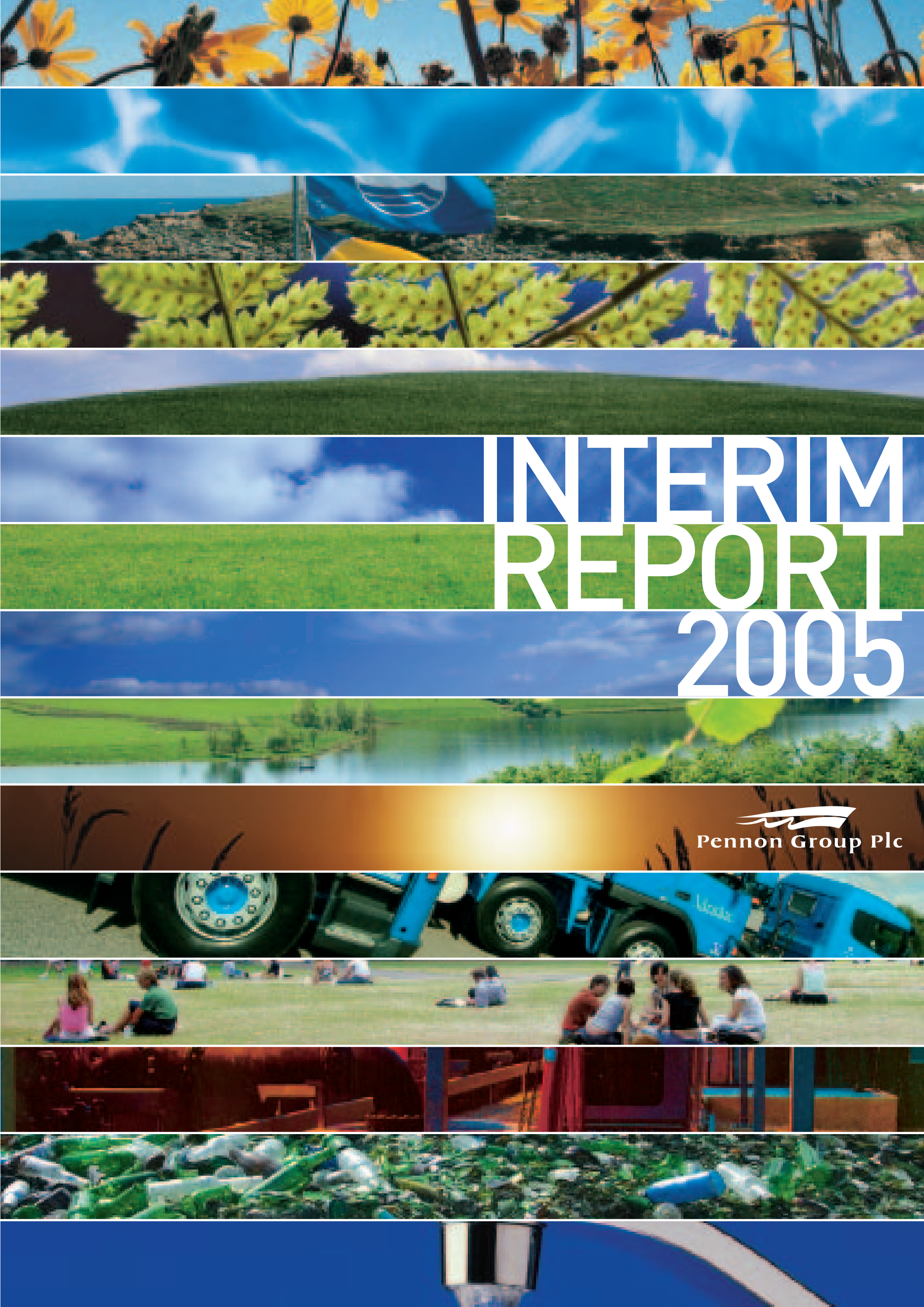

INTERIM
REPORT
2005
Pennon Group Plc

FINANCIAL HIGHLIGHTS

- Operating profit up 14.8% to £93.7 million*

SOUTH WEST WATER – up 15.4% to £77.8 million

Viridor WASTE – up 15.1% to £16.8 million before amortisation of intangibles

- Profit before tax up 21.6% to £60.8 million*
- Earnings per share (before deferred tax) up 13.5% to 41.3p*

* Before exceptional item in 2004/05 of £2.0 million for costs incurred relating to abortive acquisition in 2003/04.

