27 November 2015

Pennon Group Half Year Results 2015/16
Delivering and Outperforming

Pennon Group is pleased to announce its Half Year Results for the period ended 30 September 2015. The Group has delivered a strong earnings performance in the period with EBITDA up compared to the first half of 2014/15 as operational Energy Recovery Facilities (ERFs) contribute increased earnings. South West Water's EBITDA was also marginally higher with the effect of the anticipated revenue reset mitigated by higher than expected customer demand and a first time profit contribution from Bournemouth Water, acquired in April 2015. With results likely to be weighted towards the first half, the Group is on track to meet management expectations for the full year 2015/16.

Sir John Parker, Pennon Group Chairman said:

"I was delighted to become Chairman of Pennon in August this year. The Group is increasingly well-positioned and operationally effective with a talented and committed leadership team. The water and waste businesses are performing strongly, driving sustainable profit and dividend growth.

Moving towards a more homogeneous risk profile across the Group is a strategic priority. We are increasing the proportion of contracted long-term index-linked revenues at Viridor. At the same time, we will continue to invest in growth where it fits with our strategy. Engineering and operational excellence combined with the application of leading technology will support outperformance of the regulatory contract for the water business, as well as optimisation of the ERF portfolio at Viridor.

Alongside operational excellence, our focus remains on delivering outstanding customer service."

	H1 2015/16	H1 2014/15	Change	*FY 2014/15*
Group Revenue	£689.1m	£692.3m	(0.5%)	*£1,357.2m*
Group EBITDA(1)	£231.7m	£200.0m	+15.9%	*£411.0m*
Water Business EBITDA	£173.6m	£172.2m	+0.8%	*£331.3m*
South West Water EBITDA	£165.0m	£172.2m	(4.2%)	*£331.3m*
Bournemouth Water EBITDA	£8.6m	-	-	-
Viridor EBITDA	£61.0m	£28.1m	+117.1%	*£80.4m*
Viridor Underlying EBITDA(2)	£90.9m	£55.3m	+64.4%	*£135.3m*
Group Underlying EBITDA(2)	£261.6m	£227.2m	+15.1%	*£465.9m*
Group Profit Before Tax(3)	£106.8m	£100.0m	+6.8%	*£210.7m*
Earnings per share(4)	23.2p	22.1p	+5.0%	*39.8p*
Dividend per share	10.46p	9.98p	+4.8%	*31.80p*

(1) EBITDA (earnings before interest, tax, depreciation, amortisation) and before prior period exceptional items
(2) EBITDA plus share of Joint Venture EBITDA (£21.6m) and IFRIC 12 interest receivable (£8.3m)
(3) Before prior period exceptional items
(4) Before prior period exceptional items, deferred tax and adjusted proportionately to reflect the half year impact of the annual hybrid periodic return. Basic earnings per share (statutory basis) 16.8p

PENNON GROUP PLC

PENNON GROUP – OVERVIEW

Susan Davy, Pennon Group Director of Finance said:

"Pennon has delivered a strong earnings performance in the first half of 2015/16. All businesses across the Group are performing well. Results are likely to be weighted towards the first half of the year and are on track to meet management expectations for the full year 2015/16. This underpins our confidence in delivering a sector-leading dividend policy of +4% growth above RPI inflation."

H1 2015/16 vs H1 2014/15

- Revenue broadly flat compared to H1 2014/15 at £689.1m
  - Viridor (3.4%) to £410.1m as increased operating revenue from ERFs was offset by lower construction revenue from service concession arrangements as facilities come on-stream, and lower landfill tax receipts as volumes continue to decline
  - Water business +4.1% to £279.3m as the expected reduction in allowed revenues at South West Water was mitigated by higher than expected customer demand and the contribution from Bournemouth Water
- EBITDA(1) +15.9% to £231.7m
  - Viridor +117.1% to £61.0m due to the increased contribution from operational ERFs
  - Water business +0.8% to £173.6m
    - South West Water (4.2%) to £165.0m as expected, reflecting the revenue reset. Good progress being made on cost savings and efficiencies
    - Bournemouth Water contribution of £8.6m following acquisition, in-line with management expectations and Final Determination
- Profit before tax(1) +6.8% to £106.8m
  - Viridor +174.5% to £12.9m
  - Water business +0.9% to £87.0m
    - South West Water (3.1%) to £83.5m
    - Bournemouth Water contribution of £3.5m
- Strong liquidity and financing position
  - £320m of new and renewed facilities secured since 31 March 2015, including a new EIB loan facility of £130m
- Earnings per share +5.0% to 23.2p(2)
- Interim dividend per share +4.8%(3) to 10.46p
  - Policy of +4% year-on-year dividend growth over RPI inflation through to 2020
- Group businesses well-positioned

(1) Before prior period exceptional items
(2) Before prior period exceptional items, deferred tax and adjusted proportionately to reflect the half year impact of the annual hybrid periodic return Basic earnings per share (statutory basis) 16.8p
(3) The RPI rate used is 0.8% as of September 2015

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Presentation of Results:

A presentation for City audiences will be held today, Friday 27 November 2015, at 10am at the London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS.

A live audiocast of the presentation can also be accessed using the following link: www.pennon-group.co.uk/investor-information

For further information, please contact:

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About Pennon:

Pennon Group Plc is an environmental utility infrastructure company, which owns Viridor Limited, South West Water Limited and Bournemouth Water Limited. The Group has £5.8 billion of assets and a workforce of over 4,500 people.

Viridor is one of the leading UK renewable energy, recycling and resource management companies providing services to local authorities and businesses, and managing over 7 million tonnes of material per annum across the UK. Its strategy is focused on transforming waste, using input materials to produce vital renewable energy, high quality recyclates and secondary materials.

South West Water provides water and sewerage services to a population of approximately 1.7 million in Devon and Cornwall and parts of Dorset and Somerset.

On 15 April 2015, Pennon Group acquired Bournemouth Water from Sembcorp Holdings Limited. Bournemouth Water provides water services to a population of approximately 0.4 million people in the Bournemouth and Christchurch region.

Further information on Pennon can also be found on the Group's website, www.pennon-group.co.uk

Interim Dividend Payment Information:

28 January 2016 - Ex-dividend date

29 January 2016 - Record date

7 March 2016 - Scrip election date

1 April 2016 - Payment date

Upcoming Events:

11 February 2016 – Trading Statement

24 February 2016 – Analyst & Investor Briefing

25 May 2016 – Full Year Results 2015/16

1 July 2016 – Annual General Meeting

6 September 2016 – Trading Statement

20 October 2016 - Analyst & Investor Briefing

25 November 2016 – Half Year Results 2016/17

DIVIDENDS

The interim dividend of 10.46p per share represents an increase of +4.8%[(1)], in line with the previously announced policy to grow the Group dividend by +4% per annum above Retail Price Index (RPI) inflation to 2020.

The dividend will be paid on 1 April 2016 to shareholders on the register on 29 January 2016. The Company is also offering a scrip dividend alternative. The final date for receipt of forms of mandate in respect of the scrip dividend alternative for the interim dividend will be 7 March 2016.

[(1)] The RPI rate used is 0.8% as of September 2015

PENNON GROUP - OUTLOOK

Pennon's strategic priority is to move towards a more homogeneous Group risk profile, by increasing the proportion of contracted long-term index-linked revenue at Viridor. At the same time, Pennon will continue to invest in growth where it fits with this strategic aim and delivers value for shareholders. Pennon's successful business model allows the Group to deliver consistent, sustainable cash dividends. Pennon has a policy of +4% year-on-year dividend growth above RPI inflation to 2020.

Viridor's strategic orientation around 'Energy' and 'Recycling and Resources' is now delivering results. Its H1 2015/16 performance was in-line with management expectations, with underlying EBITDA increasing by +64.4% compared to H1 2014/15 as a result of progress in the ERF business. A focus on optimising performance at the seven ERFs continues with the managed operational ramp-up over c.12 months of the five new ERFs brought on-stream in 2014/15. This is the same process performed at Lakeside, bringing the plants up to consistent performance at the beginning of their lives, before targeting outperformance of nameplate capacity[1] over the life of each plant.

We expect demand for ERFs to continue to exceed capacity into the long term and all seven operating facilities were fully loaded at opening. Through the ongoing implementation of Viridor's strategy, the business has been successful in securing several new 25-year municipal contracts and a number of longer and medium-term Commercial & Industrial (C&I) contracts. This has resulted in a progressive de-risking of the feedstock supply, with c.80% of the total ERF portfolio volumes (operational and under construction) contracted for the life of the plants. This equates to c.60% of Viridor's long-term ERF revenue stream. In addition other medium and short-term contracts have been placed. ERFs are on track to contribute c.£100m to Viridor's EBITDA in 2016/17.

Both South West Water and Bournemouth Water have performed robustly in H1 2015/16. South West Water has delivered a strong financial and operational performance and is outperforming Ofwat's assumed base returns on equity. Bournemouth Water is also outperforming. The acquisition was unconditionally cleared by the Competition and Markets Authority (CMA) on 5 November, meaning the merger of the two businesses and integration of Bournemouth Water into South West Water is now underway. South West Water is targeting synergies of c.£27m over the K6 period (2015-2020). Both water businesses are well-prepared and supportive of future industry reform.

[1]Manufacturer's design capacity

Results for the full year 2015/16 are on track to meet management expectations and are likely to be weighted towards the first half of the year. This weighting reflects higher water revenues in the first half of the year, driven by customer demand and a continuing expectation of lower landfill volumes in the second half of the year, as more waste is diverted to energy recovery. ERF financial performance in the second half of the year is expected to be broadly in-line with that achieved in the first six months of the year. Pennon has strong operating cash flows, liquidity and a strong balance sheet.

PENNON GROUP PLC

SOUTH WEST WATER - OVERVIEW

Chris Loughlin, Chief Executive of South West Water said:

"South West Water is confident of delivering and outperforming its business plan in K6 and we were pleased to receive the recent CMA clearance of the acquisition of Bournemouth Water. Pennon is now integrating Bournemouth Water into South West Water delivering significant benefits to customers and shareholders. The combined business is aiming to set the benchmark for efficiency at the next price review."

