fair value movements due to a change in legislation impacting the 2011 PMB derivative, terminated February 2017

South West Water

Underlying	H1 2017/18	H1 2016/17²³	Change
Revenue	£292.2m	£284.9m	+2.6%
Operating costs	(£105.1m)	(£103.0m)	(2.0%)
EBITDA	£187.1m	£181.9m	+2.9%
Depreciation and amortisation	(£56.4m)	(£55.8m)	(1.1%)
Operating Profit	£130.7m	£126.1m	+3.6%
Net interest	(£34.5m)	(£30.2m)	(14.2%)
Profit Before Tax	£96.2m	£95.9m	+0.3%

Viridor

Underlying	H1 2017/18	H1 2016/17	Change
Revenue ²⁴	£407.0m	£397.9m	+2.3%
EBITDA	£66.6m	£63.3m	+5.2%
ERFs	£51.7m	£50.5m	+2.4%
Landfill	£3.3m	£3.2m	+3.1%
Landfill Gas	£9.2m	£12.9m	(28.7%)
Recycling	£10.6m	£11.0m	(3.6%)
Contracts, Collections & Other	£20.0m	£16.0m	+25.0%
Indirect Costs	(£28.2m)	(£30.3m)	+6.9%
Share of JV EBITDA	£25.4m	£23.0m	+10.4%
IFRIC 12 Interest Receivable	£6.9m	£8.8m	(21.6%)
Adjusted EBITDA ²⁵	£98.9m	£95.1m	+4.0%
Depreciation and amortisation	(£34.2m)	(£35.6m)	+3.9%
Profit Before Tax	£30.6m	£23.1m	+32.5%

Pennon Water Services

	H1 2017/18²⁶
Revenue	£83.5m
EBITDA	£0.5m
Depreciation and amortisation	(£0.3m)
Operating Profit	£0.2m
Net interest	(£0.7m)
Profit Before Tax	(£0.5m)

²³ Excludes South West Water's Non-Household retail performance now reported in PWS, of £3.0m revenue and £1.1m in both EBITDA and profit before tax

²⁴ Including landfill tax and construction spend on service concession arrangements

²⁵ EBITDA plus share of Joint Venture EBITDA and IFRIC 12 interest receivable

²⁶ 80:20 venture with South Staffordshire Group

Underlying performance on track to meet management expectations for 2017/18

Group revenue in H1 2017/18 increased by 5.6%²⁷ (£38.4 million) to £723.9 million. £22 million of this increase relates to non-household customer accounts including the retail book acquired from South Staffordshire by Pennon Water Services (our new retail venture with South Staffordshire, owned 80:20). Revenue from South West Water increased by 2.6% (£7.3 million) due to tariff increases (2.5%), customer demand increasing by 1.1%, from the drier weather and increased infrastructure connections. Viridor revenues increased by 2.3% (£9.1 million) primarily due to higher IFRIC 12 construction revenues and higher ERF power generation.

Group EBITDA and adjusted EBITDA were ahead of the same period last year by 3.3% and 3.1% respectively, with both South West Water and Viridor ahead of H1 2016/17.

South West Water's EBITDA and operating profit increased by 2.9% and 3.6% respectively. Tariff rises and increased customer demand (up 1.1% from H1 last year) net of meter switchers has driven an increase in revenue however operating costs for the first half of the year have increased reflecting higher inflation (3.9% at September 2017) and other cost increases net of targeted efficiencies and other savings. In addition, South West Water's bad debt performance remains strong with a charge of 0.9% as a percentage of revenues reduced from 1.7% at March 2015. This continues to be driven by efficient collections as we work with our customers to manage their debt and supporting those customers in vulnerable situations with affordability challenges.

South West Water's interest costs have risen, reflecting higher RPI on index-linked debt, resulting in profit before tax remaining broadly consistent with the prior period at £96.2 million (H1 2016/17 £95.9 million). With the highest potential returns in the sector for K6, South West Water is outperforming its sector leading business plan, resulting in a cumulative Return on Regulated Equity of 11.8%.

Pennon Water Services has successfully gained new customers since the opening of the non-household retail market to competition on 1 April 2017. During H1 2017/18, service investment and set up costs of c.£1.5 million have been recognised relating to the successful migration to a single billing system and customer service operation for those customers previously served by South West Water and South Staffs Water. Overall EBITDA for the period is a loss of £0.5 million.

Viridor has delivered an increase in EBITDA of 5.2% to £66.6 million (H1 2016/17 £63.3 million) through improved performance of existing assets and a focus on quality and efficiency.

The ERFs have performed strongly during the period as expected with availability in excess of 90%²⁸. ERF EBITDA was £51.7 million (H1 2016/17 £50.5 million) with underlying performance

²⁷ Revenue before acquired South Staffordshire non-household retail book is 3.6% higher than H1 2016/17

²⁸ Including 100% of joint ventures, excluding Bolton ERF availability due to fire

improvements across the portfolio. Our ERFs are outperforming the base case indications we have previously published.

Landfill EBITDA has increased since H2 2016/17 as demand for landfill solutions remains, with prices and margins increasing. Landfill EBITDA at £3.3 million is 3.1% higher than in the prior period (H1 2016/17 £3.2 million).

We are investing in our landfill gas business to enhance the long term reliability of our assets. Landfill gas EBITDA for the period is £9.2 million, down 28.7% from the prior period (H1 2016/17 £12.9 million) as a result of lower generation volumes. Power generation has reduced more steeply in the period as a result of the higher maintenance activities. This rate of decrease is not expected to continue.

At £10.6 million, recycling EBITDA is £0.4 million lower than last period (H1 2016/17 £11.0 million). In line with market demands Viridor has focused on product quality in the period, whilst volumes have reduced. However, EBITDA margin per tonne has increased by £1 per tonne to £14 per tonne (H1 2016/17 £13 per tonne). We are cautious about future recycle pricing, with the impact of Chinese import policy likely to prevent any significant increases. Our focus remains on 'self-help' measures to drive margin improvement, opening opportunities in Asian markets and looking to share commodity risk and opportunities with our clients.

We also continue to work with our customers to improve performance levels and are incentivised to work together to find mutually beneficial solutions through income sharing mechanisms, in particular with our long term local authority clients.

Rationalising a contract in H1 2017/18 has contributed towards a positive outcome for Viridor as well as the customer, and has contributed to an increase of 25.0% in EBITDA in the period from Contracts, Collections and Other of £4.0 million to £20.0 million.

Indirect costs are down 6.9% to £28.2 million (H1 2016/17 £30.3 million) as we continue to focus on delivering efficiencies, including those arising from shared services activities across the Group.

Our share of joint venture EBITDA has increased to £25.4 million (H1 2016/17 £23.0 million). This increase is driven by strong performance at the Lakeside and TPSCo ERFs. IFRIC 12 interest receivable has reduced to £6.9 million (H1 2016/17 £8.8 million) as the financial assets are paid down through the operational phase of the contracts.

Net Finance Costs

Underlying net finance costs of £36.6 million are £8.0 million higher than last half year (H1 2016/17 £28.6m). This includes a reduction of £4.1 million in other finance income following the unwind of the 2011 Peninsula MB Limited (PMB) derivative in February 2017, higher RPI (3.9% at September 2017) and higher net debt from continuing capital investments.

We have secured funding at a cost that is efficient and effective. RPI funding represents 20%, as inflation rates have risen interest costs have increased accordingly but we are still expected to be sector leading at 3.7% (H1 2016/17 3.3%).

The effective interest rate is calculated after adjusting for capitalised interest of £7.8 million, notional interest items totalling £5.7 million, interest received from shareholder loans to joint ventures of £5.5 million and IFRIC 12 interest receivable of £6.9 million. The effective interest rate for South West Water in the period was 3.5% (H1 2016/17 3.2%).

Profit before tax

Group underlying profit before tax was £131.1 million, an increase of 2.3%, compared with the prior half year (H1 2016/17 £128.1 million). Included in profit before tax is our share of joint venture profit after tax of £5.3 million (H1 2016/17 £2.8 million). Joint venture profit before tax is benefitting from improved performance at Lakeside and Runcorn I ERFs. On a statutory basis, profit before tax was £129.8 million (H1 2016/17 £102.4 million) reflecting non-underlying charges before tax of £1.3 million (H1 2016/17 £25.7 million).

Taxation

The Group's underlying mainstream UK corporation current tax charge for the half year (before prior year adjustments) was £14.3 million, reflective of an effective tax rate of 10.9% (H1 2016/17 £23.1 million, 18.1%). The lower effective tax rate reflects the level of capital allowances claims available to Viridor given the increased capital expenditure. The H1 2016/17 effective tax rate included a charge for the 2011 Peninsula MB derivative. There was a prior year current tax credit of £4.3 million recognised for the period (H1 2016/17 £0.3 million). In addition there is a non-underlying £3.0 million current tax credit relating to non-underlying items.

Underlying deferred tax for the half year (before prior year adjustments) was a charge of £10.2 million (H1 2016/17 £9.5 million). The charge for H1 2017/18 primarily reflects capital allowances, including on ERFs, in excess of depreciation charge. There was a prior year deferred tax charge related to £1.6 million recognised for the half year (H1 2016/17 £1.6 million credit). In the first half of last year there was a non-underlying £20.1 million deferred tax credit relating to the enacted reduction in the UK rate of corporation tax to 17% in 2020.

Overall the total tax charge for the half year was £17.5 million (H1 2016/17 £13.3 million).

Earnings per share

Earnings per share on both a statutory and underlying basis before deferred tax, and adjusted proportionately to reflect the half year impact of the first perpetual capital securities periodic return on the 2017 issuance, were ahead of H1 last year, up 23.2% at 21.8p (H1 2016/17 17.7p) and up 7.2% at 25.3p (H1 2016/17 23.6p) respectively, reflecting higher profits.

Strong cash inflow from operations, continuing investment in future growth

The Group's operational cash inflows in H1 2017/18 remained consistent at £260 million²⁹ (H1 2016/17 £258 million). These funds have been put to use in efficiently financing the Group's capital structure and investing in future growth, through our substantial continuing capital investment programme with 2017/18 following 2016/17 as peak years of investment. This investment has resulted in higher Group net debt.

