HALF YEARLY REPORT 2007

Pennon Group Plc

FINANCIAL HIGHLIGHTS

- Operating profit [1] up 17.0% to £123.6m.

  SOUTH WEST WATER – up 15.2% to £97.0m.

  Viridor [1] – up 24.3% to £27.1m.

- Profit before tax up 15.8% to £82.3m.
- Earnings per share (before deferred tax) up 8.5% to 17.8p.
- Interim dividend per share up 6.8% to 6.25p.
- £55m share buyback programme approaching completion with £52.8m bought back to date.

(1) before amortisation of intangibles

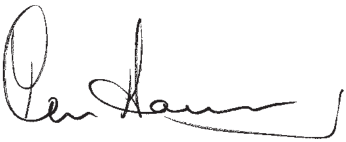
SOUTH WEST WATER

- On target to deliver 2005 – 2010 Regulatory Contract.
- Profit increase reflecting expected strong growth in Regulatory Capital Value 2005 – 2010.
- Eleventh consecutive year without hosepipe bans and drought orders.
- 2006/07 – best ever leakage performance.
- Capital investment of £76.6m in the half year
  - major upgrade to water treatment works serving 160,000 homes in South Devon.
- All major projects delivered in line with Regulators' expectations.
- Preparing for PR09
  - customer consultation launched.

Viridor

- Particularly strong growth in operating profits, especially from landfill and recycling.
- Viridor/Laing consortium preferred bidder for Greater Manchester Waste PFI contract
  - contract negotiation and planning applications ongoing
  - new strategic location selected for energy from waste plant.
- Lakeside energy from waste plant (joint venture with Grundon Waste Management Limited) under construction and on schedule to open for commissioning in second half of 2008.
- Progressing possible energy from waste sites in Cardiff and Dunbar.
- Planning permissions achieved for a 60,000 tonne Energy from Waste (EfW) plant in Exeter and a Mechanical Biological Treatment (MBT) and Anaerobic Digestion (AD) facility in Somerset.

"I am again delighted to announce further profitable growth in the Group. We are delivering the benefits from our strategy of focusing on our two key businesses, South West Water and Viridor. South West Water remains on target to meet the PR04 regulatory contract and Viridor continues to deliver a very strong performance based on both organic growth and sound acquisitions."



Ken Harvey, Chairman

GROUP OVERVIEW

- Revenue rose by 16.7% to £435.9m.
- Operating profit before amortisation of intangibles rose by 17.0% to £123.6m.
- Profit before tax increased 15.8% to £82.3m.
- Earnings per share before deferred tax increased by 8.5% to 17.8p. Earnings per share after deferred tax rose by 51.7% to 22.9p.
- Group capital expenditure was £109.0m (H1 2006 – £113.9m).
- Net borrowings were £1,614m, an increase of £57m since 31 March 2007. Gearing, being net borrowings to shareholders' funds plus net borrowings, was 73% (2006 – 72%).
- South West Water net debt to RCV was 60% (31 March 2007 – 62%).
- Net interest cover was 3.0 times for the half year to 30 September 2007 (H1 2006 – 3.1 times).
- The interim dividend of 6.25p per share represents an increase of 6.8% over the equivalent figure for the half year to 30 September 2006. It will be paid on 9 April 2008 to shareholders on the register on 25 January 2008. The Company will once again be offering a DRIP (Dividend Re-Investment Plan).

SOUTH WEST WATER

South West Water revenue rose by £19.1m to £215.0m. Approved tariff increases, including the 9.8% K factor, amounted to £26.8m. Customers switching from unmeasured to metered charging caused a reduction of £5.4m in turnover. 61% of South West Water's domestic customers are now metered. 4,200 new customer connections contributed £1.7m of turnover. A decrease in measured demand, largely due to the wet summer, reduced turnover by £4.6m.

South West Water's operating profit rose 15.2% to £97.0m. Operating costs, excluding depreciation, increased by 3.2% to £76.3m. Additional costs from new capital schemes of £0.7m, inflation of £1.7m, a £1.0m restructuring charge and £0.9m of other cost increases (including infrastructure expenditure charged to operating costs), were partially offset by £1.9m of efficiency savings. The cost of bad debts (part of which is charged against revenue) is rising more slowly than the tariff increase. Depreciation increased by £3.9m to £41.7m as a result of new capital schemes. The company is implementing detailed plans targeting outperformance of the operating cost efficiency targets set by Ofwat for the period up to 2010. As previously announced, further efficiency projects are under way and they are expected to result in a total restructuring charge for the year of circa £4m. A new customer contact/billing contract was announced in October, aimed at improving customer service and reducing costs.