	H1 2015/16	H1 2014/15	Change	*FY 2014/15*
Revenue	**£279.3m**	**£268.3m**	**+4.1%**	***£522.2m***
South West Water	£259.1m	£268.3m	(3.4%)	*£522.2m*
Bournemouth Water	£20.2m	-	-	-
EBITDA[1]	**£173.6m**	**£172.2m**	**+0.8%**	***£331.3m***
South West Water	£165.0m	£172.2m	(4.2%)	*£331.3m*
Bournemouth Water	£8.6m	-	-	-
Operating Profit[1]	**£117.7m**	**£119.2m**	**(1.3%)**	***£225.4m***
South West Water	£113.1m	£119.2m	(5.1%)	*£225.4m*
Bournemouth Water	£4.6m	-	-	-
Profit Before Tax[1]	**£87.0m**	**£86.2m**	**+0.9%**	***£167.9m***
South West Water	£83.5m	£86.2m	(3.1%)	*£167.9m*
Bournemouth Water	£3.5m	-	-	-
Capital Expenditure	**£58.0m**	**£64.6m**	**(10.2%)**	***£145.1m***
South West Water	£53.8m	£64.6m	(16.7%)	*£145.1m*
Bournemouth Water	£4.2m	-	-	-

(1) Before prior period exceptional items

South West Water

Strong start to K6

- Deemed at frontier of efficiency leading to highest potential rewards in the sector for K6
- Early delivery and outperformance

As expected, allowed revenues reset following reduction in the allowed rate of return

- Mitigated by cost savings, efficiencies and effective financing, as well as higher than expected customer demand

Sector-leading Return on Regulated Equity (RoRE) and outperformance

- Combined South West Water and Bournemouth Water indicative annual equivalent Return on Regulated Equity (RoRE)[1] of 11.5%.
- Early outperformance being driven by Totex at the beginning of K6
- Outcome Delivery Incentives (ODIs) delivering net rewards

(1) RoRE calculated using actual results against the Final Determination allowances sourced from Ofwat published models at outturn prices. Regulatory reporting requirements still to be confirmed by Ofwat for 2015/16 and therefore approach to calculating returns may be amended when further guidance published

- Focused on continuous improvement in customer service and Service Incentive Mechanism (SIM), step change made over K5
- Lowest finance costs in the sector, optimum capital structure

Growth through acquisition (Bournemouth Water)

- Compelling rationale for acquisition, unconditional CMA clearance received
- Integration of the two businesses underway
- Merging wholesale and retail operations
- Single centralised support function – best practice from both businesses
- Driving supply chain efficiencies
- Targeting c.£27m of cumulative synergies in K6

Engaged and prepared for future regulatory reform

- Well prepared for market liberalisation(1), customer service & contact centre separated for over 10 years
- Defending and growing Non-Household Retail(2) business
- Strategy to maintain frontier efficiency in PR19
- Heavily involved in Water 2020 discussions with Ofwat
- Strengthening and growing wholesale business

(1)Non-household retail market liberalisation April 2017
(2)The UK government is introducing a cross-border retail market for non-household water and sewerage customers in England and Scotland by 2017

PENNON GROUP PLC

VIRIDOR – OVERVIEW

Ian McAulay, Chief Executive of Viridor said:

"Viridor is increasingly well-positioned as ERFs come on-stream delivering significant earnings growth. Our successful strategy has allowed us to progressively de-risk the portfolio with c.80% of the feedstock for the total ERF portfolio now secured for the life of the plants. ERFs are on track to contribute c.£100m to Viridor's EBITDA in 2016/17. Long-term drivers for recycling remain compelling and in the short-term we are working through a restructuring of parts of that business alongside renegotiation of contracts to make it a more profitable activity. Landfill energy remains a significant cash generator and we are developing alternative uses for sites as we continue to manage the move away from landfill towards energy recovery."

	H1 2015/16	H1 2014/15	Change	*FY 2014/15*
Revenue(1)(2)	£410.1m	£424.4m	(3.4%)	*£835.9m*
EBITDA(3)	£61.0m	£28.1m	+117.1%	*£80.4m*
Underlying EBITDA(3)(4)	£90.9m	£55.3m	+64.4%	*£135.3m*
Operating Profit(3)	£20.5m	£0.2m	-	*£21.6m*
Profit Before Tax(3)	£12.9m	£4.7m	+174.5%	*£27.7m*
Capital Investment(2)	£107.9m	£127.3m	(15.2%)	*£262.2m*

(1)Including landfill tax
(2)Including construction spend on service concession arrangements
(3)Before prior period exceptional items
(4)EBITDA plus share of Joint Venture EBITDA and IFRIC 12 interest receivable

Delivering the ERF Programme, reducing construction risk

- Seven ERFs now on-stream, managed operational ramp-up over c.12 months of the five new ERFs brought on-stream in 2014/15, following the same process as Lakeside
- £20m of efficiencies realised on capital investment for operational ERFs
- Four new ERFs progressing well and to budget; Peterborough in testing, Glasgow moving into early commissioning, Dunbar and Beddington (South London) under construction

Long-term revenue streams for ERFs secured

- c.80% of resource inputs required across the total ERF portfolio (operational and under construction) are now in place for the life of the plants under index-linked contracts
- Recent long-term integrated contract successes include 25-year Tomorrow's Valley Residual Waste Contract in Wales and Preferred Bidder for 25-year Clyde Valley Residual Waste Contract in Scotland
- Targeting more medium-term C&I contracts as customers look to secure longer duration contracts. Recent successes include a 10-year 50,000tpa contract

Driving towards more profitable recycling

- Ongoing Input, Throughput and Output Optimisation (ITOO) programme addressing effectiveness and efficiency, yielding financial benefits
- Restructuring and continued contract renegotiation underway to improve returns. Successful negotiation of input contracts and enhancing quality and value of inputs
- Clear long-term regulatory drivers for recycling from the EU and UK Government, alongside expectations from leading companies

Optimising the energy portfolio

- Change in scale of energy portfolio, expected to export over 1TWh to the grid in 2016/17
- 'Portfolio Management' strategy developed by a team of experienced energy professionals
- New Framework contracts and ability to hedge market position up to 5 years ahead
- Maximising landfill gas capture rates ensuring power generation continues to contribute strongly, against a backdrop of declining yields
- Removal of Levy Exemption Certificates (LECs), had a modest impact on earnings

Landfill energy sites being managed for cash and alternative future use

- Success in divesting landfill sites, Whitehead landfill asset sold and environmental obligations transferred with £2.4m operating profit on disposal
- The potential for landfill sites to be future "energy reservoirs", optimising grid connections and commercial development opportunity, is being explored in detail:
    - £8m Pilsworth cryogenic storage project, funded by Department of Energy & Climate Change (DECC) nearing completion, due to be operational in early 2016
    - Other energy storage options being assessed through Viridor's Innovation Forum
    - Heat use options from adjacent ERFs at specific sites also being developed

SOUTH WEST WATER

Overview

South West Water's Final Determination from the 2014 Price Review deemed the company to be at the frontier of cost efficiency, with the highest potential outperformance in the sector for K6. South West Water has made a strong start to K6 and is already delivering and outperforming its Business Plan for the benefit of customers, the environment and shareholders. Following the acquisition of Bournemouth Water in April this year, the merger of Bournemouth Water with South West Water was unconditionally cleared by the CMA on 5 November, enabling the water business to grow and deliver improved services and provide for greater opportunities for the future. South West Water is confident of the outlook for the rest of K6.

As expected, South West Water's revenues were down in the first half of 2015/16, following the revenue reset, in-line with the Final Determination. This impact has been partly offset by demand from customers being higher than anticipated, cost savings and efficiencies, as well as the benefit of sector-leading financing costs. South West Water has also benefitted from Bournemouth Water's contribution in the period.

The merger of the two businesses and integration of Bournemouth Water into South West Water is expected to deliver financial benefits with c.£27m of synergy savings targeted over K6. Furthermore, the combined water business is likely to set the efficiency frontier at the 2019 Price Review. The savings and efficiencies will deliver tangible benefits to customers and shareholders.

The combined South West Water and Bournemouth Water business is well-prepared, well-positioned and fully engaged in discussions with Ofwat and its peers on the evolving shape of the industry. South West Water has had a separate customer service and contact centre for over ten years, giving the company an advantage in its preparation for market liberalisation in April 2017. South West Water has established South West Water Business Services, a company tasked with retaining existing business customers, and Source for Business, a company focused on winning new customers outside the region. By integrating Bournemouth Water, South West Water will continue to deliver economies of scale.

Growth through acquisition, integrating Bournemouth Water

On the 5 November, the CMA unconditionally cleared the acquisition of Bournemouth Water by Pennon Group and the subsequent merger of Bournemouth Water with South West Water.

The CMA has concluded that the merger is not likely to prejudice Ofwat's ability to compare water companies' performance and set price controls. This result ensures 100% of any synergies achieved through the merger are retained throughout K6.

Clearance has paved the way for management to begin implementing its merger and integration plans, delivering a more effective and efficient service to customers. Analysis completed during the CMA process highlights a 94% probability[(1)] that the combined company will set the efficiency frontier at the next price review (PR19).

The merger and integration of Bournemouth Water into South West Water will therefore deliver long-term benefits to both customers and shareholders with c.£27m of synergy savings targeted over K6. Integration will take place across the following areas:

- Merging wholesale and retail operations
- Delivering synergies and other efficiency savings through single central support operations, removing the duplication of head office and back office functions
- Ensuring common systems and processes taking best practise from both businesses
- Driving supply chain efficiencies and utilising the existing H5O alliance[(2)] in capital delivery
- Improving customer services employing best practice from across both businesses through economies of scale
- Delivering growth through a combined and legally separate non-household retail company

South West Water delivers strong Results for H1 2015/16

Total revenue for the combined water business is up +4.1% to £279.3m over the period. South West Water has seen revenues decrease by 3.4% to £259.1m in the first half of 2015/16, on the back of a revenue reset following the reduction in the allowed rate of return as per the Final Determination from PR14. Bournemouth Water has contributed £20.2m of revenues in the first half of 2015/16.

Switching from unmeasured to metered or assessed charges remains a feature of the customer landscape. However, the impact of switching is reducing as the number of customers left to switch declines. South West Water saw a £1.8m reduction in revenue from meter-switchers, with 79% of South West Water's domestic customers now metered. New customer connections also contributed to revenues in the period, with c.4,000 new customer connections at South West Water contributing £1.8m of additional revenue. Bournemouth Water saw c.1,200 customers switching to a meter and c.200 new customer connections, which had only a marginal impact on revenue. 67% of domestic customers are now metered.