Contributions into the Group's pension schemes for the half year were £4.8 million, and corporation tax payments were £10.4 million. Total tax payments reflecting all taxes borne by the Group in H1 2017/18 were £59 million³⁰.

During the period the Company continued to see cashflow benefits from offering a scrip dividend alternative. £41.7 million of potential cash dividend for the 2016/17 dividends were retained in the business (H1 2016/17 £6.9 million) resulting in the issuance of 5,223,089 shares.

Strong funding position underpinning capital investment

The Group has a strong liquidity and funding position with £1,246 million cash and committed facilities at 30 September 2017. This consists of cash and deposits of £571 million (including £228 million of restricted funds representing deposits with lessors against lease obligations) and undrawn facilities of £675 million. At 30 September 2017 the Group's borrowings totalled £3,362 million.

In March 2013 the group issued £300 million of perpetual capital securities recognised as equity. This was refinanced in September 2017 by issuing another £300 million of perpetual capital securities which are also recognised as equity in the financial statements. The new issue achieved a coupon rate of 2.875% (and was four times oversubscribed) and supports an increase in investible capacity to c.£800 million. For the closure of the 2013 perpetual capital securities there was a take up of approximately 95% to the offer of 103% of par plus accrued periodic returns, resulting in cash outflow of £8 million net of the new issuance. The remaining 2013 perpetual capital securities were called at par plus accrued periodic returns with a cash outflow of approximately £15 million settled in October 2017.

As a result of the refinance of the perpetual capital securities, statutory earnings per share is reduced driven by:

- £15.7 million (after tax) periodic return on the 2013 issuance, due 8 March 2018, which has effectively been paid to bond holders through accrued payments to the refinance date and the premium to par.

²⁹ After Other tax payments noted in footnote 30

³⁰ All taxes include business rates, employers national insurance, fuel excise duty, carbon reduction commitment, environmental payments, climate change levy and external landfill tax.

- £5.8 million³¹ reflecting the periodic return due on the new issuance payable in May 2018. It has been recognised in accordance with the terms of the securities as an ordinary dividend has been paid in the 12 months preceding May 2018.

The impact of the refinancing of the perpetual capital securities on underlying earnings per share, is consistent with previous periods³², and is reduced by the £15.7 million (after tax) periodic return on the 2013 issuance, due 8 March 2018, which has effectively been paid to bond holders through accrued payments to the refinance date and the premium to par.

The costs of issuing the 2013 perpetual capital securities of £5.2 million have been reclassified from the perpetual capital securities reserve to retained earnings. The costs of issuance for the 2017 perpetual capital securities of £3.3 million have been recognised directly in the perpetual capital securities reserve.

In addition to the refinancing of the perpetual capital securities, during this half year £150 million of new and renewed facilities have been signed, £125 million in Pennon Group plc and £25 million in South West Water. Following EIB / Government discussions, previous EIB approved transactions are being progressed.

Following these financing initiatives, Pennon has cash and committed facilities covering the remainder of planned K6 capital spend and our ERF investment programme.

However, funding will be sourced over K6 to:

- maintain an appropriate headroom of cash and committed facilities, including replacing maturing finance
- prepare for the next regulatory period, this will also include sourcing alternative financing to EIB funding.

Efficient long-term financing strategy

The Group has a diversified funding mix of fixed (£1,812 million, 65%), floating (£427 million, 15%) and index-linked borrowings (£552 million, 20%). The Group's debt has a maturity of up to 40 years with a weighted average maturity of 20 years, matching the asset base. Much of the Group's debt is floating rate and derivatives are used to fix the rate on that debt. The Group has fixed, or put swaps in place to fix, the interest rate on a substantial portion of the existing water business debt for the entire K6 period, in line with the Group's policy to have at least 50% of funding fixed before the start of a regulatory period.

£496.6 million of South West Water's debt is index-linked at an overall real rate under 2.0%. As a result of the aforementioned initiatives, South West Water's cost of finance is among the lowest in the industry. Around two thirds of the water business net debt is from finance leases to provide a

³¹ The new perpetual capital securities do not qualify for tax relief

³² Including a proportionate adjustment for the periodic return on the 2017 bonds for the 8 days from issue to 30 September 2017

long maturity profile. Interest payable benefits from the fixed credit margins, which were secured at the inception of each lease. A quarter of the net funding for the water business is RPI linked below Ofwat's notional level of 33% leaving headroom for RPI to CPIH transition.

Net debt position

In the first half of 2017/18 the Group's net debt increased by £126 million to £2,791 million. Cash inflow from operations was a strong £260 million. Cash outflows relating to the capital programme totalled £236 million, with 2016/17 and 2017/18 representing peak years for the Group's capital expenditure. The gearing ratio at 30 September 2017, being the ratio of net debt to (equity plus net debt) was 64.8% (31 March 2017 63.8%, 30 September 2016 65.2%) and is expected to reduce by the year end.

The combined South West Water and Bournemouth Water debt to RCV ratio is 62.1%³³ (31 March 2017 61.8%, 30 September 2016 62.2%) which aligns with Ofwat's K6 target for efficient gearing of 62.5%.

Group net debt includes £1,270 million of investment in wholly-owned ERFs (Runcorn II, Oxford, Exeter, Cardiff, Glasgow, Dunbar, South London and Avonmouth). In addition, the amount invested in joint ventures, through shareholder loans is £49 million primarily for TPSCo (which together represents 47% of Group net debt).

The shareholder loans to joint ventures, has reduced to £49 million from £87 million at 31 March 2017, following the Greater Manchester contract reset which resulted in £24 million of the outstanding £43 million shareholder loan to Viridor Laing being repaid, with the balance being written off.

Following the Greater Manchester contract reset where all external debt related to Viridor Laing and TPSCo was repaid, Pennon's share of Lakeside's non-recourse net debt from third parties (excluding shareholder loans) stands at £32 million.

Capital investment focused on regulatory expenditure and ERF build out

Viridor's capital investment in the period was £147 million, £43 million higher than the same period last year.

The majority of Viridor's capital investment continues to relate to the delivery of the ERF portfolio, with £129 million of the £147 million total spend in Viridor relating to the four ERFs under construction. Beddington, Dunbar and Avonmouth are all expected to be completed on budget. Good progress has been made with the new contractor Doosan Babcock at Glasgow, and we are on track to complete the work in line with the revised timetable established following the termination of the contract with Interserve last year.

³³ Based on RCV at March 2017

Landfill demand has remained strong and new cells have been constructed at three sites during the period.

South West Water's capital expenditure in the first half of the year rose to £97.6 million compared to £79.7 million in H1 2016/17 and reflects the increased activity of some key large schemes from last year including:

- the innovative Mayflower Water Treatment Works at North Plymouth with c.£20 million of expenditure in H1 2017/18 (H1 2016/17 c.£9 million)
- investment in Plymouth Bathing Waters, delivering targeted improvement to maintain the high level of bathing water quality in that area
- improvements at three water treatment works including the installation of GAC filtration improving water quality

Pensions

The Group operates defined benefit pension schemes for certain employees of Pennon Group. The main schemes were closed to new entrants on or before 1 April 2008.

At 30 September 2017 the Group's pension schemes showed an aggregate deficit (before deferred tax) of £55.9 million (March 2017 £68.0 million), a reduction of £12.1 million. Pension liabilities decreased by £24.4 million mainly due to higher corporate bond yields, while asset values decreased marginally by £12.3 million, principally due to assets which are held to offset movements in yields.

The net aggregate liabilities of £46 million (after deferred tax) represented around 1% of the Group's market capitalisation at 30 September 2017.

OPERATIONAL PERFORMANCE

Strong performance in Water

We are focused on providing water and wastewater services to the highest standards possible in the most efficient and sustainable way, meeting the needs of those we serve and our responsibilities to the environment. Innovation, new technologies and the pioneering of a holistic approach to water and wastewater management underpins our commitment to delivering service improvements and long-term value.

Outperforming our Final Determination Return on Regulated Equity (RORE) range

South West Water has continued to deliver sector-leading outperformance and has confidence in its ability to deliver outperformance throughout the 2015-20 (K6) regulatory period.

As a result of our targeted approach to efficiency South West Water has delivered cumulative Return on Regulated Equity (RORE)³⁴ of 11.8%. Of the 11.8%, 6.0% is the base return, 2.6% reflects Totex savings and efficiencies, 0.3% reflects a net reward on Outcome Delivery Incentives (ODIs) and 2.9% reflects the difference between actual and assumed financing costs using a cumulative forecast RPI over K6 of 2.8% and is consistent with the approach adopted for calculating our innovative WaterShare mechanism.

Totex - securing outperformance

South West Water is striving for ever greater efficiency and is confident in maintaining the momentum achieved in K6 to date with £159 million of cumulative Totex savings to H1 2017/18 (£30 million delivered in the first half of the year) compared to the Final Determination allowances. These savings are being driven by:

- continuing advantages from our strategic alliances including a new water distribution framework and the H50 capital alliance in place since 2010
- continued efficiencies from the Bournemouth integration, including delivery of key capital schemes in the region
- ensuring efficient capital investment through the use of data analytics optimising capital and operating solutions and promoting efficient off-site build techniques
- utilising new technology and equipment to increase the resources needed to deliver wastewater improvement, real-time pressure management and network modelling targeting efficient interventions

³⁴ For H1 2017/18 annual equivalent RORE of 11.1% delivered reflecting 6.0% base return, 2.0% totex savings and efficiencies, 0.3% net reward on ODIs and 2.8% on financing outperformance. RORE based on Ofwat guidance results in 4.1% of financing outperformance (calculated using in-year average RPI rate of 1.1% for 2015/16, 2.1% for 2016/17 and 3.7% forecast for 2017/18) resulting in a total RORE of 12.4% for H1 2017/18 (2016/17 2.4% and 11.0% respectively)

Delivering net ODI reward

South West Water is committed to delivering for our customers and communities and is on track to deliver against all water business plan commitments by 2020. We are delivering 33³⁵ of our 36 financial ODIs across both regions. Incentives for performance are recognised in the year of delivery, whether the measure is recovered in period or as a regulatory true-up at the end of the period.