PROPOSED RETURN OF CAPITAL AND DIVIDEND POLICY

- Proposed capital return of £200 million through:
  - B Share scheme of approximately £145 million, equivalent to 110p per share
    - – with income or capital alternatives
    - – associated ordinary share consolidation
  - Share buyback of approximately £55 million
- Proposed rebased dividend per share post consolidation
  - 20% increase in full year dividend per share reflected in:
    - – 20% increase in interim dividend per share to 16.5p
    - – 3% per annum real dividend increases thereafter until 2009/10
- £20 per South West Water customer one-off payment from balance sheet restructuring

OPERATIONAL HIGHLIGHTS

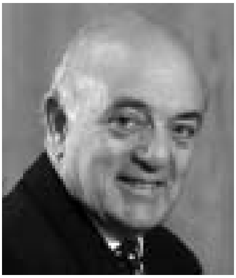
SOUTH WEST WATER

- Delivery under way of 2005 – 2010 regulatory contract
- Profit increase reflecting strong growth in Regulatory Asset Value (RAV) in 2005
- Length of water mains renovated up 17%
- Highest increase in Overall Performance Assessment (OPA) score of any of the water and sewerage companies in England and Wales in 2004/05
- Record 2005 bathing water compliance

Viridor WASTE

- Continued strong growth in profits, particularly from landfill and power generation
- Brett Waste acquired in June 2005 – now successfully integrated
- Lakeside Energy from Waste Limited joint venture signed September 2005 – now fully financed and under construction
- New landfill opened in Cornwall
- Partnership with John Laing plc for Greater Manchester integrated waste PFI bid
- Viridor negotiating preferred bidder status for Somerset integrated waste contract/Local Authority Waste Disposal Company (LAWDC)

CHAIRMAN’S INTERIM STATEMENT



“I am pleased to report another half year of excellent results which clearly affirm our strategy of focusing on our two key businesses, South West Water and Viridor Waste.

Following an extensive review by the Board of the capital structure of the Group, the Board has decided, subject to shareholder approval, to move South West Water to a more highly geared structure to enhance the Group’s capital efficiency. As a consequence of this, the Board is pleased to announce proposals to effect a return to its shareholders of 110 pence per share (being approximately £145 million), with an associated share consolidation, a share buyback of £55 million and a one-off £20 per South West Water customer payment from balance sheet restructuring. The Board also intends to step-up the interim and full year Group dividend per share by 20% after the share consolidation and to grow it by 3% per annum in real terms thereafter until 2009/10.”

Ken Harvey, Chairman

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

All numbers contained herein are now published in accordance with International Financial Reporting Standards (IFRS) with prior year figures restated. Pennon Group, like all European Union listed companies, is required to produce its results under IFRS from 1 April 2005 in accordance with IFRS issued by the International Accounting Standards Board (IASB), and which have either been, or are reasonably expected to be, endorsed by the European Union for application to the financial year ending 31 March 2006. The IASB is still developing these standards and further standards, amendments and interpretations could become applicable to the Group's accounts as practice and interpretation continue to evolve. Consequently, the Group's accounting policies may change prior to the publication of financial statements for the year ending 31 March 2006.

The principal differences between UK Generally Accepted Accounting Principles (UK GAAP) and IFRS and their indicative impact on the Group were detailed in the Group's 2005 Annual Report.

Full information relating to the restatement from UK GAAP to IFRS was published on 8 December 2005, principally comprising the consolidated balance sheet at 1 April 2004, half year results to 30 September 2004 and the full year results to 31 March 2005. Details of these results, together with reconciliations between previously published UK GAAP reported results and those reported under IFRS, are available on the Group's website: *www.pennon-group.co.uk*

GROUP OVERVIEW

- Revenue rose by 16.6% to £328.2 million.
- Operating profit rose by 14.8% to £93.7 million.*
- Profit before tax was up 21.6% to £60.8 million. *
- Earnings per share before the exceptional item and deferred tax increased by 13.5% to 41.3p. Earnings per share after the exceptional item and deferred tax rose by 8.9% to 29.3p.
- Capital expenditure was £93.1 million (2004 – £86.0 million).
- Brett Waste Management Limited was acquired during the half year for £44.5 million (£47.2 million inclusive of debt).
- Net borrowings were £1,199 million, an increase of £81 million since 31 March 2005. Gearing, being net borrowings to shareholders' funds plus net borrowings, was 63% (2004 – 62%). Interest cover was 2.8 times for the half year to 30 September 2005 (2004 – 2.6 times).

*Before exceptional item in 2004/05 of £2.0 million for costs incurred relating to abortive acquisition.