[(1)]Oxera modelling for South West Water and Bournemouth Water CMA submission. This estimate provides the probability of the merged company, with synergy savings, being within the UQ (the efficiency benchmark as used by Ofwat in PR14) at PR19
[(2)]South West Water's capital delivery alliance

Overall customer demand at South West Water and Bournemouth Water was largely consistent with the same period last year, although non-household usage was up.

The combined water business has delivered EBITDA up +0.8% to £173.6m of which South West Water delivered £165.0m of EBITDA down (4.2%), with Bournemouth Water contributing £8.6m of EBITDA. Profit before tax was up +0.9% to £87.0m, of which £83.5m from South West Water down (3.1%) and £3.5m from Bournemouth Water following the acquisition.

While average RPI rose 1.0%, both South West Water's and Bournemouth Water's operating costs in H1 2015/16 were lower than the same period last year. Significant savings in operational maintenance, lower bad debt costs at South West Water, as well as targeted efficiencies have contributed to cost outperformance. Total operating costs before depreciation of the combined water business were £105.7m for the half year.

South West Water has targeted significant improvements in the collection of customer debts for H1 2015/16, in line with its plans. The cost of bad debts as a proportion of revenue was 1.5%, reduced from 1.7% at March 2015 as a result of collection improvements. Bournemouth Water also has a strong track record of debt collection with a charge of 0.5% of revenue. Through the merger of the two businesses and the integration of Bournemouth Water into South West Water, continued focus will be given to delivering improved collections and further reductions in the cost of bad debt.

Alongside strong collection initiatives South West Water continues to fund and promote ways to help customers who struggle to pay their bills. Initiatives such as doorstep rehabilitation and tariff advice, the Restart programme and working in partnership to support customers have continued. In addition, those customers benefiting from the social tariff have increased with 3,550 now receiving a bill they can better afford compared to 2,446 at March 2015. Bournemouth Water also operates WaterSure, a customer assistance programme, and a new social tariff is being developed for those customers who struggle to pay their water bills.

Lower effective interest rates (including the benefit of lower rates on forward swaps compared to those in the prior regulatory period) and reduced RPI on indexed-linked facilities, net of new borrowings has resulted in a net interest charge for South West Water of £29.6m, £3.4m lower than the same period last year. South West Water continues to deliver sector-leading low finance costs with an effective average interest rate for the half year 2015/16 of 3.2%. Debt is predominantly fixed over K6, with the majority through interest rate swaps aligned with the regulatory period. c.93% of Bournemouth Water's debt is index-linked through Artesian financing, which is currently under review. Total Bournemouth Water interest costs for H1 2015/16 amounted to £1.2m.

Total capital expenditure for the combined water business in H1 2015/16 amounted to £58.0m. For South West Water, capital expenditure at £53.8m is a reduction from H1 2014/15. The beginning of the new regulatory period reflects a change in the nature and extent of capital activity. South West Water has also delivered savings through innovative planning and scoping of schemes, and maximising benefits during construction and through the supply chain.

Maintaining a robust network and delivering compliance remains the principal driver for investment. However, there are a number of enhancement schemes within the current programme. The key investments in the first half of the year have been:

- Preparations for the innovative new water treatment works at North Plymouth, which will be the first site in the UK to use a new ceramic technology
- Beginning the update to the Tamar Lakes treatment works – a c.£6m scheme to improve water quality
- Expansion of the Upstream Thinking programme
- Investment in digital infrastructure, including improvements in retail engagement targeting proactive and positive customer experience

Bournemouth Water capital expenditure of £4.2m has focused on continued pressure management, refurbishment of part of the Alderney water treatments works and commissioning of two ultra violet treatment plants at Beaulieu and Knapp Mill.

South West Water's Regulated Capital Value (RCV) at 31 March 2015[1] was £2,928m. Net debt for H1 2015/16 results in gearing of 62.4% (March 2015 62.1%, September 2014 56.9%), which is in-line with the optimum capital structure of the 2015-20 Final Determination. The capital structure for Bournemouth Water reflects a gearing ratio of 56.6% based on an RCV at 31 March 2015 of £146.3m.

[1] Opening RCV at 1 April 2015 based on Final Determination and actual inflation was £2,922m for South West Water and £147.7m for Bournemouth Water resulting in gearing of 62.6% and 56.0% respectively

PENNON GROUP PLC

Outperforming the Business Plan – Operational Returns

South West Water has the highest potential rewards in the sector for K6. At 30 September 2015 the combined water business (South West Water and Bournemouth Water) has delivered an indicative annual equivalent Return on Regulated Equity (RoRE)(1) of 11.5% arising from base, financing and operational returns. Of the 11.5%, 6% is the base return, 3.0% reflects the difference between actual and assumed financing costs, 2.2% reflects Totex savings and efficiencies, and 0.3% reflects Outcome Delivery Incentives (ODIs) outperformance with 0.0% for Service Incentive Mechanism (SIM).

Totex strategy - securing outperformance

South West Water is striving for ever greater efficiency in K6, with a strong track record from K5. The company was deemed to be at the frontier of cost efficiency when it was awarded an enhanced Business Plan assessment with the largest element of potential operational outperformance over K6 coming from Totex savings and efficiencies.

South West Water is 'front-end-loading' efficiencies and savings to allow early and more certain delivery of outperformance. £28m of Totex savings(2) have been delivered in H1 2015/16, despite costs of delivering growth. Bournemouth Water has also delivered Totex savings and efficiencies of £1m(2). These Totex savings reflect the timing differences from the determination and equate to an indicative annual equivalent Return on Regulated Equity (RoRE) of 2.2%.

ODI rewards secured

South West Water has 23 ODIs, including SIM, which have potential financial rewards or penalties. 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 has resulted in an ODI reward. Rewards were secured across bathing water quality, odour complaints and water restrictions. Work is ongoing to improve in areas where pollution incidents and interruptions in supply occurred, as this is where penalties were received. Bournemouth Water has 10 ODIs, including SIM, which have financial rewards and penalties.

Combined ODI rewards result in a £2.2m benefit (£1.8m net of tax impacts) and reflects an indicative annual equivalent RoRE of 0.3%. Whilst Bournemouth Water's SIM performance results in a £0.1m benefit, the combined performance for SIM is 0.0%.

(1)RoRE calculated using actual results against the Final Determination allowances sourced from Ofwat published models at outturn prices. Regulatory reporting requirements still to be confirmed by Ofwat for 2015/16 and therefore approach to calculating returns may be amended when further guidance published

(2)Based on assumed H1 Final Determination allowances and taking account of changes in the profile of investment delivery. £29m combined Totex saving equates to £12.5m RoRE benefit after applying company sharing rate and tax impacts

Strong operational performance

South West Water continued to deliver strong operational performance and the beginning of K6 has seen improvements in a number of areas targeting delivery of the outcomes and promises included in the Business Plan.

The 2015 bathing season ended with high standards of bathing water quality. Despite the introduction of the more stringent EU Revised Bathing Water Directives this year, 141 or 97.2% of the 145 designated bathing waters sampled in the region achieved the new sufficient standard.

Significant investment through the 'Even Cleaner Seas' programme was advanced into 2014/15 ensuring that 12 of the 15 beaches identified as at risk of failing the new standards achieved the required quality and passed.

Both site and process compliance at wastewater treatment works carry potential penalties for not meeting targeted 2020 standards. South West Water has seen improvements in descriptive site compliance and improvements along the glidepath to deliver higher process compliance.

Whilst the total number of pollution incidents has declined from 259 to 204 in the first half of the year, five incidents, provisionally classed as Category 2 (serious), have occurred and as a result South West Water expects an ODI penalty this year.

South West Water is continuing to focus on delivering a robust leakage performance and maintaining asset reliability.

Focus on delivering excellent customer service

Safe, clean and reliable supply of drinking water is always the top priority for customers. South West Water is delivering consistently high water quality again this year and further investments are underway to ensure this continues into the future.

Overall customer demand has remained broadly similar to the same period last year. South West Water successfully managed its water resources to enable a continued secure supply of water for the region. This has resulted in the 19th consecutive summer without water restrictions and will deliver an ODI reward this year.

Throughout K5, and continuing into K6, South West Water is targeting improvements in customer service. The Service Incentive Mechanism (SIM) continues to improve and is focused on delivering a high quality customer experience. The first two Customer Experience Surveys[(1)] (CES) for 2015/16 show a step change in the retail customer service quality, which is now above the industry average at 4.65 compared to 4.45. Wholesale customer service remains an area of focus and improvements are targeted with 94% of clean water contacts and 87% of wastewater contacts resolved first time.

In addition to improving the quality of service, the number of complaints received as a result of odour issues at wastewater treatment works has reduced and an ODI reward is expected to be achieved. This improvement has been a result of the completion of investments in 2014/15 at Countess Wear in Exeter and further improvements at Camelshead in Plymouth are planned this year.

Bournemouth Water continues to focus on delivering strong customer service with SIM performance expected to remain in the upper quartile for the industry. Leakage reduction and maintaining serviceable assets remains on track.

Non-household market opening

As the water industry works towards market liberalisation in 2017 South West Water has made strong progress in preparing both its non-household retail and wholesale operations for market opening and its internal programme 'MarketReady' is on track to deliver.

Having established a separate customer service and contact centre over ten years ago South West Water has a clear approach for separating the retail activities and through the implementation of the £50 Government Payment in 2013/14 made an early start to preparing customer data ahead of market opening.

South West Water has a strategy in place ahead of market liberalisation in 2017 to retain incumbent customers and target growth out of area. South West Water is in the process of establishing a legally separate combined non-household retail company, which will maximise the economies of scale, synergies and capitalise on opportunities from Viridor's national footprint and customer relationships.

South West Water continues to engage with the national programme and has established a robust integrated assurance process to meet the requirements of the market operator and key dates within the national programme.

[(1)]Customer Experience Surveys (CES) are completed quarterly for each company by independent external consultants. The surveys identify the quality of service and the overall customer experience for a range of activities and is selected from contacts received by each company across the industry. The maximum score achievable is 5

Preparing for Water 2020

South West Water has fully engaged in Ofwat's development of its Water 2020 strategy and has shared with the regulator some key areas of work already undertaken including:

- Development of upstream markets, including the paid ecosystem services approach incorporated in the Upstream Thinking programme
- Potential RCV allocation in considering wholesale competition
- Impact of changes to indexation on the regulatory framework.