Operational performance for the half year was based on delivery to 30 September 2017 of a net ODI reward of £1.5 million³⁶ (£7.0 million³¹ cumulatively for K6) reflecting RORE outperformance of 0.3% for the half year. Good asset reliability with stable serviceability across all water and wastewater areas has been maintained. Rewards were delivered across bathing water quality, water restrictions with external sewer flooding showing improvements from last year with no penalty currently expected for the year.

The cumulative net reward of £7.0 million to H1 2017/18 comprises £12.2 million of total rewards and £5.2 million of total penalties.

Pollution events in wastewater continue to be higher than committed levels and this remains an area of focus for improvement over the remaining regulatory period.

Financing investment efficiently

Alongside strong operational outperformance, South West Water is confident that the efficient and effective financing strategy in place will continue to deliver cumulative K6 financing outperformance, with £83 million delivered in the K6 period to 30 September 2017. The effective interest rate in South West Water has increased slightly in the first half of the year reflecting higher RPI on index-linked facilities. There is a continued focus on maintaining efficient gearing levels, having a good balance of fixed and floating rate debt and continuing to implement cost efficient debt through finance leasing.

Delivering for our customers and communities

South West Water's overall customer satisfaction continues to be strong at 89% with value for money satisfaction at an all time high for the second quarter of the year.

Improving customer service is at the heart of our delivery plans with our best ever customer service score (SIM) in 2016/17. The SIM score is calculated against a qualitative element (based on a customer survey) and a quantitative element that takes into account, among other things, the number of complaints received in writing or by phone. South West Water's SIM score for 2016/17,

³⁵ South West Water has 26 and Bournemouth Water 10 ODIs including SIM and those which end of AMP measures. 33 meeting target or within appropriate tolerances.

³⁶ £1.5m split £1.6m (£9.1m cumulatively) net reward will be recognised at the end of the regulatory period and £0.1m (£2.1m cumulatively) net penalty which may be reflected during the regulatory period.

confirmed at 81.6, is our best yet and continues the improving trend of recent years. Bournemouth Water's SIM score at 86.3 remains at the frontier as one of the best in the industry.

Written complaints continue to fall in the first half of the year building on the c.30% reduction across both the South West Water and Bournemouth Water regions last year, with complaints over halved since 2011.

South West Water is also focused on affordable bills and providing tailored support for customers who find themselves in vulnerable circumstances. We have a range of established approaches with c.51,000 customers already supported through our existing schemes including a new social tariff which has been rolled out in the Bournemouth region for 2017/18.

South West Water places a strong focus on sharing transparently financial benefits with customers, including financing rates on new debt, through our innovative WaterShare mechanism with £68 million of total cumulative benefits³⁷ to H1 2017/18. This reflects £50 million of Totex savings, £7 million of net ODI benefits and £11 million of other benefits. The other benefits are available to share with customers during the regulatory period. £3.1 million of which has been re-invested in improving services to customers including additional helpline staff who are focused on billing and affordability support resulting in over 90% of calls now answered in less than 1 minute and increased social housing support activities. The independent WaterShare customer panel has recommended that the £4.0 million benefit identified for 2016/17 should be deferred with investments planned later in the regulatory period. The H1 2017/18 benefit of £3.4 million will be considered by the panel after the 2017/18 year end.

Whilst cumulative ODIs are a net reward, £2.1 million of ODI penalties which apply within the regulatory period will be 'passed back to customers' through a reduction to customer bills of c.£3 in 2018/19.

Drinking water quality expected to be in upper quartile

Drinking water quality remains a top priority for South West Water and we continue to maintain high standards achieved last year.

South West Water's leakage reduced to 82 megalitres per day resulting in an ODI reward and through continued investment in real-time pressure management and additional network monitoring we are confident of meeting or exceeding our leakage target – ensuring delivery every year since inception. Despite the continued increase in customer demand, water resources in the South West region remained unrestricted for a twenty-first consecutive year and the Bournemouth water region maintained its position of having no water restrictions since privatisation.

³⁷ Delivered through bill reduction, service improvements and reinvestment

The average duration of supply interruptions per property for South West Water has remained consistent with last year and is expected to meet our committed levels for the year. Where an interruption does occur we aim to restore supplies as quickly as possible and keep customers informed of progress. In the Bournemouth region targets remain on track for the year to date.

Significant investment in drinking water

Customers regard a clean and safe supply of drinking water as their top service priority and therefore maintaining water resources and reducing supply interruptions are essential to meeting customer expectations. Investment and activity during the first half of the year are a continuation of key projects including:

- ongoing expenditure for a new £60 million state-of-the-art North Plymouth water treatment works, as well as mains improvement in the area
- improved water treatment processes with continuing investment in Granular Activated Carbon (GAC) filters being installed at Northcombe and Tolliford Water Treatment Works
- real-time pressure management and network modelling technology targeting interventions efficiently

Wastewater improvements

We aim to ensure the safe and efficient removal and disposal of wastewater while minimising the likelihood of sewer flooding or pollution affecting homes, businesses or the environment.

South West Water continues to focus on a targeted programme of wastewater treatment improvements while also working to prevent potential failure through increased monitoring. The targeted investment in high risk sites and change in operational approach has resulted in a significant improvement in numeric compliance (the percentage of wastewater treatment works deemed compliant) with 2016/17 performance at 98.4% - our highest levels ever achieved.

Whilst South West Water continues to invest in improving our impact on the environment the number of significant pollution incidents (Category 1-2) and the number of minor incidents remains consistent with last year and is expected to result in a penalty for the year. Improving performance in this area remains our top priority in the wastewater area and a programme of improvements and further investment is being implemented.

Key areas of wastewater investment and activity during H1 2017/18 included:

- investment to improve bathing waters in the Plymouth area, including investments in sixty thousand cubic metres of storm storage in the sewage network
- improvements in water quality targeted at eight shellfish catchments on key estuaries in Devon and Cornwall

- continuing investment to meet increasing capacity and resilience at our wastewater treatment works, including Hayle in Cornwall
- enhanced monitoring of our network during weather events

Our legacy of major investment to protect bathing waters continues to be reflected in extremely positive results for the 2017 bathing water season, which was assessed under tougher new EU standards. Of the 143 bathing waters tested in the South West Water region, 140 (c.98%) were classified 'sufficient' or better, with more than 75% classified as 'excellent'. None of the three bathing waters rated as 'poor' were attributed to any failure of South West Water's assets.

Good performance at Viridor

	H1 2017/18	H1 2016/17	H2 2016/17
Total Waste Inputs (million tonnes (MT))	3.9	4.0	3.6
ERFs ³⁸	1.1	1.1	1.1
Landfill	0.9	0.9	0.8
Recycling and Other	1.9	2.0	1.7
Recycling Volumes Traded	0.7	0.9	0.7
ERF availability ³⁹	>90%	90%	>90%

ERFs continuing to perform strongly

The number of ERFs in operation during H1 2017/18 is consistent with H1 2016/17. The good operational performance delivering higher EBITDA, in line with our expectations, results from our focus on optimisation of the facilities, particularly through greater turbine efficiency and we anticipate an H2 weighting in our ERF EBITDA. Our ERFs are outperforming the base case indications we have previously published.

Availability has averaged in excess of 90% for the half year³⁷. Maintenance is currently running at c.2% of capital spend. This is expected to increase over the life of the assets to an average of c.3.5%.

The operational ERFs have a capacity of 2.1 million tonnes of waste and 178 megawatts (MW) per annum (including joint ventures). This is in line with the same period last year. This will extend to 2.9 million tonnes and 242 MW in 2018/19 and 3.2 million tonnes of waste and 276 MW by 2021.

At Glasgow the Materials Recycling Facility (MRF) and Anaerobic Digestion (AD) facility have operated throughout the period and are being optimised. The Advanced Combustion Facility (ACF) is in final commissioning. Completion of the construction has required a somewhat higher level of remediation than previously expected. However, Viridor is contractually entitled to recover incremental construction costs from the original EPC contractor, Interserve. To date the

³⁸ Including 100% joint venture waste volumes

³⁹ Including 100% of joint venture availability, excludes Bolton ERF due to fire

expenditure in excess of original budget is £45 million and we anticipate spend to completion will be £32 million. Spend in excess of the original budget will be subject to a contractual claims process with Interserve.

Final commissioning is underway at Beddington and Dunbar is in early commissioning. Both are expected to be completed on budget. Progress at Avonmouth is on schedule and budget, with piling of the site and foundations progressing well. Total remaining capital expenditure for completion of the ERF portfolio is £268 million⁴⁰, bringing the total investment in ERFs to £1.5 billion⁴⁰.

Flexible landfill strategy

During the first half of the financial year, Viridor has operated 11 landfill sites, two fewer than in the same period last year, though no sites have closed during the period. Compared with the second half of last year, with the same number of sites open, landfill volumes have increased slightly as demand continues, and pricing has held up.

Viridor's average gate fees increased by 4.5% to £21.83 (H1 2016/17 £20.88).

We have previously stated that we expect our open landfill sites to reduce to a small number of strategic sites by 2020, however, as demand has exceeded our previous expectations, we continue to make decisions on the future of our landfill sites based on a dynamic assessment of local market conditions. New cells have been constructed at three sites during the first half of 2017/18.

Consented landfill capacity reduced from 42 million cubic metres (mcm) to 41 mcm in the 6 months to September 2017, reflecting usage during the period. As previously provided for c.34 mcm of Viridor's consented landfill capacity may not be utilised.

Our landfill energy business continues to be managed to maximise the value of landfill gas power generation, whilst exploring alternative commercial development opportunities and other energy uses such as photovoltaic (PV) and energy storage at our landfill sites.