Capital expenditure in the half year was £76.6m (H1 2006 - £83.7m). £46.0m was invested in water supply improvements including water mains renovation and water treatment works enhancement. The water treatment works at Littlehempston in South Devon, serving 160,000 homes in the Torbay area, was substantially upgraded. Continued high levels of investment in the £240m water mains renovation programme is a key element in the K4 period. A further 261kms of water mains were laid, replaced or refurbished during the half year, in line with the Drinking Water Inspectorate's (DWI) agreed programme for completion by 2010.

Drinking water quality was sustained at very high levels. 2007 was the eleventh consecutive year with no water restrictions in our region. Ofwat's latest report on leakage confirms that South West Water remains one of the leading companies in managing water leakage and continues to achieve Ofwat's leakage target of 84 ML/day. South West Water has achieved Ofwat's leakage targets for the eighth consecutive year, every year since their inception. In 2006/07 South West Water achieved its lowest ever level of leakage.

Waste water quality in 2006/07 was at an all time high. The region features the highest proportion of high quality rivers in England. Investment expenditure totalled £30.6m for the half year and included one of the last remaining Clean Sweep projects at Sennen and Porthcurno.

Ofwat's recently published 2006/07 'Levels of Service Report' confirms that South West Water has its highest ever Overall Performance Assessment (OPA) ranking.

Ofwat also awarded South West Water the top assessment for asset serviceability – 'stable' in all 4 service areas – in a recent appraisal.

South West Water continues to deliver capital projects in line with Ofwat, DWI and EA expectations. The company is targeting delivery of Ofwat's allowed K4 capital programme for 5% less than Ofwat's assumed £762m (2002/03 price base), and is on track to achieve this.

Regulatory Capital Value (RCV) is expected to grow by 35% over the K4 period to £2.6bn by March 2010 – the highest forecast percentage increase of any quoted UK water company. After adjusting for the growth in gearing, the company expects its growth in RCV to outstrip significantly the anticipated growth in net borrowings.

As part of its preparation for the next Periodic Review, PR09, earlier this month, South West Water published a customer consultation document, 'Delivering Pure Water, Pure Service, Pure Environment'. The document outlined the company's vision and detailed the first steps it proposes to take towards facing the challenges of the future, eg climate change and new legislative requirements. A major comprehensive customer consultation process is under way with the ultimate goals of continuing to provide customers with high quality services and protecting and enhancing the environment.

VIRIDOR

Viridor traded particularly strongly in the six months ended 30 September 2007, building further on the growth achieved over the past six years and including the benefit of certain non-recurring factors in the half year. Revenue was up 24.2% to £221.3m, of which acquisitions accounted for £12.6m and underlying business £30.5m. This increase included landfill tax of £17.2m.

Viridor's earnings before interest, tax, depreciation and amortisation (EBITDA) for the half year rose 23.4% from £39.8m to £49.1m. Operating profit before intangibles amortisation (PBITA) rose by 24.3% to £27.1m, compared to £21.8m in 2006/07. The increase reflected contributions from Skipaway Holdings Limited (acquired February 2007) and a full six month's contribution from Wyvern Waste Services Limited (acquired May 2006). Excluding these acquisitions and the effects of a one-off profit of £0.6m on the disposal of Viridor's interest in Devon Waste Management Limited in 2006/07, underlying business grew by 13%. Within underlying business, landfill and recycling performed particularly strongly.

Profit before tax at £16.0m was up 25%. Capital expenditure for the half year was £32.3m (H1 2006 - £29.9m).

Total landfill disposal volumes rose 21% to 2.7m tonnes compared to the previous first half. After adjusting for acquisitions, underlying volumes increased by 16%, reflecting nonrecurring items (including the MSC Napoli shipwreck) and underlying trade in the first half.

Average gate fees remained unchanged at £19 per tonne, reflecting waste mix and the strong volumes seen in the first half of the year. The wet summer of 2007 resulted in increased leachate and other costs of 30p per tonne overall. Consented landfill capacity declined from 90m cubic metres at 31 March 2007 to a current 87m cubic metres, reflecting usage during the period offset by a small planning gain.

Viridor's landfill gas power generation output increased a further 11% to 230 GWH in the six months to 30 September 2007, 52% of which is eligible for Renewable Obligation Certificates (31 March 2007 – 50%). This volume increase largely offset the impact of reduced prices which were noted at the Group's Preliminary Results in May (average prices declined by £6 to £56 per MWH as the benefit of the strong brown energy prices seen in 2006/07 reduced).