This collaborative approach on potential industry reforms emphasises that continued trust and confidence in the Regulator is important in retaining stakeholder support and engagement. Early engagement for the next Price Review (PR19) is essential and any further reform will need to align with the timetables already set out which targets PR19 methodologies at the end of 2017 and business plan submissions in summer 2018. As a result it is likely that industry changes originally proposed for PR14 will be progressed, such as water resources and sludge management.

Outlook

South West Water has made a strong start to K6 and is already delivering and outperforming its Business Plan for the benefit of customers, the environment and shareholders and is confident in continuing this strong performance throughout K6.

VIRIDOR

Overview

Viridor has delivered a strong performance in H1 2015/16 as operational ERFs contributed to earnings growth, despite ongoing weakness in the recycling market. The move from construction to operation of ERFs continues and the seven operational plants, including the five brought on-stream during 2014/15, are ramping up to full operational performance over c.12 months. This is the same process performed at Lakeside.

All seven operational ERFs are full and through successful implementation of its strategy, Viridor is realising the opportunity to secure additional long-term contracts. Across the total ERF portfolio (operational and under construction) c.80% of waste inputs have been secured under long-term, index-linked contracts. Viridor is also focusing on securing more medium-term C&I contracts, as customers increasingly want to contract out for longer periods. Recent C&I contract wins include a 10-year 50,000 tpa contract. Viridor continues to contract its volumes as Pennon works towards a more homogeneous risk profile across the Group, whilst delivering growth.

Viridor has been a consistent leader in its sector as the company has moved from “waste as a problem” to “waste as a resource” for heat and energy production and manufacturing using recycled materials. With its leading role in the Greater Manchester Waste Management model, Viridor is at the forefront of looking at integrated waste systems, rather than a more traditional divisional split between waste treatments. This is changing the way Viridor runs its business as Local Authorities increasingly seek to form consortia for larger, multi-service contracts for resource management.

Recent large-scale integrated resource management contract successes include a signed contract for Tomorrow’s Valley in Wales (where four Local Authorities have come together to create a £190m Residual Waste Contract for 90ktpa over 25 years) and achieving preferred bidder status for Clyde Valley in Scotland (where five Local Authorities have come together to create a £450m Residual Waste Contract for 190ktpa over 25 years).

Long-term drivers for recycling remain compelling particularly with the new EU Circular Economy measures likely to be adopted. In the short-term, Viridor is working through a restructuring of parts of that business alongside renegotiation of contracts to ensure sustainable returns. Landfill energy remains a significant cash generator and alternative uses for sites are being explored as the move away from landfill towards recycling and energy recovery is managed.

Strong Results for H1 2015/16

As expected, revenues were broadly flat, down 3.4% (£14.3m) to £410.1m, reflecting lower construction revenue from service concession arrangements as the facilities come on stream and lower landfill tax as volumes continue their expected decline, offset by higher operating revenue from ERFs.

However, Viridor's EBITDA before prior period exceptional items was up £32.9m to £61.0m (H1 2014/15 £28.1m). Viridor's underlying EBITDA was up £35.6m to £90.9m.

Viridor's underlying EBITDA is a non-statutory earnings measure that aggregates all of Viridor's earnings into a single figure, consisting of EBITDA of £61.0m (H1 2014/15 £28.1m) plus IFRIC 12 finance income of £8.3m (H1 2014/15 £5.8m) and share of Joint Venture EBITDA of £21.6m (H1 2014/15 £21.4m).

Indirect costs increased to £30.6m in H1 2015/16 from £27.2m in H1 2014/15 due mainly to increased spending on information technology and staffing costs as Viridor's new business-wide systems are integrated and advanced.

Profit before tax and exceptional items increased £8.2m to £12.9m reflecting higher EBITDA, net of higher depreciation and interest expense reflecting the greater number of operational ERFs.

Capital expenditure including spend on service concession arrangements for the period was £107.9m (H1 2014/15 £127.3m), reflecting the continued focus on ERFs.

Total share of Joint Venture profit after tax was £1.0m, down £1.4m from H1 2014/15, predominantly as a result of the planned maintenance outage at Lakeside. This outage did not take place last year, but was an exception. ERFs have planned maintenance shutdowns as a matter of course in order to ensure they operate effectively and efficiently.

Viridor's share of non-recourse net debt in the Joint Ventures, excluding shareholder loans, was £212m (Viridor's share including shareholder loans was £295m).

During the period, Levy Exemption Certificates (LECs) were discontinued with a modest impact on Viridor. There have also been changes to the Renewable Obligation Certificates (ROC) regime. However, Viridor's ROC accreditations are unaffected by these changes. Energy generation continues to be a profitable business for Viridor.

Operational Highlights

Strong regulatory drivers for Viridor

The UK is required under the EU Landfill Directive to reduce the amount of biodegradable municipal waste going to landfill sites. This is being achieved by a continued drive for recycling, with residual waste increasingly being used for energy recovery. A new EU Circular Economy legislative package is expected in December 2015. The package is expected to contain enhanced recycling targets, higher level packaging recycling targets and material specific landfill bans, alongside measures to enhance the recyclability of consumer goods.

The EU Renewable Energy Directive requires the production of 20% of energy from renewable sources by 2020. The EU Energy Union Strategy will also drive towards greater member state energy security, diversification of supply and de-carbonisation of the economy. Energy recovery from waste in all its forms has a clear role within the Government's UK Renewable Energy Roadmap and continues to deliver a substantial proportion of total UK renewable energy generated.

The Government's main mechanism for diverting waste from landfill and incentivising recycling and ERFs remains landfill tax. The UK and Scottish Governments have confirmed that landfill tax will rise from the current position of £82.60 per tonne in line with inflation to £84.40 in April 2016. This continues to influence the long-term economics of both recycling and energy recovery.

In addition, using recycled materials can deliver substantial energy and cost reductions for manufacturers.

Viridor is focused on giving resources new life through recycling and renewable and decentralised energy. Investment in technology and operational practices, including ITOO, continues to enhance recyclate quality to differentiate Viridor from its competitors and to position it strongly within a consolidating sector. Significant progress has also been made in the delivery and de-risking of the ERF business, with a substantial asset base now operational in conjunction with associated business capability processes across the whole "source to supply" ERF cycle.

Delivering the ERF programme, reducing construction risk

Viridor is successfully establishing a significant asset base of ERFs, with seven plants representing two thirds of the portfolio capacity now in operation. c.80% of the ERF portfolio is expected to be operational by the end of 2016/17 and delivering c.£100m of EBITDA. Viridor expects to have c.15% ERF market share by 2020, with its network of strategic facilities driving the company's longer-term profit growth.

Viridor currently has c.140 Megawatts (MW) of renewable energy capacity from its fleet of seven operational ERFs and including its share of Joint Ventures at Lakeside ERF, Bolton ERF, and the Greater Manchester and Walpole AD plants. The total committed ERF portfolio including the four ERFs under construction will provide c.242MW. Viridor and its Joint Venture partners have a total operational/committed ERF capacity of over 2.8m tonnes.

The four ERFs under construction are progressing well and to budget. Of these, Peterborough ERF is in testing, Glasgow ERF will soon enter commissioning and construction of Dunbar and Beddington ERFs is progressing as planned.

Optimising the energy portfolio

Viridor's total energy capacity is changing in scale and across its energy division, Viridor currently has 241MW of operating capacity from both ERFs and AD (142MW) and landfill gas (99MW) and expects to export over 1 Terawatt hour (TWh) of power to the national grid in 2016/17. Once the total committed ERF portfolio is completed in 2018/19, ERFs alone will provide 242MW of energy generation. Landfill gas, biodegradable waste in ERFs and AD accounted for 25% of total UK renewable energy fuel use according to the Digest of UK Energy Statistics 2014.

Viridor has developed a 'Portfolio Management' strategy to help realise the full potential of this growth, with a team of experienced energy market professionals to actively manage its market position. Viridor has also implemented framework contracts to enable it to 'hedge out' market risk where appropriate in the longer term. The business now has the ability to hedge its market position for periods up to 5 years ahead.

Landfill gas power generation

Viridor's landfill energy business is being managed to maximise the value of landfill gas power generation, whilst exploring alternative energy uses such as photovoltaic (PV) and energy storage. At Pilsworth landfill in Greater Manchester, an £8m cryogenic energy storage pilot project is nearing completion and due to be operational in early 2016. Landfill sites have very good potential as "energy reservoirs" as they already have grid connections, making them valuable for energy generation and storage.

Viridor currently has 99MW of landfill gas capacity (excluding 3MW capacity at sub-contract sites in Suffolk). Gas volumes reached peak production in 2012/13 and have been reducing gradually. In H1 2015/16 the landfill gas power generation output was marginally down to 287 Gigawatt hours (GWh) (H1 2014/15 297 GWh), reflecting a successful output optimisation programme. Landfill gas power generation EBITDA was £16.0m (H1 2014/15 £15.4m).

Average revenue per Megawatt hour (MWh) was 1.7% higher at £89.93 (H1 2014/15 £88.42) reflecting the higher proportion of ROCs. The switch from legacy Non Fossil Fuel Obligation (NFFO) contracts to ROCs continues with 94% of energy now sold under the higher value ROCs. The remaining 6% NFFO component will migrate to ROCs by 2016/17. Average costs decreased to £34.06 per MWh (H1 2014/15 £36.51).

Working towards more profitable Recycling and Resources activities

During the half year, Viridor's recycling volumes traded increased by 32k tonnes (3.8%) to 0.9m tonnes. Recyclate prices were slightly lower for the first half year of 2015/16 compared to H1 2014/15. Prices have now stabilised to some degree for most commodities, but remain under pressure, reflecting world economic conditions and competitive markets.

Despite lower recyclate prices, Viridor's average revenues per tonne (recyclate sales plus gate fees) for the half year rose to £87 per tonne (from £86/t FY 2014/15) thanks to management actions in recycling from the ITOO programme. Viridor remains cautious about future recyclate price growth.

Through the ITOO programme, Viridor is targeting a substantial enhancement in its EBITDA margin through improvements in source material quality (including contract renegotiation where required), restructuring and asset efficiency, productivity and yield, and specific quality of outputs. A number of input contracts have been successfully renegotiated enhancing value and quality of inputs. Where new recycling contracts have been secured, better gate fees reflect the sharing of recyclate price risks with customers and securing a better quality of inputs.