At present, Viridor's landfill gas site contribute 96MW of landfill gas capacity, a slight decrease from last year of 99MW, reflecting the replacement of some engines with more efficient smaller engines as the gas volumes gradually reduce. Viridor has a PV capacity of 2.4 MW.

During the period, cells at certain sites have been reopened to landfill, resulting in a short term reduction in the volumes of gas captured. In addition, higher engine maintenance has been performed, as part of an engine replacement programme. This has resulted in a onetime larger reduction in landfill gas power generation output in H1 2017/18, down 17.7% to 218 gigawatt hours (Gwh). This level of reduction is not expected to recur. Average revenue per Megawatt hour

⁴⁰ Excluding capitalised interest and net of amounts subject to legal contractual processes.

(Mwh) was marginally higher at £80.86 (H1 2016/17 £80.35). Average operating costs increased 11.7% to £39.45 per Mwh (H1 2016/17 £35.33) reflecting the lower generation and the higher maintenance cost.

Recycling performance in line with prior year

Viridor has focused on product quality and identifying new output markets following changes in import regulations in China. Viridor is developing export markets in India, Vietnam and South Korea to mitigate the reduction in the Chinese Market.

During the period, recycling EBITDA has remained broadly in line with the prior year at £10.6 million. Volumes have reduced as Viridor has focused on quality and margin, although EBITDA per tonne has increased by 7.7% year on year to £14 as a result of higher pricing (H1 2016/17 £13).

Revenue per tonne is up 11.5% to £97 (H1 2016/17 £87), reflecting higher gate fees as well as market pricing.

Total operating costs are broadly in line with the prior year, but costs per tonne have increased as we have responded to higher quality requirements. Shipping costs have increased £3 per tonne to £5 per tonne following the administration of one of the larger shipping carriers last year reducing capacity.

Contracts and Collections securing waste inputs

We continue to work with our customers to identify mutually beneficial enhancements to our contracts. We have sharing mechanisms in place in our long term local authority contracts where returns exceed contractual hurdle levels, demonstrating a commitment to partnership and working for a common goal.

The contract to operate the recycling assets on behalf of the Greater Manchester Waste Disposal Authority (GMWDA) has entered a 'run off' period of no less than 18 months from 1 October 2017 whilst GMWDA run a tender process for a new contract expected to commence in 2019. Performance on this contract and the other major local authority contracts has been in line with expectations.

Our collections business continues to provide a valuable service to our customers and secures volume for our ERF, landfill and recycling assets. The increase in performance in H1 2017/18 reflects the rationalisation of a contract.

Joint Ventures continue to perform strongly

Viridor Laing Greater Manchester (VLGM), a joint venture between Viridor and John Laing, performed in line with expectations during the period. As part of the contract exit, the company was sold to GMWDA at the end of September and as a result is no longer a joint venture. On disposal of the joint venture, of the £42.7 million outstanding shareholder loans £23.5 million was repaid resulting in a write-down of £19.2 million.

The TPSCo joint venture (between Viridor, John Laing and Inovyn) remains in place and has performed strongly during the half year. As part of the wider contract reset, GMWDA provided finance to the joint venture to enable the repayment of external bank debt. This change in cash flows resulted in the recognition of income in this joint venture, with an amount deferred relating to the lower ongoing gate fee. The overall share of profit after tax, in H1 2017/18, related to the reset is £22.5 million.

In addition the contract to operate VLGM's assets will continue for at least 18 months on a reset basis. All claims relating to construction of VLGM's assets have been settled, resulting in a net benefit to Viridor of £3.2 million in the period. Viridor's operating contract for TPSCo's Runcorn I ERF remains unchanged.

Following the changes in contractual arrangements it is anticipated that, future annual earnings will reflect:

- No further finance income or share of profit after tax will be recognised from Viridor Laing, as the entity is no longer part of the Group
- A non material reduction in profit after tax and finance income from TPSCo shareholder loans, due to a re-profiling of cash flows
- Improved earnings from the recycling asset operations contract over the 18 month run-off period

The joint venture at Lakeside ERF (a 50:50 joint venture with Grundon Waste Management) continues to perform strongly. In its eighth year of operation it continues to outperform its original targets for both waste processing and power generation.

Growth and compliance in new Water Retail market

We have seen a successful start to the new non-household water retail market, which opened on 1 April 2017. Our retailer, Pennon Water Services (PWS), which is an 80:20 venture with South Staffordshire Plc has performed strongly in the new market, delivering net customer⁴¹ and revenue growth during the period and consistently leading the market in performance standards as measured by the market operator, MOSL.

⁴¹ c.1,750 net new customer accounts to 20 November 2017

We continue to focus on delivering customer service that reflects the needs of our business customers. Set up costs and service investment of c.£1.5 million are reflected in the EBITDA performance for the half year, resulting from our successful migration to a single billing system and customer service operation for those customers previously served by South West Water and South Staffs Water. This initial investment will result in delivery of increased efficiencies in service throughout the second half of the year.

Throughout this period, PWS has regularly achieved industry leading standards showing strong compliance with required market performance as measured by MOSL, with average performance of c.99%. Financial penalties for poor performance will be introduced during 2018/19, with PWS already having established a solid base to minimise potential penalties.

Board matters

Jonathan Butterworth was appointed as an Independent Non-Executive Director of South West Water Limited on 28 September 2017.

Chris Loughlin
Group Chief Executive Officer
29 November 2017

Financial Timetable

12 January 2018	Posting of interim dividend DRIP alternative
25 January 2018	Ordinary shares quoted ex-dividend
26 January 2018	Record date for interim dividend
9 March 2018	Final date for receipt of DRIP applications
26 March 2018	Trading Statement
4 April 2018	Interim dividend paid
25 May 2018	Full Year Results 2017/18
Early June 2018	Annual Report & Accounts published
5 July 2018	Annual General Meeting
5 July 2018*	Ordinary shares quoted ex-dividend
6 July 2018*	Record date for final dividend
20 July 2018*	Posting of final dividend DRIP alternative
13 August 2018*	Final date for receipt of DRIP applications
4 September 2018*	Final dividend paid
24 September 2018	Trading Statement
27 November 2018	Half Year Results 2018/19

* These dates are provisional and, in the case of the final dividend subject to obtaining shareholder approval at the 2018 Annual General Meeting.

Principal Risks and Uncertainties

In accordance with DTR4.2.3 and 4.2.7 of the Disclosure & Transparency Rules the principal risks for the remaining six months of the financial year which could have a material adverse affect on the Group are detailed below. These principal risks have been reconsidered against a back drop of potential wider uncertainties, including the UK leaving the EU and the evolving political views on the nationalisation of the Water industry and the associated influence on regulatory behaviour and news-flow. Whilst a lack of clarity exists with respect to their potential direct and indirect impact, these uncertainties continue to be pro-actively monitored and managed by the Group at both a strategic and operational level.

The Board considers the principal risks to be:

Law, Regulation and Finance

- Compliance with law (including tax laws), regulation or decisions by Government and regulators, including water industry market reform
- Maintaining sufficient finance and funding to meet ongoing commitments
- Non-compliance or occurrence of avoidable health and safety incidents
- Tax compliance and contribution

Market and Economic Conditions

- Non-recovery of customer debt
- Macro-economic risks arising from global and UK economic downturn impacting commodity and power prices
- Increase in defined benefit pension scheme deficit

Operating Performance

- Poor operating performance due to extreme weather or climate change
- Poor customer service and/or increased competition leading to loss of customer base
- Business interruption or significant operational failures/ incidents
- Difficulty in recruitment, retention and development of appropriate skills required to deliver the Group's strategy

Business Systems and Capital Investment

- Failure or increased cost of capital projects and/or exposure to contract failures
- Failure of information technology systems, management and protection including cyber risks.

CAUTIONARY STATEMENT IN RESPECT OF FORWARD-LOOKING STATEMENTS

This 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 which may constitute "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are identified in this Report by words such as "anticipate", "aim", "believe", "continue", "could", "due", "estimate", "expect", "forecast", "goal", "intend", "may", "outlook", "plan", "probably", "project", "remain", "seek", "should", "target", "will", "would" and related and similar expressions, as well as statements in the future tense. All statements other than of historical fact may be forward-looking statements and represent the Group's belief regarding future events, many of which, by their nature, are inherently uncertain and outside the Group's control. 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. Important risks, uncertainties and other factors that could cause actual results, performance or achievements of Pennon Group to differ materially from any outcomes or results expressed or implied by such forward-looking statements include, among other things, compliance with law, regulation or decisions by Government and regulators, including water industry reform; maintaining sufficient finance and funding to meet ongoing commitments; non-compliance or occurrence of avoidable Health and Safety incidents; tax compliance and contribution; increase in defined benefit pension scheme deficit; non-recovery of customer debt; poor operating performance due to extreme weather and climate change; macro-economic risks arising from the Global and UK economic downturn impacting commodity and power prices; poor customer service/increased competition leading to loss of customer base; business interruption or significant operational failures/incidents; difficulty in recruitment, retention and development of appropriate skills which are required to deliver the Group's strategy; failure or increased cost of capital projects/exposure to contract failures; and failure of information technology systems, management and protection, including cyber risks. These risks were described in greater detail in the Pennon Group Annual Report published at the beginning of June 2017. Such forward looking statements should therefore be construed in light of such risks, uncertainties and other factors and undue reliance should not be placed on them. Nothing in this report should be construed as a profit forecast.

Any forward-looking statements are made only as of the date of this document and no representation, assurance, guarantee or warranty is given in relation to them including as to their accuracy, completeness, or the basis on which they are made. The Group accepts no obligation to revise or update publicly 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.

UNSOLICITED COMMUNICATIONS WITH SHAREHOLDERS

A number of companies, including Pennon Group plc, continue to be aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters which imply a connection to the company concerned. If shareholders have any concerns about any contact they have received then please refer to the Financial Conduct Authority's website www.fca.org.uk/scamsmart. Details of any share dealing facilities that the Company endorses will be included in Company mailings.