PROPOSED CAPITAL RETURN AND DIVIDEND POLICY

- The Board has decided to increase the level of gearing in its regulated water and sewerage business to increase the efficiency of the Group's capital structure.
- As a consequence, the Board proposes a capital return to shareholders of £200 million.
- The capital return is to be achieved through a B Share scheme of approximately £145 million (equivalent to 110p per share) and an on-market share buyback programme of approximately £55 million.
- The B Share scheme is intended to provide shareholders with the choice of receiving the return either as income or capital. In order to maintain comparability of the share price after the B Share scheme, the Board proposes to consolidate the ordinary share capital of the Group immediately following the issue of the new B shares.
- The on-market share buyback programme of approximately £55 million represents approximately 4% of the Group's issued share capital at the current share price.
- Following the ordinary share consolidation, the Board proposes to step-up the interim and full year dividend per share by 20% to 16.5p and then grow it by 3% per annum in real terms up to 2009/10.
- Following the gearing up, we expect March 2006 South West Water pro forma net debt to Regulatory Asset Value (RAV) of around 66%.
- £20 will be paid to each South West Water customer following the restructuring as a one-off payment.
- The proposals to return capital through a B Share scheme and to consolidate the ordinary share capital are conditional on shareholder approval. A circular setting out explanatory details on the B Share scheme and associated share consolidation, and containing the notice of the Extraordinary General Meeting at which shareholders approval will be sought, is expected to be posted early in 2006. The proposals to increase the 2005/06 interim and final dividend by 20% and to make a one-off payment to customers will be implemented if shareholders approve the proposed B Share scheme and associated share consolidation.
- The return is to be funded from existing facilities.
- In addition, the Company is proposing the retirement of its existing 2012 £150 million 10.625% Bonds on recommended terms supported by an ABI Special Committee.

SOUTH WEST WATER

South West Water turnover rose by £20.4 million to £177.3 million. Approved tariff increases, including the 12.5% K factor, amounted to £25.0 million. Customers switching from unmeasured to metered charging caused a reduction of £4.4 million in turnover. 4,100 new customer connections contributed £1.4 million. Other factors, including a small decrease in measured demand, reduced turnover by £1.6 million.

South West Water's operating profit rose 15.4% to £77.8 million. Operating costs, including depreciation, increased by £10.0 million to £99.5 million. Additional costs from new capital schemes of £4.0 million, inflation of £3.8 million and £4.1 million of other cost increases were offset by £1.9 million of efficiency savings. Detailed plans are in place and actions are being taken which are anticipated to achieve the operating cost targets set by the Director General of Water Services for the period up to 2010.

The company has made a positive start to its K4 capital programme with 'Early Start' schemes due for delivery as early as January 2006. Capital expenditure in the half year increased by £1.2 million to £69.2 million. £41.2 million was invested in water supply improvements including water mains renovation, water treatment works enhancement and leakage control.

Ofwat's latest report on leakage confirms that South West Water is one of the leading companies in managing water leakage and continues to deliver results in line with Ofwat's leakage target. Water resources remain secure. A record length of almost 350km of water mains were laid, replaced or refurbished during the half year, in line with the Drinking Water Inspectorate's agreed programme for completion by 2010.

Drinking water quality and river water quality are at an all time high and the region features the highest proportion of high quality rivers in England. During the half year, Ofwat reported that South West Water in 2004/05 achieved the largest Overall Performance Assessment score improvement of the water and sewerage companies.

Waste water investment expenditure totalled £28.0 million for the half year. All of the major projects in the Company's 15 year original 'Clean Sweep' coastal sewage treatment programme have been completed and the region is now attaining record levels of bathing water quality compliance. In the South West Water region, 142 of the 143 designated bathing waters met the mandatory EU quality standards, with 88.8% meeting the more stringent guideline level. Cornwall's bathing waters achieved an exceptionally high standard, with a 100% pass rate at mandatory level and a 96.4% pass rate at the guideline level.

During the K3 regulatory period, the company grew its RAV ahead of net debt. RAV is predicted to grow by 33% over the K4 period to £2.6 billion by March 2010 – the highest forecast percentage increase of any quoted UK water company. After adjusting for the growth in gearing highlighted above, the company again expects its growth in RAV to outstrip significantly the anticipated growth in net borrowings.

VIRIDOR WASTE

Viridor Waste (Viridor) has continued to trade strongly in the six months ended 30 September 2005, building further on the growth achieved over the past several years. Revenue was up 20.0% to £152.0 million, including a £5.6 million contribution from the Brett Waste Management Limited (Brett Waste) acquisition and £9.2 million from increased landfill tax.

Viridor operating profit before intangibles for the half year rose by 15.1% to £16.8 million (£16.0 million after intangibles), including the benefit of some one-off business, compared with £14.6 million in 2004/05 (£13.8 million after intangibles). Operating profit rose 13.7% excluding this year's acquisition. Earnings before interest, tax, depreciation and amortisation (EBITDA) rose 10.8% from £28.7 million to £31.8 million. Capital expenditure for the half year was £23.9 million (2004 – £18.0 million).