Viridor continues to operate the most extensive Material Recycling Facility (MRF) capacity in the UK with accreditations for export to China, and is established as a quality brand in the UK, Europe and other far eastern markets. There are clear long-term regulatory drivers for recycling from the EU and UK Government, alongside expectations from leading companies.

Contracts and Collections

Profits in “Contracts & Other” are slightly ahead reflecting higher asset sales in the period compared with the same period last year. Profits across the 15 local authority contracts around the UK (the more significant contracts include Greater Manchester, Glasgow, Lancashire, Somerset and West Sussex) and the Thames Water contract remain broadly in-line with the same period last year.

Profits in the collection business were also slightly ahead compared to the same period last year, reflecting the benefits of sustained management action. Collection remains a key focus in securing increased input tonnages for the business.

Landfill energy sites being managed for cash and alternative use

Viridor has a strategy in place for landfill that will see the business reduce the number of sites taking new waste inputs from 18 at the end of 2014/15 to 3 strategic sites by 2020. This is in-line with the legislative move to divert waste away from landfill. While sites are being wound down to closure and aftercare, our emphasis is on maximising the value of electricity generation from landfill gas and reducing costs. A higher proportion of sites are likely to close in the next two years as closures are determined by the profile of contracts to the site and closure requirements.

Future alternative uses and development potential for landfill sites is being assessed as most of Viridor’s landfill operations accelerate into closure. Viridor completed the divestment of Whitehead landfill and its associated environmental liability generating an operating profit on disposal of £2.4m (recorded within asset sales) and continues to promote similar opportunities for other sites with development potential.

The business continues to be cash generative. Although EBITDA in H1 2015/16 was down to £4.5m from £9.3m in H1 2014/15, it was ahead of management expectations. This was due to a lower than expected drop in volumes on the back of a more buoyant construction market, with volumes of 1.0m tonnes down 25% on H1 2014/15.

Viridor’s average gate fees increased by 4.5% to £20.62 per tonne. Consented landfill capacity reduced from 51.7 million cubic metres (mcm) at 31 March 2015 to 48.8 mcm at 30 September 2015, reflecting usage during the period and a disposal. As previously provided for, c.38 mcm of Viridor’s consented landfill capacity is not expected to be used. Overall, Viridor is planning to utilise c.11mcm in on-going operations.

Viridor Outlook

Viridor is delivering a successful strategy, with a focus on securing long-term municipal and C&I contracts, supporting a more homogeneous risk profile across the Pennon Group, whilst delivering growth.

Viridor has a clear plan to combat short-term challenges in recycling through ITOO, restructuring and contract renegotiation.

Viridor is becoming a significant energy player with 99MW of landfill gas capacity and total consented ERF portfolio capacity of 242MW.

c.80% of the ERF portfolio is expected to be operational by the end of 2016/17 and delivering c.£100m of EBITDA. Viridor is focusing on delivering the remaining four ERFs under construction between now and H1 2018/19. Peterborough ERF is in testing, Glasgow ERF is moving into early commissioning and Dunbar and Beddington (South London) ERFs are under construction and progressing well. Dunbar is due to be commissioned in H2 2017/18 and Beddington is due to be commissioned in H1 2018/19. Avonmouth ERF remains in the strategic plan.

PENNON GROUP PLC

GROUP FINANCIAL POSITION

Strong liquidity position

The Group has a strong liquidity and funding position and is well placed in current financial market conditions. The Group has committed funding in place for South West Water to March 2018 and is fully funded for the build-out of Viridor's committed ERF pipeline. Cash resources used for the Bournemouth Water acquisition on 15 April 2015 were replenished through an equity placing of £100.3m.

The Group had cash resources and committed funding as at 30 September 2015 totalling £1,816m comprising:

- cash balances of £806m (SWW £267m), including £211m restricted cash
- undrawn committed facilities of £1,010m

During the six months to 30 September 2015 the Group raised or renewed £320m of facilities:

- £130m new EIB facility
- £100m new 20 year facility with deferred drawdown
- £40m new Revolving Credit Facilities (RCF) for SWW
- £50m renewed Revolving Credit Facilities (RCF) for Pennon

Efficient long-term financing strategy

Group net finance costs for H1 2015/16 increased by £7.9m to £29.5m from £21.6m at H1 2014/15. This increase reflects a reduction in capitalised interest due to the full year effect of operational ERFs, net of higher IFRIC 12 interest receivable reflecting ongoing ERF capital investment.

The Group funding strategy utilises a mix of fixed, floating and index-linked rate borrowings. A substantial portion of debt is finance leasing which provides a long maturity profile and secured credit margins. Net interest cover at H1 2015/16 was 4.4 times (H1 2014/15: 5.9 times).

The Group has fixed the substantial majority of South West Water's remaining floating rate debt to the end of K6. The rates reflect the fall in interest rates since 2009 taken account of by Ofwat in setting the cost of capital for K6. In addition, £393.1m of South West Water's debt is index-linked at an overall real rate of 1.7%. c.93% of Bournemouth Water's debt is index-linked through Artesian financing which is currently under review. At Pennon Group level, the average effective rate achieved on net debt was 3.4% for H1 2015/16. For South West Water this figure was 3.2%.

Capital expenditure focused on regulatory expenditure and ERF build out

Group capital investment was £165.9m in H1 2015/16 compared to £192.0m in H1 2014/15, reflecting the ongoing investment needs of the Group.

South West Water and Bournemouth Water expenditure was £58.0m compared to £64.6m for South West Water in H1 2014/15. South West Water's spending has focused on preparations for the innovative new water treatment works at North Plymouth, schemes to improve water quality and investment in digital infrastructure. Bournemouth Water has focused on continued pressure management and commissioning two ultra violet treatment plants at Beaulieu and Knapp Mill. Both South West Water and Bournemouth Water have made a good start to delivering their K6 capital programme.

Viridor capital investment was £107.9m compared to £127.3m in H1 2014/15, predominantly driven by ERF expenditure. Before capitalised interest, cumulative ERF expenditure to date is £934m, leaving £345m left to invest on the ERF programme. So far, £20m of efficiencies have been realised across Viridor's ERF capital investment programme.

The Group is making significant ongoing capital investment to support future growth.

Stable net debt position

Group net debt has increased by £148m to £2,345m, from £2,197m at 31 March 2015. The increase largely reflects the net debt assumed in the acquisition of Bournemouth Water. Group net gearing[1] has marginally increased from 61.9% at 31 March 2015 to 62.6%.

South West Water's net debt to RCV marginally increased from 62.1% at 31 March 2015 to 62.4%.

Debt includes £868m (before capitalised interest) for ERFs operational or under construction (Runcorn II, Oxford, Exeter, Cardiff, Glasgow, Dunbar and South London).

Pensions

The Group's defined benefit pension schemes had a deficit (net of deferred tax) under IAS 19 at 30 September 2015 of £54m (£68m gross), an increase of £6m on the 31 March 2015 net balance.

Excluding the acquisition of Bournemouth Water, the aggregate schemes' asset value decreased from £692m at 31 March 2015 to £667m at 30 September 2015. Over the same period, the aggregate schemes' liability value decreased from £752m at 31 March 2015 to £737m, resulting in an increase in the gross deficit of £10m (before Bournemouth Water).

(1)Net borrowings/(equity + net borrowings)

At 30 September the Bournemouth Water pension scheme had assets of £83m and liabilities of £81m, resulting in a gross surplus of £2m.

Together the total Group's schemes' asset value increased from £692m at 31 March 2015 to £750m at 30 September 2015. Over the same period, the aggregate schemes' liability value increased from £752m at 31 March 2015 to £818m, resulting in an increase in the gross deficit of £8m (£6m net of deferred tax).

Taxation

The mainstream corporation tax charge for the half year (before prior year) was £18.5m (H1 2014/15 £19.8m) giving a current year current tax rate of 17.3% (H1 2014/15 19.8%).
The reduced charge compared to last year reflects increased capital allowances due to the full year contribution of new operational ERFs and the 1% reduction in the corporation tax rate.

The deferred tax for the half year was a charge of £18.1m (H1 2014/15 £14.2m). In addition, H1 2014/15 included an exceptional charge of £3.0m reflecting the impact of tax on exceptional items.

PRINCIPAL RISKS AND UNCERTAINTIES

In accordance with DTR4.2.3 and 4.2.7 of the Disclosure & Transparency Rules the principal risks and uncertainties for the remaining six months of the financial year for the Group which could have a material adverse affect on the Group's business, financial conditions, results, operations and reputation are:

- Changes in law, regulation or decisions by governmental bodies or regulators
- Non-recovery of customer debt
- Poor operating performance due to extreme weather and climate change
- Poor service provided to customers
- Global economic downturn pressuring volumes and margins
- Downward pressure on UK wholesale power prices
- Business interruption or significant operational failures/ incidents
- Non-compliance or occurrence of avoidable health and safety incidents
- Failure or increased cost of capital projects and/or Joint Ventures not achieving predicted revenues or performance
- Exposure to contractor failure to deliver construction progress, increasing costs and potentially requiring lengthy legal action or other redress
- Reduced customer base, increased competition affecting prices or reduced demand for services

- Information technology systems requiring replacement, development or upgrading to meet growing requirements of the business
- Uncertainty arising from open tax computations where liabilities remain to be agreed

CORPORATE REPORTING

It has been the practice of the Company to publish Preliminary Results towards the end of May followed by its Annual Report a few weeks later. The Board has decided with effect from the next Annual Results Announcement in May 2016 that it will no longer issue Preliminary Results as permitted by the Listing Rules. Instead the Company will make a Final Results Announcement on 25 May 2016 which will be followed shortly thereafter by the publication of the Company's 2016 Annual Report & Accounts. This will enable the Company to bring forward its Annual General Meeting by approximately one month to 1 July 2016 and also its dividend timetable which is set out on page 30.

BOARD MATTERS

As previously announced, Ken Harvey retired from the Board on 31 July 2015 after over 18 years as Chairman. Mr Harvey was succeeded by Sir John Parker who initially joined the Board on 1 April 2015 as an independent Non-executive Director and Deputy Chairman. In addition Gerard Connell, Non-executive Director and Senior Independent Director, retired from the Board on 31 July 2015 marking the end of a term of office lasting twelve years. Gill Rider, an existing Non-executive Director, replaced Mr Connell as the Senior Independent Director.