PENNON GROUP PLC
Consolidated income statement for the half year ended 30 September 2017

	Notes	Unaudited					
		Before non- underlying items half year ended 30 September 2017 £m	Non- underlying items (note 5) half year ended 30 September 2017 £m	Total half year ended 30 September 2017 £m	Before non- underlying items half year ended 30 September 2016 £m	Non- underlying items (note 5) half year ended 30 September 2016 £m	Total half year ended 30 September 2016 £m
Revenue	4	723.9	3.2	727.1	685.5	-	685.5
Operating costs							
Employment costs		(99.1)	-	(99.1)	(89.9)	(1.1)	(91.0)
Raw materials and consumables used		(60.0)	-	(60.0)	(56.1)	-	(56.1)
Other operating expenses		(311.3)	-	(311.3)	(294.1)	(9.6)	(303.7)
Earnings before interest, tax, depreciation and amortisation	4	253.5	3.2	256.7	245.4	(10.7)	234.7
Depreciation and amortisation		(91.1)	-	(91.1)	(91.5)	-	(91.5)
Operating profit	4	162.4	3.2	165.6	153.9	(10.7)	143.2
Finance income	6	13.5	-	13.5	19.7	24.4	44.1
Finance costs	6	(50.1)	(27.0)	(77.1)	(48.3)	(39.4)	(87.7)
Net finance costs	6	(36.6)	(27.0)	(63.6)	(28.6)	(15.0)	(43.6)
Share of post-tax profit from joint ventures		5.3	22.5	27.8	2.8	-	2.8
Profit before tax	4	131.1	(1.3)	129.8	128.1	(25.7)	102.4
Taxation	7	(21.8)	4.3	(17.5)	(30.7)	17.4	(13.3)
Profit for the period		109.3	3.0	112.3	97.4	(8.3)	89.1
Attributable to:							
Ordinary shareholders of the parent		87.9	3.0	90.9	81.2	(8.3)	72.9
Non-controlling interests		(0.1)	-	(0.1)	-	-	-
Perpetual capital security holders		21.5	-	21.5	16.2	-	16.2
Earnings per ordinary share (pence per share)	8						
- Basic				21.8			17.7
- Diluted				21.7			17.6

The notes on pages 38 to 55 form part of this condensed half year financial information.

PENNON GROUP PLC
Consolidated statement of comprehensive income for the half year ended 30 September 2017

	Unaudited					
	Before non- underlying items half year ended 30 September 2017 £m	Non-underlying items (note 5) half year ended 30 September 2017 £m	Total half year ended 30 September 2017 £m	Before non- underlying items half year ended 30 September 2016 £m	Non-underlying items (note 5) half year ended 30 September 2016 £m	Total half year ended 30 September 2016 £m
Profit for the period	109.3	3.0	112.3	97.4	(8.3)	89.1
Other comprehensive Income / (loss)						
<i>Items that will not be reclassified to profit or loss</i>						
Remeasurement of defined benefit obligations (note 16)	15.3	-	15.3	(73.1)	-	(73.1)
Income tax on items that will not be reclassified	(2.5)	-	(2.5)	14.8	(3.6)	11.2
Total items that will not be reclassified to profit or loss	12.8	-	12.8	(58.3)	(3.6)	(61.9)
<i>Items that may be reclassified subsequently to profit or loss</i>						
Share of other comprehensive income from joint ventures	(3.9)	-	(3.9)	(2.8)	-	(2.8)
Cash flow hedges	15.0	-	15.0	(2.7)	-	(2.7)
Income tax on items that may be reclassified	(2.6)	-	(2.6)	0.5	(0.5)	-
Total items that may be reclassified subsequently to profit or loss	8.5	-	8.5	(5.0)	(0.5)	(5.5)
Other comprehensive Income / (loss) for the period net of tax	21.3	-	21.3	(63.3)	(4.1)	(67.4)
Total comprehensive income for the period	130.6	3.0	133.6	34.1	(12.4)	21.7
Total comprehensive income attributable to:						
Ordinary shareholders of the parent	109.2	3.0	112.2	17.9	(12.4)	5.5
Non-controlling interests	(0.1)	-	(0.1)	-	-	-
Perpetual capital security holders	21.5	-	21.5	16.2	-	16.2

The notes on pages 38 to 55 form part of this condensed half year financial information.

PENNON GROUP PLC
Consolidated balance sheet at 30 September 2017

		Unaudited	
		30 September	31 March
		2017	2017
		£m	£m
	Notes		
ASSETS			
Non-current assets			
Goodwill		385.0	385.0
Other intangible assets		74.2	67.1
Property, plant and equipment		4,212.8	4,103.2
Other non-current assets		295.6	308.0
Derivative financial instruments		66.1	73.6
Investments in joint ventures	5	23.0	0.1
		5,056.7	4,937.0
Current assets			
Inventories		22.2	21.3
Trade and other receivables		377.2	340.8
Derivative financial instruments		13.7	14.1
Cash and cash deposits	14	571.1	598.1
		984.2	974.3
LIABILITIES			
Current liabilities			
Borrowings	14	(59.9)	(146.5)
Financial liabilities at fair value through profit		(2.3)	(2.4)
Derivative financial instruments		(13.4)	(17.3)
Trade and other payables	18	(378.7)	(286.5)
Current tax liabilities		(19.6)	(26.8)
Provisions		(35.8)	(40.4)
		(509.7)	(519.9)
Net current assets			
		474.5	454.4
Non-current liabilities			
Borrowings	14	(3,302.1)	(3,116.5)
Other non-current liabilities	18	(137.0)	(180.7)
Financial liabilities at fair value through profit		(47.6)	(48.4)
Derivative financial instruments		(15.7)	(25.2)
Retirement benefit obligations	16	(55.9)	(68.0)
Deferred tax liabilities		(285.1)	(269.6)
Provisions		(173.7)	(173.8)
		(4,017.1)	(3,882.2)
Net assets			
		1,514.1	1,509.2
Shareholders' Equity			
Share capital	10	170.8	168.4
Share premium account		218.2	217.4
Capital redemption reserve		144.2	144.2
Retained earnings and other reserves		683.6	684.4
Total shareholders' equity		1,216.8	1,214.4
Non-controlling interests		0.6	-
Perpetual capital securities	12	296.7	294.8
Total equity		1,514.1	1,509.2

The notes on pages 38 to 55 form part of this condensed half year financial information.

PENNON GROUP PLC
Consolidated statement of changes in equity for the half year ended 30 September 2017

	Unaudited						
	Share capital (note 10)	Share premium account (note 11)	Capital redemption reserve	Retained earnings and other reserves	Non- controlling interests	Perpetual capital securities (note 12)	Total Equity
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2016	167.8	213.3	144.2	667.5	-	294.8	1487.6
Profit for the period	-	-	-	72.9	-	16.2	89.1
Other comprehensive loss for the period	-	-	-	(67.4)	-	-	(67.4)
Total comprehensive income for the period	-	-	-	5.5	-	16.2	21.7
<i>Transactions with equity shareholders:</i>							
Dividends paid	-	-	-	(138.5)	-	-	(138.5)
Adjustment for shares issued under the Scrip Dividend Alternative	0.3	(0.3)	-	6.9	-	-	6.9
Adjustment in respect of share-based payments (net of tax)	-	-	-	1.8	-	-	1.8
Distributions due to perpetual capital security holders	-	-	-	-	-	(20.3)	(20.3)
Current tax relief on distributions to perpetual capital security holders	-	-	-	-	-	4.1	4.1
Own shares acquired by the Pennon Employee Share Trust in respect of Share options granted	0.1	1.2	-	(2.6)	-	-	(1.3)
Proceeds from shares issued under the Sharesave Scheme	0.2	2.6	-	-	-	-	2.8
Proceeds from shares issued under the Executive Share Option Scheme	-	0.1	-	-	-	-	0.1
	0.6	3.6	-	(132.4)	-	(16.2)	(144.4)
At 30 September 2016	168.4	216.9	144.2	540.6	-	294.8	1,364.9
	Unaudited						
	Share capital (note 10)	Share premium account (note 11)	Capital redemption reserve	Retained earnings and other reserves	Non- controlling interests	Perpetual capital securities (note 12)	Total Equity
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2017	168.4	217.4	144.2	684.4	-	294.8	1,509.2
Profit for the period	-	-	-	90.9	(0.1)	21.5	112.3
Other comprehensive income for the period	-	-	-	21.3	-	-	21.3
Total comprehensive income for the period	-	-	-	112.2	(0.1)	21.5	133.6
<i>Transactions with equity shareholders:</i>							
Dividends paid	-	-	-	(149.5)	-	-	(149.5)
Adjustment for shares issued under the Scrip Dividend Alternative	2.1	(2.1)	-	41.7	-	-	41.7
Adjustment in respect of share-based payments (net of tax)	-	-	-	1.8	-	-	1.8
Issuance of perpetual capital securities	-	-	-	-	-	296.7	296.7
Redemption of perpetual capital securities	-	-	-	(5.2)	-	(294.8)	(300.0)
Distributions due to perpetual capital security holders	-	-	-	-	-	(25.3)	(25.3)
Current tax relief on distributions to perpetual capital security holders	-	-	-	-	-	3.8	3.8
Own shares acquired by the Pennon Employee Share Trust in respect of Share options granted	0.1	0.4	-	(1.8)	-	-	(1.3)
Proceeds from shares issued under the Sharesave Scheme	0.2	2.5	-	-	-	-	2.7
Non-controlling interests (note 20)	-	-	-	-	0.7	-	0.7
	2.4	0.8	-	(113.0)	0.7	(19.6)	(128.7)
At 30 September 2017	170.8	218.2	144.2	683.6	0.6	296.7	1,514.1

The notes on pages 38 to 55 form part of this condensed half year financial information.