In June, Viridor acquired Brett Waste, a landfill and power generation business, for a cash consideration of £44.5 million (£47.2 million inclusive of debt in the company). The company comprises strategically located landfill sites in Kent and Essex with approximately 11 million cubic metres of consented capacity, landfill gas power generation schemes totalling 6 MW capacity and associated waste transfer station and collection activities. The acquisition is now fully integrated into Viridor Waste's South East region and is expected to be earnings enhancing before amortisation of intangibles in its first full year.

Total landfill disposal volumes excluding acquisitions remained unchanged compared with the previous half year after adjusting for non-recurring volumes:

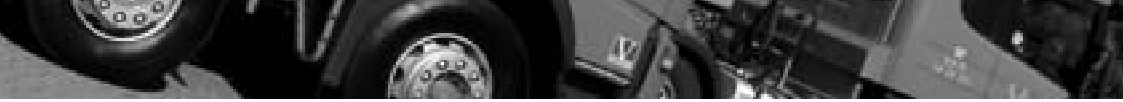
i) in the first quarter of 2004/05, in advance of the banning of the disposal of hazardous waste to landfill and

ii) in the first half of 2005/06 a significant one-off sludge contract at Viridor's materials recycling facility in Suffolk.

Increased landfill inputs from Viridor's own collection fleet offset the impact of an overall market decline.

Gate fees rose by 12%, reflecting inputs of stabilised non-reactive hazardous waste and the underlying tightness of UK landfill capacity. Viridor currently has 89 million cubic metres of landfill capacity.

Viridor's power generation prices, (excluding acquisitions), rose 19% to £59 per megawatt hour, reflecting the increasing underlying 'brown' energy price and the ongoing shortage of renewable energy in the UK which is driving the premium price achieved by renewables.



The Government is targeting 10% of electricity from renewable energy sources by 2010 and 15% by 2015, with an aspiration of 20% by 2020. Only around 4% of electricity in the UK is currently generated from renewable sources. Excluding the Brett Waste acquisition, output increased a further 3% in the half year. Viridor's current capacity (including the contribution from Brett Waste) increased to 58 megawatts, around half of which is eligible for renewable obligation certificates (ROCs).

In August, Viridor opened the first new landfill disposal site to be developed in Cornwall for about 20 years. With a capacity of 3 million cubic metres, the Lean Quarry integrated waste management facility near Liskeard also provides a materials recycling facility, a waste transfer station and a collection services depot.

In September, Viridor joined forces with Grundon Waste Management Ltd and set up a joint venture company, Lakeside Energy from Waste Limited, to build and operate an energy from waste plant near Slough. The 50/50 joint venture is in line with Viridor strategy of capitalising on opportunities arising from the Government's developing waste strategy and will assist local authority customers in meeting their landfill diversion targets and avoiding penalties under the Landfill Allowance Trading Scheme (LATS).

A number of these councils are existing waste disposal customers of Viridor or Grundon. The plant will have a capacity of 400,000 tonnes per annum and it will also provide power generation capacity of 32 megawatts of electricity which will be fed into the national grid. The plant will be built at Grundon's strategically located site at Colnbrook near Slough, which has the relevant permissions and permits. Total investment is projected to be £160 million, 86% of which is non-recourse debt financing which is now in place. The total project IRR is within normal project finance parameters. The plant is scheduled to be commissioned in mid-2008 and preliminary infrastructure works have already started.

Municipal landfill diversion creates new opportunities as councils seek to let long-term integrated waste management contracts in order to meet their diversion targets and avoid penalties. These contracts will often attract Private Finance Initiative (PFI) funding. Viridor believes there may be significant opportunities in these contracts, subject to a fair sharing of risk between councils and contractors, and is pursuing them in a selective manner. Viridor has announced that it is in partnership with John Laing plc to submit a joint bid for the Greater Manchester PFI. Viridor is also negotiating preferred bidder status for the Somerset integrated waste management contract/LAWDC.

The new Pennon Group balance sheet capital structure allows for the continuation of the current growth strategy in Viridor.

PENSIONS

During August 2005, the Company made a pension contribution prepayment for the period to 2010 of £44 million (£32 million net of tax).

TAXATION

The mainstream corporation tax charge for the half year to September 2005 was £8.1 million (2004 – £4.6 million).

The deferred tax charge for the half year to 30 September 2005 was £15.3 million (2004 – £9.8 million).