Sir John Parker
Chairman
27 November 2015

FINANCIAL TIMETABLE FOR THE YEAR ENDING 31 MARCH 2016

28 January 2016	Ordinary shares quoted ex-dividend
29 January 2016	Record date for interim dividend
11 February 2016	Trading Statement
7 March 2016	Scrip election date for interim dividend
1 April 2016	Interim cash dividend paid and Scrip shares issued
25 May 2016	Full Year Results 2015/16
Early June 2016	Annual Report & Accounts published
1 July 2016	Annual General Meeting
7 July 2016*	Ordinary shares quoted ex-dividend
8 July 2016*	Record date for final dividend
15 August 2016*	Scrip election date for final dividend
2 September 2016*	Final cash dividend paid and Scrip shares issued
6 September 2016	Trading Statement
25 November 2016	Half Year Results 2016/17

* These dates are provisional and, in the case of the final dividend, subject to obtaining shareholder approval at the 2016 Annual General Meeting.

PENNON
GROUP PLC

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. Forward-looking statements are identified in this Report by words such as "anticipate", "aim", "believe", "continue", "could", "due", "estimate", "expect", "forecast", "goal", "intend", "may", "plan", "project", “remain”, "seek", "should", "target", "will" and related and similar expressions, as well as statements in the future tense. 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 including but not limited to those set out on pages 28 and 29 of this Statement. Undue reliance should not be placed on forward-looking statements which are made only as of the date of this Statement. 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 and nothing in this Statement should be construed as a profit forecast.

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 receive from time to time 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 2015

		Unaudited			
	Note	**Half year ended 30 September 2015 £m**	Before exceptional items half year ended 30 September 2014 £m	Exceptional items half year ended 30 September 2014 (note 5) £m	Total half year ended 30 September 2014 £m
Revenue	4	**689.1**	692.3	-	692.3
Operating costs					
Manpower costs		**(89.7)**	(85.0)	14.9	(70.1)
Raw materials and consumables used		**(55.8)**	(56.3)	-	(56.3)
Other operating expenses		**(311.9)**	(351.0)	-	(351.0)
Earnings before interest, tax, depreciation and amortisation	4	**231.7**	200.0	14.9	214.9
Depreciation and amortisation		**(96.4)**	(80.8)	-	(80.8)
Operating profit	4	**135.3**	119.2	14.9	134.1
Finance income	6	**22.0**	18.3	-	18.3
Finance costs	6	**(51.5)**	(39.9)	-	(39.9)
Net finance costs	6	**(29.5)**	(21.6)	-	(21.6)
Share of post-tax profit from joint ventures		**1.0**	2.4	-	2.4
Profit before tax	4	**106.8**	100.0	14.9	114.9
Taxation	7	**(21.9)**	(21.4)	(3.0)	(24.4)
Profit for the period		**84.9**	78.6	11.9	90.5
Attributable to:					
Ordinary shareholders of the parent		**68.7**	62.6	11.9	74.5
Perpetual capital security holders		**16.2**	16.0	-	16.0
Earnings per ordinary share (pence per share)	8				
- Basic		**16.8**			19.4
- Diluted		**16.7**			19.3
- Before exceptional items, deferred tax and adjusted proportionately to reflect the half year impact of annual hybrid periodic return		**23.2**			22.1

The notes on pages 37 to 52 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of comprehensive income for the half year ended 30 September 2015

	Unaudited			
	Half year ended 30 September 2015 £m	Before exceptional items half year ended 30 September 2014 £m	Exceptional items half year ended 30 September 2014 (note 5) £m	Total half year ended 30 September 2014 £m
Profit for the period	**84.9**	78.6	11.9	90.5
Other comprehensive loss:				
Items that will not be reclassified to profit or loss				
Remeasurement of defined benefit obligations	**(8.6)**	(28.1)	-	(28.1)
Income tax on items that will not be reclassified	**1.8**	5.6	-	5.6
Total items that will not be reclassified to profit or loss	**(6.8)**	(22.5)	-	(22.5)
Items that may be reclassified subsequently to profit or loss				
Share of other comprehensive income from joint ventures	**(1.0)**	(2.4)	-	(2.4)
Cash flow hedges	**7.4**	(5.0)	-	(5.0)
Income tax on items that may be reclassified	**(1.5)**	(0.3)	-	(0.3)
Total items that may be reclassified subsequently to profit or loss	**4.9**	(7.7)	-	(7.7)
Other comprehensive loss for the period net of tax	**(1.9)**	(30.2)	-	(30.2)
Total comprehensive income for the period	**83.0**	48.4	11.9	60.3
Total comprehensive income attributable to:				
Ordinary shareholders of the parent	**66.8**	32.4	11.9	44.3
Perpetual capital security holders	**16.2**	16.0	-	16.0

The notes on pages 37 to 52 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated balance sheet at 30 September 2015

	Note	Unaudited 30 September 2015 £m	31 March 2015 £m
ASSETS			
Non-current assets			
Goodwill	18	**386.6**	339.3
Other intangible assets		**60.6**	56.4
Property, plant and equipment	16	**3,850.4**	3,578.8
Other non-current assets		**285.7**	291.1
Derivative financial instruments		**51.3**	60.2
Investments in joint ventures		**0.1**	0.1
		4,634.7	4,325.9
Current assets			
Inventories		**20.1**	15.0
Trade and other receivables		**315.4**	287.7
Financial assets at fair value through profit		**-**	0.1
Derivative financial instruments		**8.0**	8.1
Cash and cash deposits	14	**805.9**	771.0
		1,149.4	1,081.9
LIABILITIES			
Current liabilities			
Borrowings	14	**(111.4)**	(113.6)
Financial liabilities at fair value through profit		**(0.2)**	-
Derivative financial instruments		**(15.5)**	(19.5)
Trade and other payables		**(411.9)**	(277.7)
Current tax liabilities		**(45.1)**	(52.2)
Provisions		**(32.9)**	(32.9)
		(617.0)	(495.9)
Net current assets		**532.4**	586.0
Non-current liabilities			
Borrowings	14	**(3,039.6)**	(2,854.5)
Other non-current liabilities		**(109.4)**	(110.1)
Financial liabilities at fair value through profit		**(52.6)**	(57.3)
Derivative financial instruments		**(35.2)**	(46.0)
Retirement benefit obligations		**(68.4)**	(59.6)
Deferred tax liabilities		**(278.4)**	(235.9)
Provisions		**(182.4)**	(194.4)
		(3,766.0)	(3,557.8)
Net assets		**1,401.1**	1,354.1
Shareholders' equity			
Share capital	10	**167.8**	162.4
Share premium account	11	**212.8**	118.6
Capital redemption reserve		**144.2**	144.2
Retained earnings and other reserves		**581.5**	634.1
Total shareholders' equity		**1,106.3**	1,059.3
Perpetual capital securities	12	**294.8**	294.8
Total equity		**1,401.1**	1,354.1

The notes on pages 37 to 52 form part of this condensed half year financial information.

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Consolidated statement of changes in equity

	Share capital (note 10) £m	Share premium account (note 11) £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Perpetual capital securities (note 12) £m	Total equity £m
	Unaudited					
At 1 April 2014	151.3	4.9	144.2	602.4	294.8	1,197.6
Profit for the period	-	-	-	74.5	16.0	90.5
Other comprehensive loss for the period	-	-	-	(30.2)	-	(30.2)
Total comprehensive income for the period	-	-	-	44.3	16.0	60.3
Transactions with equity shareholders						
Dividends paid or approved	-	-	-	(117.0)	-	(117.0)
Adjustment for shares issued or to be issued under the scrip dividend alternative	2.6	(2.6)	-	48.0	-	48.0
Convertible bond – equity issuance	8.5	116.3	-	(0.5)	-	124.3
Distributions due to perpetual capital security holders	-	-	-	-	(20.3)	(20.3)
Current tax relief on distributions to perpetual capital security holders	-	-	-	-	4.3	4.3
Adjustment in respect of share-based payments	-	-	-	1.9	-	1.9
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	-	(0.8)	-	(0.8)
Proceeds from treasury shares re-issued	-	-	-	3.3	-	3.3
	11.1	113.7	-	(65.1)	(16.0)	43.7
At 30 September 2014	162.4	118.6	144.2	581.6	294.8	1,301.6

	Share capital (note 10) £m	Share premium account (note 11) £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Perpetual capital securities (note 12) £m	Total equity £m
	Unaudited					
At 1 April 2015	162.4	118.6	144.2	634.1	294.8	1,354.1
Profit for the period	-	-	-	68.7	16.2	84.9
Other comprehensive loss for the period	-	-	-	(1.9)	-	(1.9)
Total comprehensive income for the period	-	-	-	66.8	16.2	83.0
Transactions with equity shareholders						
Dividends paid or approved	-	-	-	(129.5)	-	(129.5)
Adjustment for shares issued or to be issued under the scrip dividend alternative	0.3	(0.3)	-	6.3	-	6.3
Equity issuance	4.9	95.4	-	-	-	100.3
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
Adjustment in respect of share-based payments	-	-	-	2.4	-	2.4
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	-	(1.1)	-	(1.1)
Proceeds from treasury shares re-issued	-	-	-	2.5	-	2.5
Proceeds from shares issued under the Sharesave Scheme	0.2	1.4	-	-	-	1.6
Equity issuance related costs	-	(2.3)	-	-	-	(2.3)
	5.4	94.2	-	(119.4)	(16.2)	(36.0)
At 30 September 2015	167.8	212.8	144.2	581.5	294.8	1,401.1

The notes on pages 37 to 52 form part of this condensed half year financial information.

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Consolidated statement of cash flows for the half year ended 30 September 2015

	Note	**Unaudited** Half year ended 30 September 2015 £m	Half year ended 30 September 2014 £m
Cash flows from operating activities			
Cash generated from operations	13	**206.4**	140.9
Interest paid		**(41.4)**	(24.0)
Tax (paid)/repaid		**(9.5)**	4.3
Net cash generated from operating activities		**155.5**	121.2
Cash flows from investing activities			
Interest received		**4.5**	7.3
Loan repayments received from joint ventures		**19.5**	0.1
Acquisitions, net of cash acquired		**(90.0)**	-
Purchase of property, plant and equipment		**(141.4)**	(138.2)
Proceeds from sale of property, plant and equipment		**2.7**	3.4
Net cash used in investing activities		**(204.7)**	(127.4)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**99.6**	-
Proceeds from treasury shares re-issued	10	**2.5**	3.3
Deposit of restricted funds		**(14.9)**	(0.6)
Purchase of ordinary shares by the Pennon Employee Share Trust		**(1.1)**	(0.8)
Proceeds from new borrowing		**130.0**	130.0
Repayment of borrowings		**(95.1)**	(20.1)
Finance lease sale and leaseback		**0.9**	89.6
Finance lease principal repayments		**(15.0)**	(88.0)
Dividends paid		**(37.7)**	(26.8)
Net cash received from financing Activities		**69.2**	86.6
Net increase in cash and cash equivalents		**20.0**	80.4
Cash and cash equivalents at beginning of period	14	**574.8**	439.9
Cash and cash equivalents at end of period	14	**594.8**	520.3

The notes on pages 37 to 52 form part of this condensed half year financial information.