PENNON GROUP PLC
Consolidated statement of cash flows for the half year ended 30 September 2017

		Unaudited	
		Half year ended 30 September 2017 £m	Half year ended 30 September 2016 £m
	Notes		
Cash flows from operating activities			
Cash generated from operations	13	211.2	243.3
Interest paid		(33.2)	(35.1)
Tax paid		(10.4)	-
Net cash generated from operating activities		167.6	208.2
Cash flows from investing activities			
Interest received		1.9	1.8
Dividends received		1.0	-
Loan repayments received from joint ventures	5	23.7	4.0
Purchase of property, plant and equipment		(198.1)	(158.2)
Proceeds from sale of property, plant and equipment		7.1	3.2
Purchase of intangible assets		(0.5)	-
Acquisition of trade receivables	20	(7.0)	-
Net cash used in investing activities		(171.9)	(149.2)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		3.2	4.2
Proceeds from the issuance of perpetual capital securities	12	296.7	-
Redemption and periodic return of 2013 perpetual capital securities	12	(304.8)	-
Disposal of non-controlling interest (Deposit)/ return of restricted funds	20	0.7	-
		(3.7)	7.5
Purchase of ordinary shares by the Pennon Employee Share Trust		(1.8)	(2.6)
Proceeds from new borrowing	14	56.3	130.0
Repayment of borrowings	14	(50.1)	(23.0)
Finance lease sale and leaseback	14	100.0	0.2
Finance lease principal repayments	14	(15.1)	(10.9)
Dividends paid	9	(107.8)	(131.6)
Net cash used in financing activities		(26.4)	(26.2)
Net (decrease) / increase in cash and cash equivalents		(30.7)	32.8
Cash and cash equivalents at beginning of period	14	374.3	405.7
Cash and cash equivalents at end of period	14	343.6	438.5

The notes on pages 38 to 55 form part of this condensed half year financial information.

PENNON GROUP PLC**Notes to condensed half year financial information****1. General information**

Pennon Group plc is a company registered in the United Kingdom (UK) under the Companies Act 2006. The address of the registered office is given on page 55. Pennon Group's business is operated through two principal subsidiaries. South West Water Limited includes the merged water companies of South West Water and Bournemouth Water, providing water and wastewater services in Devon, Cornwall and parts of Dorset and Somerset and water only services in parts of Dorset, Hampshire and Wiltshire. Viridor Limited's business is recycling, energy recovery and waste management. Pennon Group is also the majority shareholder of Pennon Water Services Limited, a company providing water and wastewater retail services to non-household customer accounts across Great Britain.

This condensed half year financial information was approved by the Board of Directors on 28 November 2017.

The financial information for the period ended 30 September 2017 does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The statutory accounts for 31 March 2017 were approved by the Board of Directors on 23 May 2017 and have been delivered to the Registrar of Companies. The independent auditor's 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 2017, which were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Having made enquiries, the Directors consider that the Company and its subsidiary undertakings have adequate resources to continue in business for the foreseeable future, and that it is therefore appropriate to adopt the going concern basis in preparing the condensed half year financial information.

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

The preparation of the half year financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are consistent with those that applied to the consolidated financial statements for the year ended 31 March 2017, with the exception of changes in estimates that are required in determining the half year provision of income taxes; and judgements made in relation to establishing the different components of revenue in respect of monies received into our joint venture INEOS Runcorn (TPS) Limited with consideration given to the overall contracted negotiations with the authority and the timing of income recognition (note 5).

PENNON GROUP PLC**Notes to condensed half year financial information (continued)****3. Accounting policies**

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 2017 and are in accordance with all IFRSs and interpretations of the IFRS Interpretations Committee expected to be applicable for the year ended 31 March 2018 in issue which have been adopted by the EU.

New standards or interpretations which were mandatory for the first time in the year beginning 1 April 2017 did not have a material impact on the net assets or results of the Group.

New standards or interpretations due to be adopted from 1 April 2018, including IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments' are not expected to have a material impact on the Group's net assets or results.

The tax charge for September 2017 and September 2016 has been derived by applying the anticipated effective annual rate to the first half year profit before tax.

PENNON GROUP PLC
Notes to the condensed half year financial information (continued)
4. Segmental information

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.

The water business comprises the regulated water and wastewater services undertaken by South West Water. The waste management business is the recycling, energy recovery and waste management services provided by Viridor. The non-household retail business is a new segment created this period reflecting the services provided by Pennon Water Services following the opening of the non-household water and wastewater retail market to competition on 1 April 2017.

	Unaudited	
	Half year ended 30 September 2017 £m	Half year ended 30 September 2016 £m
Revenue		
Water	292.2	284.9
Waste management	410.2	397.9
Non-household retail	83.5	68.3
Other	7.2	6.1
Less intra-segment trading	(66.0)	(71.7)
	727.1	685.5
Segment result		
Operating profit before depreciation, amortisation and non-underlying items (EBITDA)		
Water	187.1	181.9
Waste management	66.6	63.3
Non-household retail	0.5	1.1
Other	(0.7)	(0.9)
	253.5	245.4
Operating profit before non-underlying items		
Water	130.7	126.1
Waste management	32.4	27.7
Non-household retail	0.2	1.1
Other	(0.9)	(1.0)
	162.4	153.9
Profit before tax and non-underlying items		
Water	96.2	95.9
Waste management	30.6	23.1
Non-household retail	(0.5)	1.1
Other	4.8	8.0
	131.1	128.1
Profit before tax		
Water	87.2	95.4
Waste management	37.1	12.9
Non-household retail	(0.5)	1.1
Other	6.0	(7.0)
	129.8	102.4

Comparative information has been re-presented during the period to reflect the opening of the non-household water and wastewater retail market to competition. Comparative results for the non-household retail segment were previously recognised in the water segment.

PENNON GROUP PLC
Notes to the condensed half year financial information (continued)
4. Segmental information (continued)

Intra-segment trading between different segments is under normal market based commercial terms and conditions. Intra-segment revenue of the other segment is reflected as a cost.

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

Geographic analysis of revenue based on location of customers

	Unaudited	
	Half year ended 30 September 2017 £m	Half year ended 30 September 2016 £m
UK	692.5	663.5
Rest of European Union	6.4	3.9
China	20.4	14.6
Rest of World	4.6	3.5
	723.9	685.5

The UK is the Group's country of domicile and the Group generates the majority of its revenue from external customers in the UK. The Group's non-current assets are all located in the UK.

5. Non-underlying items

Non-underlying items are those that in the Directors' view are required to be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance in the period and business trends over time.

	Unaudited	
	Half year ended 30 September 2017 £m	Half year ended 30 September 2016 £m
Revenue		
Construction contract settlements (1a)	3.2	-
Operating costs		
Restructuring costs (2)	-	(10.7)
Earnings before interest, tax, depreciation and amortisation	3.2	(10.7)
Remeasurement of fair value movement in derivatives (3)	(7.8)	(15.0)
Write-down of joint venture shareholder loans (1b)	(19.2)	-
Refinancing of joint venture arrangement (1c)	22.5	-
Deferred tax change in rate (4)	-	20.1
Tax charge arising on non-underlying items	4.3	(2.7)
Net non-underlying credit/ (charge)	3.0	(8.3)

PENNON GROUP PLC**Notes to the condensed half year financial information (continued)****5. Non-underlying items (continued)**

- 1 On reset of the contracts associated with the Greater Manchester Waste Disposal Authority (GMWDA) an overall net credit before tax of £6.5m has been recognised as follows:
 - (a) A net amount of £3.2m has been recognised in revenue following the settlement of all outstanding claims relating to the construction of assets.
 - (b) On reset of the contracts associated with GMWDA, ownership of Viridor Laing Holdings Limited passed to the GMWDA. On transfer £23.5m of Viridor's shareholder loans were repaid, resulting in the write down of the remaining financial asset of £19.2m.
 - (c) On reset of the contracts associated with GMWDA repayment of external bank debt in our joint venture, Ineous Runcorn TPSCo Limited, was financed by GMWDA. This change in cash flows resulted in the recognition of income in this joint venture, with an amount deferred relating to a lower ongoing gate fee. The overall share of profit after tax in the half year related to the reset is £22.5 million, which has contributed to an increase in investments in joint ventures recognised on the balance sheet to £23.0m (31 March 2017 £0.1m).
- 2 Last half year a one-off charge of £10.7m was made relating to restructuring costs associated with a Group-wide Shared Services Review. The £10.7m charge consisted of a £9.5m non-cash charge to other operating expenses relating to a rationalisation of systems leading to an asset de-recognition, and a £1.1m charge to manpower costs and a £0.1m charge to other operating costs in relation to restructuring provisions. The charge was considered non-underlying due to its size and non-recurring nature.
- 3 In the period a charge of £7.8m was recognised relating to non-cash derivative fair value movements associated with derivatives that are not designated as being party to an accounting hedge relationship. These movements are non-underlying due to the nature of the item being market dependant and potentially can be significant in value (size).

In H1 2016/17 a credit of £24.4m was recognised relating to non-cash derivative fair value movements associated with derivatives that were not designated as being party to an accounting hedge relationship. In addition, a charge of £39.4m was recognised for the movement in the fair value of another derivative arrangement relating to a change in legislation, which impacted the derivative's future cash flows. This derivative was terminated in February 2017.
- 4 Following the enactment of the Finance Act 2016 during H1 2016/17 the rate of corporation tax reduced from 18% to 17% from April 2020, resulting in a one-off credit of £20.1m being recognised in the previous period.