FINANCING INITIATIVES

The total interest charge increased from £31.6 million to £32.9 million. The average interest rate on net debt has reduced to 5.7% (2004/05 – 5.8%).

The Group funding strategy utilises a mix of fixed and floating rate borrowings. To reduce the risk of adverse interest rate movements, South West Water has extended its swap arrangements to fix the interest rate on some 75% of its debt for the period up to March 2006 and on around 60% of its debt up to March 2010. During the half year, a new £114 million finance lease facility was put in place for long-life assets.

The proposed capital return will be funded from cash on deposit and existing facilities.

STRATEGY AND PROSPECTS

The Board's priority continues to be the creation of shareholder value through its strategic focus on water, sewerage and waste management. The interim results are testament to the Board's strategy of focusing on these key business areas. The move to a more highly geared structure will allow the Group to return value to shareholders and customers and provide an enhanced dividend. The Board has confidence that South West Water will successfully deliver the new K4 regulatory contract and significantly grow its Regulatory Asset Value up to 2010. Viridor Waste's successful strategy of creating long-term sustainable profit growth is expected to continue through capitalising on its landfill asset base, exploiting its landfill gas power generation potential and pursuing profitable opportunities in line with the Government's developing waste strategy.

Ken Harvey, Chairman
8 December 2005

CONSOLIDATED INCOME STATEMENT

FOR THE HALF YEAR ENDED 30 SEPTEMBER 2005

	Notes	**Half year ended 30 September 2005 £m**	Half year ended 30 September 2004 (restated) £m	Year ended 31 March 2005 (restated) £m
		Unaudited		
Continuing operations				
Revenue		**328.2**	281.5	551.4
Operating costs				
Manpower costs		**(39.2)**	(34.7)	(68.3)
Raw materials and consumables used		**(19.4)**	(14.7)	(32.8)
Depreciation		**(49.3)**	(45.2)	(90.7)
Amortisation of intangibles		**(0.8)**	(0.8)	(1.4)
Other operating expenses		**(125.8)**	(104.5)	(207.3)
Abortive acquisition costs	4	**–**	(2.0)	(1.5)
Business restructuring costs	5	**–**	–	(3.4)
Operating profit		**93.7**	79.6	146.0
Operating profit before depreciation, amortisation and exceptional items		**143.8**	127.6	243.0
Operating profit before exceptional items		**93.7**	81.6	150.9
Abortive acquisition costs	4	**–**	(2.0)	(1.5)
Business restructuring costs	5	**–**	–	(3.4)
Operating profit		**93.7**	79.6	146.0
Interest payable and similar charges		**(48.4)**	(44.8)	(89.3)
Interest receivable		**15.5**	13.2	27.3
Share of post-tax profit from joint venture		**–**	–	0.1
Profit before tax		**60.8**	48.0	84.1
Tax on profit on ordinary activities	6	**(23.4)**	(14.4)	(23.5)
Profit for the period from continuing operations		**37.4**	33.6	60.6
Discontinuing operations				
Post-tax business disposal profit	7	**–**	–	5.0
Profit for the period		**37.4**	33.6	65.6
Profit attributable to equity shareholders		**37.4**	33.6	65.6
Earnings per share (pence per share)	8			
– Basic		**29.3**	26.9	52.1
– Diluted		**29.1**	26.8	51.7
Earnings per share from continuing operations				
– Basic		**29.3**	26.9	48.1
– Diluted		**29.1**	26.8	47.8
Dividend per share (pence per share)	9	**16.5**	13.8	43.0
Dividend proposed for the period (£m)	9	**19.4**	17.7	55.1

2004/05 comparatives have been restated to IFRS.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME & EXPENSE

FOR THE HALF YEAR ENDED 30 SEPTEMBER 2005

	Unaudited		
	Half year ended 30 September 2005 £m	Half year ended 30 September 2004 (restated) £m	Year ended 31 March 2005 (restated) £m
Profit for the period	**37.4**	33.6	65.6
Actuarial (losses)/gains on defined benefit schemes (net of tax)	**(1.5)**	(2.9)	1.3
Cash flow hedges			
Net fair value losses (net of tax)	**(6.3)**	–	–
Net (losses)/gains not recognised directly in income statement	**(7.8)**	(2.9)	1.3
Total recognised income for the period	**29.6**	30.7	66.9
Adjustments on adoption of IAS 32/39 1 April 2005	**13.9**	–	–
	43.5	30.7	66.9
Attributable to equity shareholders	**43.5**	30.7	66.9

2004/05 comparatives have been restated to IFRS.

CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER 2005

	Unaudited		
	30 September 2005	30 September 2004 (restated)	31 March 2005 (restated)
	£m	£m	£m
Assets			
Non-current assets			
Goodwill	**95.3**	61.8	64.4
Intangible assets	**10.3**	6.4	6.0
Property, plant and equipment	**2,283.3**	2,167.7	2,218.5
Trade and other receivables	**4.1**	3.0	3.3
Investments accounted for using equity method	**1.2**	–	–
	2,394.2	2,238.9	2,292.2
Current assets			
Inventories	**5.3**	4.9	4.7
Trade and other receivables	**121.1**	104.7	99.6
Financial assets			
Derivative financial instruments	**0.4**	–	–
Cash and cash equivalents	**215.8**	296.9	303.4
	342.6	406.5	407.7
Liabilities			
Current liabilities			
Financial liabilities			
Borrowings	**(53.7)**	(107.2)	(54.8)
Derivative financial instruments	**(7.6)**	–	–
Trade and other payables	**(195.7)**	(174.8)	(127.8)
Current tax liabilities	**(32.8)**	(19.9)	(23.6)
Provisions for liabilities and charges	**(7.5)**	(6.8)	(8.4)
	(297.3)	(308.7)	(214.6)
Net current assets	**45.3**	97.8	193.1
Non-current liabilities			
Financial liabilities			
Borrowings	**(1,360.9)**	(1,278.1)	(1,366.8)
Other non-current liabilities	**(3.5)**	(17.4)	(19.1)
Retirement benefit obligations	**(39.6)**	(82.7)	(79.8)
Deferred tax liabilities	**(299.9)**	(275.2)	(282.8)
Provisions for liabilities and charges	**(34.0)**	(28.2)	(27.9)
	(1,737.9)	(1,681.6)	(1,776.4)
Net assets	**701.6**	655.1	708.9
Shareholders' equity			
Share capital	**142.6**	139.5	142.0
Share premium account	**155.8**	156.1	153.7
Retained earnings and other reserves	**403.2**	359.5	413.2
Total shareholders' equity	**701.6**	655.1	708.9

2004/05 comparatives have been restated to IFRS.

CONSOLIDATED CASH FLOW STATEMENT FOR THE HALF YEAR ENDED 30 SEPTEMBER 2005

	Note	**Half year ended 30 September 2005 £m**	Half year ended 30 September 2004 (restated) £m	Year ended 31 March 2005 (restated) £m
		Unaudited		
Cash flows from operating activities				
Cash generated from operations	10	**82.2**	129.4	242.4
Interest paid		**(33.9)**	(23.7)	(68.5)
Forward interest rate swap settlement		**–**	(3.4)	(3.4)
Tax paid		**(0.3)**	–	(0.4)
Net cash generated from operating activities		**48.0**	102.3	170.1
Cash flows from investing activities				
Interest received		**15.6**	4.6	12.8
Acquisition of subsidiaries (net of cash acquired)		**(44.5)**	(28.5)	(28.6)
Investment in joint venture		**(1.0)**	–	–
Proceeds of business disposal		**5.0**	–	–
Proceeds from sale of available for sale investments		**–**	4.2	4.2
Purchase of intangible assets		**–**	–	(0.2)
Purchase of property, plant and equipment		**(86.4)**	(77.9)	(167.1)
Proceeds from sale of property, plant and equipment		**1.5**	0.9	2.3
Net cash used in investing activities		**(109.8)**	(96.7)	(176.6)
Cash flows from financing activities				
Net proceeds from issue of ordinary share capital		**1.5**	0.7	0.8
Net proceeds from new borrowing		**77.5**	55.0	150.0
Repayment of borrowings		**(93.1)**	(46.6)	(130.2)
Finance lease drawdowns		**1.5**	26.4	57.3
Finance lease principal repayments		**(5.1)**	(3.6)	(5.4)
Dividends paid		**(16.1)**	(10.6)	(28.3)
Net cash used in financing activities		**(33.8)**	21.3	44.2
Net (decrease)/increase in cash and cash equivalents		**(95.6)**	26.9	37.7
Cash and cash equivalents at beginning of period		**120.6**	82.9	82.9
Cash and cash equivalents at end of period		**25.0**	109.8	120.6

2004/05 comparatives have been restated to IFRS.

NOTES

1. BASIS OF PREPARATION

These unaudited interim financial statements are the first interim financial statements following adoption of International Financial Reporting Standards (IFRS). The accounting policies adopted and the reconciliations from net assets and equity under UK Generally Accepted Accounting Principles (UK GAAP) at transition to IFRS on 1 April 2004 and for the half year ended 30 September 2004 and for the year ended 31 March 2005 are set out in a separate published document: "Adoption of International Financial Reporting Standards" (IFRS).