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Notes to the condensed half year financial information

1. General information

Pennon Group Plc is a company registered in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 52. Pennon Group's business is operated through three main subsidiaries. South West Water Limited holds the water and wastewater services appointments for Devon, Cornwall and parts of Dorset and Somerset. Bournemouth Water Limited holds the water appointments for parts of Dorset, Hampshire and Wiltshire. Viridor Limited's business is renewable energy, recycling and waste management.

This condensed half year financial information was approved by the Board of Directors on 26 November 2015.

The financial information for the period ended 30 September 2015 does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The statutory accounts for 31 March 2015 were approved by the Board of Directors on 22 June 2015 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 2015, 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 2015, with the exception of changes in estimates that are required in determining the half year provision of income taxes.

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 2015 and are in accordance with all IFRSs and interpretations of the IFRS Interpretations Committee expected to be applicable for the year ended 31 March 2016 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 2015 did not have a material impact on the net assets or results of the Group.

The tax charge for September 2015 and September 2014 has been derived by applying the anticipated effective annual rate to the first half year profit before tax.

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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 Limited and the regulated water services undertaken by Bournemouth Water Limited. The waste management business is the renewable energy, recycling and waste management services provided by Viridor Limited.

	Unaudited	
	Half year ended 30 September 2015 £m	Half year ended 30 September 2014 £m
Revenue		
Water	**279.3**	268.3
Waste management	**410.1**	424.4
Other	**6.1**	5.3
Less intra-segment trading	**(6.4)**	(5.7)
	689.1	692.3
Segment result		
Operating profit before depreciation, amortisation and exceptional items (EBITDA)		
Water	**173.6**	172.2
Waste management	**61.0**	28.1
Other	**(2.9)**	(0.3)
	231.7	200.0
Operating profit before exceptional items		
Water	**117.7**	119.2
Waste management	**20.5**	0.2
Other	**(2.9)**	(0.2)
	135.3	119.2
Profit before tax and exceptional items		
Water	**87.0**	86.2
Waste management	**12.9**	4.7
Other	**6.9**	9.1
	106.8	100.0
Profit before tax		
Water	**87.0**	98.0
Waste management	**12.9**	6.6
Other	**6.9**	10.3
	106.8	114.9

Intra-segment transactions between and to other segments are under normal commercial terms and conditions. Intra-segment revenue or interest receivable of one segment is a cost or interest payable of another.

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

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Notes to the condensed half year financial information (continued)

4. Segmental information (continued)

Geographic analysis of revenue based on location of customers

	Unaudited	
	Half year ended 30 September 2015 £m	Half year ended 30 September 2014 £m
UK	**664.2**	671.5
Rest of European Union	**4.5**	5.0
China	**12.2**	13.7
Rest of World	**8.2**	2.1
	689.1	692.3

The Group's country of domicile is the United Kingdom and is the country in which it generates the majority of its revenue. The Group's non-current assets are located in the United Kingdom.

5. Exceptional items

Exceptional items are those that in the Directors' view are required to be separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance.

	Unaudited	
	Half year ended 30 September 2015 £m	Half year ended 30 September 2014 £m
Operating costs		
Pension costs – past service credit	**-**	14.9
Tax charge on exceptional items	**-**	(3.0)
Credit for the period after tax	**-**	11.9

In the six months to September 2014 an exceptional credit before tax of £14.9m was recognised relating to changes made to the Group's defined benefit pension scheme. Changes implemented during that period capped pensionable pay for active members, reducing past service cost.

Notes to the condensed half year financial information (continued)

6. **Net finance costs**

	Unaudited					
	Half year ended 30 September 2015			Half year ended 30 September 2014		
	Finance cost £m	**Finance income £m**	**Total £m**	Finance cost £m	Finance income £m	Total £m
Cost of servicing debt						
Bank borrowings and overdrafts	**(25.4)**	**-**	**(25.4)**	(12.5)	-	(12.5)
Interest element of finance lease Rentals	**(17.4)**	**-**	**(17.4)**	(18.3)	-	(18.3)
Other finance costs	**(2.0)**	**-**	**(2.0)**	(1.9)	-	(1.9)
Interest receivable	**-**	**3.8**	**3.8**	-	2.8	2.8
Interest receivable on shareholder loans to joint ventures	**-**	**5.7**	**5.7**	-	5.6	5.6
	(44.8)	**9.5**	**(35.3)**	(32.7)	8.4	(24.3)
Notional interest						
Interest receivable on service concession arrangements	**-**	**8.3**	**8.3**	-	5.8	5.8
Retirement benefit obligations	**(1.2)**	**-**	**(1.2)**	(1.7)	-	(1.7)
Unwinding of discounts on Provisions	**(5.5)**	**-**	**(5.5)**	(5.5)	-	(5.5)
	(6.7)	**8.3**	**1.6**	(7.2)	5.8	(1.4)
Net gains on non-designated derivative financial instruments	**-**	**4.2**	**4.2**	-	4.1	4.1
	(51.5)	**22.0**	**(29.5)**	(39.9)	18.3	(21.6)

Notes to the condensed half year financial information (continued)

7. **Taxation**

	Unaudited	
	Half year ended 30 September 2015 £m	Half year ended 30 September 2014 £m
Analysis of charge :		
Current tax charge	**3.8**	7.2
Deferred tax charge	**18.1**	14.2
Tax charge before exceptional items	**21.9**	21.4
Tax on exceptional items	**-**	3.0
	21.9	24.4

UK corporation tax is calculated at 20% (2014 21%) of the estimated assessable profit for the year. The tax charge for September 2015 and September 2014 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 exceptional items was 21% (2014 21%).

Had the Government proposals contained in the Finance (No 2) Act 2015, to reduce the rate of corporation tax by 1% for the financial year 2017 and a further 1% for the financial year 2020, been enacted at 30 September 2015 the deferred tax liability would have been approximately £27m lower.

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 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 2015	Half year ended 30 September 2014
Number of shares (millions)		
For basic earnings per share	**409.9**	383.5
Effect of dilutive potential ordinary shares from share options	**1.6**	1.7
For diluted earnings per share	**411.5**	385.2

Basic and diluted earnings per ordinary share

Adjusted earnings per share are presented to provide a more useful comparison on business trends and performance. Exceptional items are adjusted for as by nature and size they can distort comparison of business trends. Deferred tax is adjusted for as it reflects distortive effects of changes in corporation tax rates and the level of long term investment. The annual perpetual capital return is recognised in full at the half year, so is proportionately adjusted to allow a more useful comparison at the half year.

Earnings per share have been calculated:

	Unaudited					
	Half year ended 30 September 2015			Half year ended 30 September 2014		
		Earnings per ordinary share			Earnings per ordinary share	
	Profit after tax £m	**Basic p**	**Diluted p**	Profit after tax £m	Basic p	Diluted p
Statutory earnings	**68.7**	**16.8**	**16.7**	74.5	19.4	19.3
Deferred tax charge before exceptional items (note 7)	**18.1**	**4.4**	**4.4**	14.2	3.7	3.7
Exceptional items (net of tax) (note 5)	**-**	**-**	**-**	(11.9)	(3.1)	(3.1)
Proportionate impact of perpetual capital returns (note 12)	**8.1**	**2.0**	**2.0**	8.0	2.1	2.1
Adjusted earnings	**94.9**	**23.2**	**23.1**	84.8	22.1	22.0

Notes to the condensed half year financial information (continued)

9. **Dividends to ordinary shareholders**

Amounts recognised as distributions to ordinary shareholders in the period :

	Unaudited Half year ended 30 September 2015 £m	Half year ended 30 September 2014 £m
Interim dividend paid for the year ended 31 March 2015 : 9.98p (2014 9.39p) per share	**39.8**	34.8
Final dividend approved for the year ended 31 March 2015 : 21.82p (2014 20.92p) per share	**89.7**	82.2
	129.5	117.0

Proposed interim dividend	Unaudited Half year ended 30 September 2015 £m	Half year ended 30 September 2014 £m
Proposed interim dividend for the year ended 31 March 2016 : 10.46p (2015 9.98p) per share	**43.1**	39.8

The proposed interim dividend of 10.46p per share will be paid on 1 April 2016 to shareholders on the register on 29 January 2016.

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

Notes to the condensed half year financial information (continued)

10. **Share capital**

Allotted, called up and fully paid

1 April 2014 to 30 September 2014	Unaudited		
	Number of shares		
	Treasury shares	Ordinary shares	£m
At 1 April 2014 ordinary shares of 40.7p each	1,282,690	370,552,276	151.3
Shares issued in respect of the £125m convertible bond	-	20,909,635	8.5
Shares issued under the scrip dividend alternative	-	1,982,455	0.8
Shares re-issued under the Company's Performance and Co-investment Plan	(131,685)	131,685	-
For consideration of £0.8m, shares re-issued to the Pennon Employee Share Trust	(104,482)	104,482	-
For consideration of £2.5m, shares re-issued under the Company's Sharesave Scheme	(587,156)	587,156	-
At 30 September 2014 ordinary shares in issue of 40.7p each	459,367	394,267,689	160.6
Shares to be issued under the scrip dividend alternative	-	4,383,167	1.8
	459,367	398,650,856	162.4

1 April 2015 to 30 September 2015	Unaudited		
	Number of shares		
	Treasury shares	Ordinary shares	£m
At 1 April 2015 ordinary shares of 40.7p each	389,515	398,720,708	162.4
Shares issued in respect of the equity issuance	-	12,084,337	4.9
Shares issued under the scrip dividend alternative	-	236,033	0.1
Shares re-issued under the Company's Performance and Co-investment Plan	(8,305)	8,305	-
For consideration of £1.1m, shares re-issued to the Pennon Employee Share Trust	(143,538)	143,538	-
For consideration of £1.4m, shares re-issued under the Company's Sharesave Scheme	(227,316)	227,316	-
For consideration of £1.6m, shares issued in respect of the Company's Sharesave Scheme	-	280,090	0.2
At 30 September 2015 ordinary shares in issue of 40.7p each	**10,356**	**411,700,327**	**167.6**
Shares to be issued under the scrip dividend alternative	-	524,593	0.2
	10,356	**412,224,920**	**167.8**

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 half year was 767p (2014 808p).