PENNON GROUP PLC
Notes to the condensed half year financial information (continued)
6. Net finance costs

	Unaudited					
	Half year ended 30 September 2017			Half year ended 30 September 2016		
	Finance cost £m	Finance income £m	Total £m	Finance cost £m	Finance income £m	Total £m
Cost of servicing debt						
Bank borrowings and overdrafts	(25.8)	-	(25.8)	(24.2)	-	(24.2)
Interest element of finance lease rentals	(17.1)	-	(17.1)	(16.2)	-	(16.2)
Other finance costs	(1.5)	-	(1.5)	(2.2)	-	(2.2)
Interest receivable	-	1.1	1.1	-	1.8	1.8
Interest receivable on shareholder loans to joint ventures	-	5.5	5.5	-	5.0	5.0
	(44.4)	6.6	(37.8)	(42.6)	6.8	(35.8)
Notional interest						
Interest receivable on service concession arrangements	-	6.9	6.9	-	8.8	8.8
Retirement benefit obligations	(0.9)	-	(0.9)	(0.6)	-	(0.6)
Unwinding of discounts on provisions	(4.8)	-	(4.8)	(5.1)	-	(5.1)
	(5.7)	6.9	1.2	(5.7)	8.8	3.1
Net gains on derivative financial instruments arising from the combination of non-derivative instruments	-	-	-	-	4.1	4.1
Net finance costs before non-underlying items	(50.1)	13.5	(36.6)	(48.3)	19.7	(28.6)
Non-underlying items (note 5)						
Write-down of joint venture shareholder loans	(19.2)	-	(19.2)	-	-	-
Fair value remeasurement of non-designated derivative financial instruments, providing commercial hedges	(7.8)	-	(7.8)	(39.4)	24.4	(15.0)
	(27.0)	-	(27.0)	(39.4)	24.4	(15.0)
Net finance costs after non-underlying items	(77.1)	13.5	(63.6)	(87.7)	44.1	(43.6)

PENNON GROUP PLC
Notes to the condensed half year financial information (continued)
7. Taxation

	Before non-underlying items half year ended 30 September 2017 £m	Non-underlying items (note 5) half year ended 30 September 2017 £m	Total half year ended 30 September 2017 £m	Before non-underlying items half year ended 30 September 2016 £m	Non-underlying items (note 5) half year ended 30 September 2016 £m	Total half year ended 30 September 2016 £m
Analysis of charge						
Current tax charge	10.0	(3.0)	7.0	22.8	(1.3)	21.5
Deferred tax – other	11.8	(1.3)	10.5	7.9	(16.1)	(8.2)
Tax charge for the period	21.8	(4.3)	17.5	30.7	(17.4)	13.3

UK corporation tax is calculated at 19% (H1 2016/17 20%) of the estimated assessable profit for the year. The tax charge for September 2017 and September 2016 has been derived by applying the anticipated effective annual tax rate to the first half year profit before tax.

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

The effective tax rate for the period before the impact of non-underlying items was 17% (H1 2016/17 24%).

The effective tax rate for the period including the impact of non-underlying items was 13% (H1 2016/17 13%).

PENNON GROUP PLC
Notes to the condensed half year financial information (continued)
8. 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 in issue 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 2017	Half year ended 30 September 2016
Number of shares (millions)		
For basic earnings per share	416.6	412.5
Effect of dilutive potential ordinary shares from share options	1.5	2.1
For diluted earnings per share	418.1	414.6

Adjusted basic and diluted earnings per ordinary share

Adjusted earnings per share are presented to provide a more useful comparison on business trends and performance. Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance (as described in note 5). Perpetual capital returns are proportionately adjusted to allow a more useful comparison in the period. Earnings per share have been calculated as follows:

	Unaudited					
	Half year ended 30 September 2017			Half year ended 30 September 2016		
	Profit after tax £m	Earnings per share		Profit after tax £m	Earnings per share	
		Basic p	Diluted p		Basic p	Diluted p
Statutory earnings	90.9	21.8	21.7	72.9	17.7	17.6
Deferred tax before non-underlying items	11.8	2.8	2.8	7.9	1.9	1.9
Non-underlying items (net of tax)	(3.0)	(0.7)	(0.7)	8.3	2.0	1.9
Proportionate impact of perpetual capital returns (note 12)	5.8	1.4	1.4	8.1	2.0	2.0
Earnings before non-underlying items and deferred tax	105.5	25.3	25.2	97.2	23.6	23.4

PENNON GROUP PLC
Notes to the condensed half year financial information (continued)
9. Dividends
Amounts recognised as distributions to ordinary equity holders in the period:

	Unaudited	
	Half year ended 30 September 2017 £m	Half year ended 30 September 2016 £m
Interim dividend paid for the year ended 31 March 2017 : 11.09p (2016 10.46p) per share	45.9	43.1
Final dividend paid for the year ended 31 March 2017 : 24.87p (2016 23.12p) per share	103.6	95.4
	149.5	138.5

In the six months to 30 September 2017 the 2016/17 interim and final dividends were paid resulting in a cash outflow of £107.8m and the issuance of 5.2m ordinary shares.

	Unaudited	
	Half year ended 30 September 2017 £m	Half year ended 30 September 2016 £m
Proposed interim dividend		
Proposed interim dividend for the year ended 31 March 2018 : 11.97p (2017 11.09p) per share	50.2	45.9

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

The proposed interim dividend for 2018 will be paid on 4 April 2018 to shareholders on the register on 26 January 2018.

PENNON GROUP PLC
Notes to the condensed half year financial information (continued)
10. Share capital
Allotted, called up and fully paid

	Unaudited		£m
	Number of shares		
1 April 2016 to 30 September 2016	Treasury shares	Ordinary shares	
At 1 April 2016 Ordinary shares of 40.7p each	10,356	412,340,597	167.8
Shares issued under the Scrip Dividend Alternative	-	771,563	0.3
For consideration of £0.0m shares re-issued under the Company's Executive Share Option Scheme	(1,913)	1,913	-
For consideration of £1.3m, shares issued to the Pennon Employee Share Trust	-	143,479	0.1
For consideration of £0.1m, shares issued under the Company's Executive Share Option Scheme	-	24,457	-
For consideration of £2.8m, shares issued in respect of the Company's Sharesave Scheme	-	524,905	0.2
At 30 September 2016 ordinary shares of 40.7p each	8,443	413,806,914	168.4

	Unaudited		£m
	Number of shares		
1 April 2017 to 30 September 2017	Treasury shares	Ordinary shares	
At 1 April 2017 Ordinary shares of 40.7p each	8,443	413,893,293	168.4
Shares issued under the Scrip Dividend Alternative	-	5,223,089	2.1
For consideration of £0.5m, shares issued to the Pennon Employee Share Trust	-	46,205	0.1
For consideration of £2.7m, shares issued in respect of the Company's Sharesave Scheme	-	449,717	0.2
At 30 September 2017 ordinary shares of 40.7p each	8,443	419,612,304	170.8

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 year was 806p (H1 2016/17 887p).

PENNON GROUP PLC
Notes to the condensed half year financial information (continued)

11.	Share premium account	<u>Unaudited</u> £m
	1 April 2016 to 30 September 2016	
	At 1 April 2016	213.3
	Adjustment for shares issued under the Scrip Dividend Alternative	(0.3)
	Shares issued under the Sharesave Scheme	2.6
	Shares issued under the Executive Share Option Scheme	0.1
	Shares issued to the Pennon Employee Share Trust	1.2
	At 30 September 2016	<u>216.9</u>
	1 April 2017 to 30 September 2017	
	At 1 April 2017	217.4
	Adjustment for shares issued under the Scrip Dividend Alternative	(2.1)
	Shares issued under the Sharesave Scheme	2.5
	Shares issued to the Pennon Employee Share Trust	0.4
	At 30 September 2017	<u>218.2</u>

PENNON GROUP PLC
Notes to the condensed half year financial information (continued)
12. Perpetual capital securities

	Unaudited	
	Half year ended	Year ended
	30 September	31 March
	2017	2017
	£m	£m
GBP 300m 2.875% perpetual subordinated capital securities	296.7	-
GBP 300m 6.75% perpetual subordinated capital securities	-	294.8
	296.7	294.8

On 8 March 2013 the Company issued £300m perpetual capital securities. Costs directly associated with the issue of £5.2m were set off against the value of the issuance. They had no fixed redemption date but the Company could at its sole discretion, redeem all, but not part, of these securities at their principal amount on 8 March 2018 or any subsequent periodic return payment date after this. In the event the Company acquired 80% or more of the securities it could then redeem the remainder at its sole discretion.

On 22 September 2017 the Company purchased £285.8m in principal amount of the capital securities and settled accrued periodic returns totalling £19.0m for a total of £304.8m. On 25 September notice was given to the remaining holders that the Company would be exercising its option to redeem all of the remaining £14.2m capital securities on 10 October 2017 at their principal amount. The outstanding liability at 30 September 2017 of £14.2m, together with accrued periodic returns of £0.6m is classified as a current liability on the balance sheet.

On 22 September 2017 the Company issued £300m perpetual capital securities. Costs directly associated with the issue of £3.3m were set off against the value of the issuance. They have no fixed redemption date but the Company can at its sole discretion redeem all, but not part, of these securities at their principal amount on 22 May 2020 or any subsequent periodic return payment date after this.

The Company has the option to defer periodic returns on any relevant payment date, as long as a dividend on the Ordinary Shares has not been paid or declared in the previous 12 months. Deferred periodic returns shall be satisfied only on redemption or payment of dividend on Ordinary Shares, all of which only occur at the sole discretion of the Company.

As the Company paid a dividend on 4 April 2017 the first periodic return of £5.8m, scheduled 22 May 2018, is payable and consequently has been recognised as a liability at 30 September 2017.

Profits during the period attributable to perpetual capital security holders of £21.5m reflect £19.6m of distributions noted above on the March 2013 perpetual capital securities, £3.8m of associated corporation tax relief and £5.8m for periodic returns due on 2017 perpetual capital securities (note the newly issued securities do not qualify for corporation tax relief).