All accounting policies have been consistently applied except where the Group has taken advantage of the exemption in IFRS 1 "First-time Adoption of IFRS" from the requirement to restate comparative information for IAS 32 "Financial Instruments : disclosure and presentation" and IAS 39 "Financial Instruments : recognition and measurement". These standards have been applied with effect from 1 April 2005.

The financial information has been prepared in accordance with all IFRS and interpretations of the Internal Financial Reporting Interpretations Committee (IFRIC) expected to be applicable for the year ended 31 March 2006 and have been determined in accordance with IFRS in issue that are either endorsed by the European Union (EU) and effective at 31 March 2006 or are expected to be endorsed and effective at 31 March 2006.

2. FINANCIAL INFORMATION

The financial information for the year ended 31 March 2005 does not constitute full financial statements within the meaning of section 240 of the Companies Act 1985. The full financial statements for that year, which were prepared under UK GAAP, have been delivered to the Registrar of Companies. The independent auditors' report on those financial statements was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

3. SEGMENTAL REPORTING

	Unaudited		
	Half year ended 30 September 2005 £m	Half year ended 30 September 2004 (restated) £m	Year ended 31 March 2005 (restated) £m
Continuing operations			
Revenue			
Water and sewerage	**177.3**	156.9	307.0
Waste management	**152.0**	126.7	248.3
Other	**3.9**	3.4	6.9
Less intra-segment trading	**(5.0)**	(5.5)	(10.8)
	328.2	281.5	551.4
Segment result			
Earnings before depreciation and amortisation of intangibles*			
Water and sewerage	**112.3**	98.6	186.4
Waste management	**31.8**	28.7	56.4
Other	**(0.3)**	0.3	0.2
	143.8	127.6	243.0
Earnings before amortisation of intangibles*			
Water and sewerage	**77.8**	67.4	122.2
Waste management	**16.8**	14.6	30.0
Other	**(0.1)**	0.4	0.1
	94.5	82.4	152.3
Operating profit*			
Water and sewerage	**77.8**	67.4	122.2
Waste management	**16.0**	13.8	28.6
Other	**(0.1)**	0.4	0.1
	93.7	81.6	150.9
Discontinued operations			
Other	**–**	–	5.0

*Before the exceptional items comprising abortive acquisition costs and business restructuring costs.

4. ABORTIVE ACQUISITION COSTS

The abortive acquisition costs arise from negotiations to acquire the UK landfill and landfill gas operations of Shanks Group Plc where discussions were terminated on 25 May 2004.

5. BUSINESS RESTRUCTURING COSTS

The business restructuring costs arise in the water and sewerage segment.

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

		Unaudited	
	September 2005	September 2004 (restated)	March 2005 (restated)
	£m	£m	£m
Tax on profit on ordinary activities comprises:			
United Kingdom corporation tax	**8.1**	4.6	7.9
Deferred tax	**15.3**	9.8	15.6
	23.4	14.4	23.5

The tax charge for September 2005 and September 2004 has been derived by applying the anticipated effective annual tax rate to the first half year profit before tax.

7. DISCONTINUED OPERATIONS

The business disposal profit relates to the balance of proceeds due from the 1998 arrangement to dispose of the Group's interest in Societa Italo Britannica dell'Acqua Srl.

The tax charge was not affected by the business disposal.

8. BASIC AND DILUTED EARNINGS PER SHARE

Reconciliation of earnings and weighted average number of shares in issue during the period.

All share options with an exercise price lower than the average market price of the Company's shares during the period, have been included in the calculation of diluted earnings per share.

8. BASIC AND DILUTED EARNINGS PER SHARE *continued*

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

		Unaudited	
	September 2005	September 2004 (restated)	March 2005 (restated)
Weighted average number of ordinary shares			
For basic earnings per share	**127.5**	124.7	126.0
Effect of dilutive potential ordinary shares:			
Share options	**1.1**	0.9	0.9
For diluted earnings per share	**128.6**	125.6	126.9
Earnings per share from discontinued operations (in pence per share)			
– Basic	**–**	–	4.0
– Diluted	**–**	–	3.9

Adjusted basic and diluted earnings per share

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

	September 2005 (unaudited)			September 2004 (unaudited)			March 2005 (unaudited)		
		Earnings per share			Earnings per share			Earnings per share	
	Earnings £m	Basic p	Diluted p	Earnings £m	Basic p	Diluted p	Earnings £m	Basic p	Diluted p
Earnings per share from continuing operations	37.4	29.3	29.1	33.6	26.9	26.8	60.6	48.1	47.8
Exceptional items	–	–	–	2.0	1.6	1.6	4.9	3.9	3.8
Deferred tax	15.3	12.0	11.9	9.8	7.9	7.7	15.6	12.3	12.3
Adjusted earnings per share from continuing operations	52.7	41.3	41.0	45.4	36.4	36.1	81.1	64.3	63.9