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Notes to the condensed half year financial information (continued)

11. **Share premium account**

	Unaudited £m
1 April 2014 to September 2014	
At 1 April 2014	4.9
Convertible bond	116.3
Adjustment for shares issued under the scrip dividend alternative	(2.6)
At 30 September 2014	118.6
1 April 2015 to 30 September 2015	
At 1 April 2015	118.6
Equity placing	95.4
Adjustment for shares issued under the scrip dividend alternative	(0.3)
Shares issued under the sharesave scheme	1.4
Equity issuance related costs	(2.3)
At 30 September 2015	212.8

12. **Perpetual capital securities**

	Unaudited Half year ended 30 September 2015 £m	Year ended 31 March 2015 £m
GBP 300m 6.75% perpetual subordinated capital securities	**294.8**	294.8

On 8 March 2013 the Company issued £300m perpetual capital securities. They have no fixed redemption date but the Company may, 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.

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 2 April 2015 the periodic return of £20.3m scheduled 8 March 2016 is payable and consequently has been recognised as a liability at 30 September 2015.

Notes to the condensed half year financial information (continued)

13. **Cash flow from operating activities**

Reconciliation of profit to net cash inflow from operating activities:

	Unaudited	
	Half year ended 30 September 2015 £m	Half year ended 30 September 2014 £m
Cash generated from operations		
Profit for the period	**84.9**	90.5
Adjustments for:		
Share-based payments	**2.4**	1.9
Profit on disposal of property, plant and equipment	**(4.1)**	(2.9)
Depreciation charge	**94.6**	79.4
Amortisation of intangible assets	**1.8**	1.3
Exceptional credit from defined benefit pension change	**-**	(14.9)
Share of post-tax profit from joint ventures	**(1.0)**	(2.4)
Finance income	**(22.0)**	(18.3)
Finance costs	**51.5**	39.9
Taxation charge	**21.9**	24.4
Changes in working capital :		
Increase in inventories	**(5.0)**	(0.1)
Decrease/(increase) in trade and other receivables	**2.3**	(24.8)
Increase in service concession arrangements receivable	**(13.4)**	(45.0)
Increase in trade and other payables	**0.5**	14.5
Increase in retirement benefit obligations	**0.9**	0.1
Decrease in provisions	**(8.9)**	(2.7)
Cash generated from operations	**206.4**	140.9

	Unaudited	
Total interest paid	**Half year ended 30 September 2015 £m**	Half year ended 30 September 2014 £m
Interest paid in operating activities	**41.4**	24.0
Interest paid in investing activities (purchases of property, plant and equipment)	**4.0**	13.9
Total interest paid	**45.4**	37.9

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Notes to the condensed half year financial information (continued)

14. **Net borrowings**

	Unaudited Half year ended 30 September 2015 £m	Year ended 31 March 2015 £m
Cash and cash deposits	**805.9**	771.0
Borrowings – current		
Bank overdrafts	**(0.2)**	(0.2)
Other current borrowings	**(84.6)**	(81.8)
Finance lease obligations	**(26.6)**	(31.6)
Total current borrowings	**(111.4)**	(113.6)
Borrowings – non-current		
Bank and other loans	**(1,484.0)**	(1,277.2)
Other non-current borrowings	**(250.5)**	(273.2)
Finance lease obligations	**(1,305.1)**	(1,304.1)
Total non-current borrowings	**(3,039.6)**	(2,854.5)
Total net borrowings	**(2,345.1)**	(2,197.1)

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

	Unaudited Half year ended 30 September 2015 £m	Year ended 31 March 2015 £m
Cash and cash deposits as above	**805.9**	771.0
Less : deposits with a maturity of three months or more (restricted funds)	**(211.1)**	(196.2)
	594.8	574.8

Restricted funds are available to be accessed subject to being replaced by an equivalent facility.

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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 Half year ended 30 September 2015		Year ended 31 March 2015	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Non-current borrowings :				
Bank and other loans	**1,484.0**	**1,533.7**	1,277.2	1,348.2
Other non-current borrowings	**250.5**	**230.0**	273.2	250.6
Finance lease obligations	**1,305.1**	**1,173.8**	1,304.1	1,182.0
Total non-current borrowings	**3,039.6**	**2,937.5**	2,854.5	2,780.8
Other non-current assets	**285.7**	**362.2**	291.1	364.2

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)

- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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.

Notes to the condensed half year financial information (continued)

15. **Fair value disclosure for financial instruments (continued)**

Valuation hierarchy of financial instruments carried at fair value (continued)

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

	Unaudited Half year ended 30 September 2015 £m	Year ended 31 March 2015 £m
Level 2 inputs		
Assets		
Derivatives used for hedging	**58.7**	68.3
Liabilities		
Derivatives used for hedging	**44.1**	52.4
Derivatives deemed held for trading	**6.6**	9.5
Total liabilities	**50.7**	61.9

Financial instruments valued using level 3 measures are valued by the counterparty using cash flows discounted at prevailing mid-market rates. The fair value of such financial instruments is not significantly sensitive to unobservable inputs.

Level 3 inputs		
Assets		
Derivatives deemed held for trading	**0.6**	-
Liabilities		
Derivatives deemed held for trading	**-**	3.6

The table below shows the summary of changes in the fair value of the Group's level 3 financial instruments:

	Unaudited Half year ended 30 September 2015 £m	Year ended 31 March 2015 £m
Asset/ (liability)		
Opening balance	**(3.6)**	(2.4)
Gains and losses recognised in net finance costs	**4.2**	7.8
Settlement of recognised gains	**-**	(9.0)
Closing balance	**0.6**	(3.6)

Notes to the condensed half year financial information (continued)

16. **Capital expenditure**

	Unaudited Half year ended 30 September 2015 £m	Year ended 31 March 2015 £m
Property, plant and equipment		
Additions	**145.7**	301.4
Net book value of disposals	**7.5**	2.0
Capital commitments		
Contracted but not provided	**446.5**	350.3

17. **Contingent liabilities**

	Unaudited Half year ended 30 September 2015 £m	Year ended 31 March 2015 £m
Performance bonds	**164.2**	169.8
Other	**4.0**	4.0
	168.2	173.8

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

The Group is subject to litigation from time to time as a result of its activities. The Group establishes provisions in connection with litigation where it has a present legal or constructive obligation as a result of a past event 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.

18. **Acquisitions**

On 15 April 2015 Pennon Group Plc acquired 100% of the issued share capital of Sembcorp Bournemouth Water Investments Limited (renamed 'Bournemouth Water Investments Limited') including its non-regulated subsidiaries from Sembcorp Holdings Limited for a cash consideration of £100.3m. Sembcorp Bournemouth Water Investments Limited is the holding company for Sembcorp Bournemouth Water Limited (renamed 'Bournemouth Water Limited').

The acquisition was in line with the Group's strategy to increase shareholder returns from the anticipated future synergies and outperformance arising from the merger into South West Water.

The acquisition has been accounted for using the acquisition method. Goodwill of £42.3m has been capitalised attributable to the profitability of the acquired business and the anticipated future synergies and outperformance arising from the merger into South West Water.

On 1 June 2015 Viridor Waste Management Limited acquired Commercial Recycling Limited's waste collection division in Dorset and Somerset for an initial £3.5m. An additional payment of up to £2.0m could be made in the future depending upon certain performance related criteria. The acquisition has been accounted for using the acquisition method.

Notes to the condensed half year financial information (continued)

18. **Acquisitions (continued)**

Provisional goodwill of £5.0m has been capitalised attributable to the profitability of the acquired business. Final fair values of assets and liabilities plus associated goodwill will be reported in the full year results for 2015/16.

No amount of goodwill related to these acquisitions is expected to be deductible for tax purposes.

The residual excesses over the net assets acquired in each business combination has been recognised as goodwill.

Fair values on acquisition	**Bournemouth Water Investments Limited £m**
Intangible assets	2.3
Property, plant and equipment	228.5
Inventories	0.1
Trade and other receivables	23.8
Cash and cash deposits	13.8
Retirement benefit surplus	1.9
Borrowings	(160.2)
Trade and other payables	(19.7)
Other liabilities	(0.5)
Taxation – current	(2.7)
Deferred tax liabilities	(24.8)
Provisions	(0.2)
Net assets acquired	**62.3**
Goodwill	42.3
Total consideration	**104.6**
Satisfied by:	
Cash	100.3
Transfer of amounts due to Bournemouth Water Investments Ltd	4.3
	104.6
Net cash outflow arising on acquisition:	
Cash consideration	100.3
Cash and cash deposits acquired	(13.8)
	86.5
Revenue for the period since acquisition to 30 September 2015	20.2
Profit before tax for the period since acquisition to 30 September 2015	3.5
Directly attributable costs included in other operating expenses	2.9

The fair value of acquired trade and other receivables on acquisition was £23.8m. This included gross contracted amounts receivable of £17.4m, of which cash flows of £1.0m were not expected to be collected.

Goodwill movement	**£m**
At 1 April 2015	339.3
Acquisition of Bournemouth Water Investments Limited	42.3
Acquisition of the waste collection division of Commercial Recycling Limited	5.0
At 30 September 2015	386.6

19. **Related party transactions**

The Group's significant related parties are its joint ventures in Lakeside Energy from Waste Holdings Limited and Viridor Laing (Greater Manchester) Holdings Limited 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 2015.

During the period Viridor Laing (Greater Manchester) Holdings Limited repaid £19.5m of shareholder loans to Viridor, reducing Viridor's shareholder loan at 30 September 2015 to £40.5m.

There were no other material changes during the half year to September 2015 in the nature of transactions with these related parties.

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

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
Ian McAulay
Susan Davy

For and on behalf of the Board of Directors who approved this half year report on 26 November 2015.

Sir John Parker
Chairman

S J Davy
Group Director of Finance

PENNON GROUP PLC

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 2015 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 2015 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
26 November 2015