PENNON GROUP PLC
Notes to the condensed half year financial information (continued)
13. Cash flow from operating activities

Reconciliation of profit for the period to net cash inflow from operations:

	Unaudited	
	Half year ended 30 September 2017 £m	Half year ended 30 September 2016 £m
Cash generated from operations		
Profit for the period	112.3	89.1
Adjustments for:		
Share-based payments	1.8	1.8
Profit on disposal of property, plant and equipment	-	(2.0)
Depreciation charge	89.4	90.1
Amortisation of intangible assets	1.7	1.4
Non-underlying restructuring costs	-	10.7
Non-underlying remeasurement of fair value movement in derivatives (note 5)	7.8	15.0
Non-underlying GMWDA contract reset (note 5)	(6.5)	-
Share of post-tax profit from joint ventures	(5.3)	(2.8)
Finance income (before non-underlying items)	(13.5)	(19.7)
Finance costs (before non-underlying items)	50.1	48.3
Taxation charge	17.5	13.3
Changes in working capital:		
Increase in inventories	(0.9)	(2.8)
Increase in trade and other receivables	(42.9)	(2.3)
Increase in service concession arrangements receivable	(16.9)	(13.2)
Increase in trade and other payables	23.8	27.3
Increase in retirement benefit obligations	2.3	1.0
Decrease in provisions	(9.5)	(11.9)
Cash generated from operations	211.2	243.3
	Unaudited	
	Half year ended 30 September 2017 £m	Half year ended 30 September 2016 £m
Total interest paid		
Interest paid in operating activities	33.2	35.1
Interest paid in investing activities	7.8	6.1
Total interest paid	41.0	41.2

PENNON GROUP PLC
Notes to the condensed half year financial information (continued)
14. Net borrowings

	Unaudited	
	Half year	Year ended
	ended 30	31 March
	September	2017
	2017	2017
	£m	£m
Cash and cash deposits	571.1	598.1
<i>Borrowings – current</i>		
Bank and other loans	-	(74.9)
Other current borrowings	(31.9)	(41.1)
Finance lease obligations	(28.0)	(30.5)
Total current borrowings	(59.9)	(146.5)
<i>Borrowings – non-current</i>		
Bank and other loans	(1,548.4)	(1,439.3)
Other non-current borrowings	(307.4)	(323.4)
Finance lease obligations	(1,446.3)	(1,353.8)
Total non-current borrowings	(3,302.1)	(3,116.5)
Total net borrowings	(2,790.9)	(2,664.9)

PENNON GROUP PLC
Notes to the condensed half year financial information (continued)
14. Net borrowings (continued)

The movements in net borrowings during the periods presented were as follows:

	Unaudited					Net borrowings at 30 September 2016
	Net borrowings at 1 April 2016	Cash flows - other	Foreign exchange adjustments	Other non-cash movements		£m
	£m	£m	£m	£m		£m
Cash and cash deposits	632.2	25.3	-	-		657.5
Bank and other loans due within one year	-	-	-	(24.9)		(24.9)
Other current borrowings	(39.0)	23.0	-	(25.1)		(41.1)
Finance leases due within one year	(26.0)	3.2	-	(3.4)		(26.2)
Bank and other loans due after one year	(1,502.5)	-	(7.2)	24.8		(1,484.9)
Other non-current borrowings	(234.5)	(130.0)	-	25.1		(339.4)
Finance leases due after one year	(1,314.6)	7.5	-	-		(1,307.1)
Total	(2,484.4)	(71.0)	(7.2)	(3.5)		(2,566.1)

	Unaudited					Net borrowings at 30 September 2017
	Net borrowings at 1 April 2017	Cash flows - other	Foreign exchange adjustments	Other non-cash movements		£m
	£m	£m	£m	£m		£m
Cash and cash deposits	598.1	(27.0)	-	-		571.1
Bank and other loans due within one year	(74.9)	25.0	-	49.9		-
Other current borrowings	(41.1)	25.1	-	(15.9)		(31.9)
Finance leases due within one year	(30.5)	7.6	-	(5.1)		(28.0)
Bank and other loans due after one year	(1,439.3)	(56.3)	(2.6)	(50.2)		(1,548.4)
Other non-current borrowings	(323.4)	-	-	16.0		(307.4)
Finance leases due after one year	(1,353.8)	(92.5)	-	-		(1,446.3)
Total	(2,664.9)	(118.1)	(2.6)	(5.3)		(2,790.9)

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

	Unaudited	Year ended 31 March 2017
	Half year ended 30 September 2017	£m
	£m	£m
Cash and cash deposits as above	571.1	598.1
Less : deposits with a maturity of three months or more (restricted funds)	(227.5)	(223.8)
	343.6	374.3

Restricted funds are available for access, subject to being replaced by an equivalent valued security.

Notes to the condensed half year financial information (continued)

15. Fair value disclosure for financial instruments

Fair value of financial instruments carried at amortised cost

Financial assets and liabilities which are not carried at an amount which approximates to their fair value are:

	Unaudited		Year ended	
	Half year ended 30 September 2017		31 March 2017	
	Book value	Fair value	Book value	Fair value
	£m	£m	£m	£m
Non-current borrowings :				
Bank and other loans	1,548.4	1,737.7	1,439.3	1,645.3
Other non-current borrowings	307.4	265.1	323.4	282.3
Finance lease obligations	1,446.3	1,287.0	1,353.8	1,217.3
Total non-current borrowings	3,302.1	3,289.8	3,116.5	3,144.9
Other non-current assets	295.6	317.3	308.0	377.7

Valuation hierarchy of financial instruments carried at fair value

The Group uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

The fair value of financial instruments not traded in an active market (level 2, for example over-the-counter derivatives) is determined by using valuation techniques. A variety of methods and assumptions are used based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The Group's financial instruments are valued principally using level 2 measures:

	Unaudited	
	Half year ended 30 September 2017 £m	Year ended 31 March 2017 £m
Level 2 inputs		
Assets		
Derivatives used for hedging	15.7	9.0
Derivatives deemed held for trading	64.1	78.7
Total assets	79.8	87.7
Liabilities		
Derivatives used for hedging	27.8	40.0
Derivatives deemed held for trading	1.3	2.5
Total liabilities	29.1	42.5

PENNON GROUP PLC

Notes to the condensed half year financial information (continued)

16. Retirement benefit obligations

Defined benefit schemes

The principal actuarial assumptions were: the rate used to discount schemes' liabilities and expected return on scheme assets of 2.70% (March 2017 2.55%) and the inflation assumption of 3.2% (March 2017 3.2%).

	Unaudited			Year ended		
	Half year ended 30 September 2017			31 March 2017		
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 April	(971.4)	903.4	(68.0)	(833.6)	792.7	(40.9)
Amounts recognised in the income statement	(19.1)	11.4	(7.7)	(40.9)	26.2	(14.7)
Remeasurements through other comprehensive income	27.8	(12.5)	15.3	(129.6)	106.0	(23.6)
Contributions	15.7	(11.2)	4.5	32.7	(21.5)	11.2
	(947.0)	891.1	(55.9)	(971.4)	903.4	(68.0)

17. Capital expenditure

	Unaudited Half year ended 30 September 2017 £m	Year ended 31 March 2017 £m
Property, plant and equipment		
Additions	201.0	377.5
Net book value of disposals	0.7	13.3
Capital commitments		
Contracted but not provided	420.1	401.1

18. Trade and other payables & other non-current liabilities

	Unaudited Half year ended 30 September 2017 £m	Year ended 31 March 2017 £m
Trade and other payables - current		
Trade payables	111.3	107.4
Amounts owed to joint ventures	4.5	4.2
Other tax and social security	45.7	50.6
Accruals and other payables	196.7	124.3
Distributions due to perpetual capital security holders	20.5	-
	378.7	286.5
Other non-current liabilities		
Deferred income	115.2	114.5
Other payables	21.8	66.2
	137.0	180.7

During the period £44.3m of other payables due to Nomura Structured Holdings plc moved from non-current to current.

PENNON GROUP PLC

Notes to the condensed half year financial information (continued)

19. Contingent liabilities

	Unaudited	
	Half year ended 30 September 2017 £m	Year ended 31 March 2017 £m
Performance bonds	188.0	187.5

Guarantees in respect of performance bonds are entered into in the normal course of business. No liability is expected to arise in respect of the guarantees.

Other contractual and litigation uncertainties

The Group establishes provisions in connection with contracts and litigation where it has a present legal or constructive obligation as a result of past events and where it is more likely than not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

The Group is subject to litigation from time to time as a result of its activities, including a prosecution from the Health and Safety Executive in relation to the fatality of a Viridor employee at Derriford, Plymouth in 2015.

20. Related party transactions

The Group's significant related parties during the period were its joint ventures in Lakeside Energy from Waste Holdings Limited and Viridor Laing (Greater Manchester) Holdings Limited and its associate INEOS Runcorn (TPS) Holdings Limited, for which disclosures were made in the Pennon Group plc Annual Report and Accounts for the year ended 31 March 2017.

On 29 September 2017 ownership of Viridor Laing (Greater Manchester) Limited was transferred to the Greater Manchester Disposal Authority.

In the period 1 April 2017 to the Greater Manchester contract reset on 29 September, related party transactions were consistent with those described at the year end. Following contract reset on 29 September there were additional transactions as detailed in note 5.

On 1 April 2017 Pennon Water Services Limited (PWS), a wholly owned subsidiary of Pennon Group plc (Pennon) at the start of the period, purchased assets, primarily trade receivables, from South West Water Limited (SWW) and South Staffordshire plc (SS). The amount paid to SS during the period for such assets was £7.0m.

The initial consideration was financed through the issuance of new equity share capital in PWS to Pennon and SS of £2.8m and £0.7m respectively and the issuance of loans from Pennon and SS to PWS of £25.4m and £6.3m respectively. As a result Pennon now holds a majority 80% equity share in PWS, with SS holding the remaining 20% non-controlling interest.

There were no other material changes during the half year to September 2017 in the nature of transactions with these related parties.

Pennon Group plc
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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 4.2.4, DTR 4.2.7R and DTR 4.2.8R 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 at the date of the signing of this announcement and statement are:

Sir John Parker
Martin Angle
Gill Rider
Neil Cooper
Chris Loughlin
Susan Davy

For and on behalf of the Board of Directors who approved this half year report on 28 November 2017.

C Loughlin
Group Chief Executive Officer

S J Davy
Chief Financial Officer

PENNON GROUP PLC

INDEPENDENT REVIEW REPORT TO PENNON GROUP PLC

Introduction

We have been engaged by the Company to review the condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 30 September 2017 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 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 statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The 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 Conduct 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 statements 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 statements in the half-yearly financial report based on our review.

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 consolidated set of financial statements in the half-yearly financial report for the six months ended 30 September 2017 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 Conduct Authority.

Ernst & Young LLP
Reading
28 November 2017