9. DIVIDENDS

	September 2005 £m	Unaudited September 2004 (restated) £m	Unaudited March 2005 (restated) £m
Interim dividend paid for the year ended 31 March 2005: 13.8p (2004 13.2p) per share	**17.7**	16.4	16.4
Final dividend approved for the year ended 31 March 2005: 29.2p (2004 27.8p) per share	**37.4**	34.7	34.7
	55.1	51.1	51.1

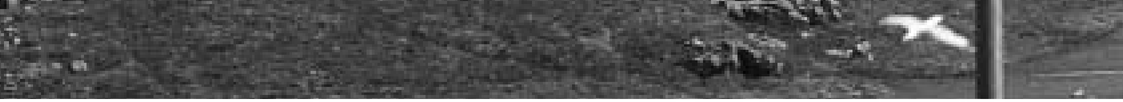
	September 2005 £m	Unaudited September 2004 (restated) £m	Unaudited March 2005 (restated) £m
Proposed interim dividend for the year ended 31 March 2006 of 16.5p (2004 13.8p) per share	**19.4**	17.7	17.7

The proposed interim dividend has not been included as a liability in these financial statements in accordance with IFRS.

10. CASH FLOW FROM OPERATING ACTIVITIES

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

		Unaudited	
	September 2005	September 2004 (restated)	March 2005 (restated)
	£m	£m	£m
Cash generated from operations			
Profit for the period	**37.4**	33.6	60.6
Adjustments for:			
Employee share schemes	**0.9**	0.9	1.5
Deferred income released to profits	**(0.4)**	–	(0.2)
Profit on disposal of property, plant and equipment	**(0.7)**	(0.3)	(1.4)
Depreciation charge	**49.3**	45.2	90.7
Amortisation of intangible assets	**0.8**	0.8	1.4
Share of post-tax profit from joint venture	**–**	–	(0.1)
Interest payable and similar charges	**48.4**	44.8	89.3
Interest receivable	**(15.5)**	(13.2)	(27.3)
Taxation	**23.4**	14.4	23.5
Changes in working capital *(excluding the effect of acquisition of subsidiaries)*			
Increase in stocks	**(0.2)**	(0.4)	(0.2)
Increase in trade and other receivables	**(23.3)**	(5.3)	(0.9)
Decrease in long-term deposits	**(2.9)**	(2.9)	(3.5)
Increase in trade and other payables	**8.2**	12.3	8.5
(Decrease)/increase in retirement benefit obligations	**(42.4)**	0.4	2.9
Decrease in provisions for liabilities and charges	**(0.8)**	(0.9)	(2.4)
Net cash generated from operations	**82.2**	129.4	242.4



11. NET BORROWINGS

	September 2005 £m	Unaudited September 2004 (restated) £m	Unaudited March 2005 (restated) £m
Cash and cash equivalents	**215.8**	296.9	303.4
Borrowings – current			
Bank overdraft	**(10.2)**	(10.0)	(5.1)
Other current borrowings	**(14.5)**	(70.7)	(20.4)
Finance lease obligations	**(29.0)**	(26.5)	(29.3)
Total current borrowings	**(53.7)**	(107.2)	(54.8)
Borrowings – non-current			
Bank loans	**(247.7)**	(185.4)	(255.3)
Other non-current borrowings	**(314.4)**	(323.5)	(316.4)
Finance lease obligations	**(798.8)**	(769.2)	(795.1)
Total non-current borrowings	**(1,360.9)**	(1,278.1)	(1,366.8)
Total net borrowings	**(1,198.8)**	(1,088.4)	(1,118.2)

12. ACQUISITIONS

On 21 June 2005, the entire issued share capital of Brett Waste Management Limited (now renamed Viridor Waste Kent Limited), was purchased by Viridor Waste Management Limited for a cash consideration of £44.5 million before costs. The acquisition has been accounted for using the acquisition method and provisional goodwill of £30.9 million and intangible fixed assets of £5.2 million have been capitalised. The intangible fixed assets are being amortised evenly over the Directors' estimate of useful economic life.

On 30 September 2005, Viridor Waste Management Limited acquired 50% of the entire issued share capital of Lakeside Energy from Waste Limited for an investment of £1.0 million. The joint venture has been accounted for using the equity method.

Pennon Group Plc

Pennon Group Plc
Registered Office:
Peninsula House
Rydon Lane
Exeter
EX2 7HR

Registered in England No. 2366640

www.pennon-group.co.uk