Last year's acquisitions, Wyvern Waste and Skipaway, are now both fully integrated, and were earnings enhancing post amortisation of intangibles in the half year, ahead of schedule. Planning permission was achieved for a MBT and Anaerobic Digestion facility at Walpole in Somerset and volumes from Skipaway's transfer stations were diverted to Viridor's landfill site at Shelford.

As part of its overall strategy, Viridor continues to explore other suitable Private Finance Initiative (PFI) and Public Private Partnership (PPP) opportunities. In January 2007 the Greater Manchester Waste Disposal Authority announced that the Viridor Waste Management Limited/John Laing Infrastructure Limited consortium had been selected as preferred bidder for its waste management services contract. This is due to be the largest such scheme in the UK and will involve the handling of around 1.4 million tonnes of waste per annum. Contract negotiations are under way and planning is being progressed for the various facilities involved; permission has already been achieved for an in-vessel composting/materials recycling facility at Rochdale (Greater Manchester) in the half year. An alternative power plant solution has been selected which, although it will delay the timing of the contract completion, is likely to permit the quicker overall development of the power plant. In addition, Viridor is one of Manchester's nominated landfill contractors for 5 years from April 2008.

The joint venture, Lakeside Energy from Waste Limited ('Lakeside'), with Grundon Waste Management Limited is progressing well. The plant is under construction and scheduled to open for commissioning in the second half of calendar 2008, with a profit contribution expected in 2009/10.

During the half year Viridor successfully obtained a planning application for a 60,000 tonne energy from waste facility in Exeter. A Pollution, Prevention and Control (PPC) permit application has been submitted for the site. We are also progressing energy from waste opportunities in Cardiff and Dunbar. Planning Authority's opinion is being sought for the site which Viridor has secured in Cardiff and consultation has commenced at the existing Viridor site in Dunbar.

PENSIONS

The Group's pension schemes had a deficit (net of deferred tax) under IAS 19 at 30 September 2007 of circa £27m, representing just over 1% of market capitalisation. A triennial actuarial valuation of the schemes' position as at 31 March 2007 is currently under way.

FINANCING INITIATIVES

The total net interest charge increased by £6.9m to £40.5m. The average interest rate on net debt for the Group was 5.1% (31 March 2007 - 4.6%) and for South West Water was 4.7% (31 March 2007 – 4.3%). This is believed to be amongst the lowest in the sector.

The Group funding strategy utilises a mix of fixed, floating and index linked rate borrowings. To reduce the risk of adverse interest rate movements, South West Water has swap arrangements in place to fix the interest rate on circa 60% of its debt up to March 2010.

During the period the Group raised £300m of debt, including £200m of 50-year index linked bonds for South West Water. South West Water now has circa £347m of index linked debt at an average real rate of 1.66%. Circa 25% of South West Water debt is index linked.

TAXATION

The mainstream corporation tax charge for the half year to September 2007 was £19.7m (H1 2006 - £13.0m) giving a mainstream effective tax rate of 24% (H1 2006 – 18%).

Deferred tax for the half year to 30 September 2007 was a credit of £17.9m (H1 2006 - £4.6m charge) resulting from a non-recurring credit of £22.4m, relating to the reduction in the rate of UK corporation tax from 30% to 28% effective from 1 April 2008. The abolition of Industrial Buildings Allowances is expected to be enacted in 2008/09 and will then increase deferred tax by an estimated £37m.

RETURN OF CAPITAL

The £55m on-market share buy back scheme is approaching completion with £52.8m of shares bought back to date.

RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the Group are set out on page 27 of the Group's 2007 Annual Report and Accounts, on pages 10 -13 for South West Water and pages 19 – 21 for Viridor. A copy of the Group's 2007 Annual Report and Accounts is available and can be viewed on or downloaded from the Group's website, **www.pennon-group.co.uk** or obtained from the Company Secretary at the Company's registered office. In the view of the Directors there has been no material change in these factors in respect of the second half of the financial year.

Factors such as weather can affect volumes and costs in both South West Water and Viridor. Also, the precise impact of landfill pre-treatment requirements which came into force on 30 October on the different segments of Viridor's business will become apparent over the coming months. However, none of these items is expected to be material in an overall Group context.

STRATEGY AND PROSPECTS

The Board's strategy remains focussed on its two businesses, South West Water and Viridor.

South West Water is successfully delivering the K4 regulatory contract and is expected to grow significantly its Regulatory Capital Value up to £2.6 billion by 2010. PR09 preparation is progressing well.

Viridor's successful strategy to create long-term sustainable profit growth is expected to continue through capitalising on its landfill asset base, exploiting its landfill gas power generation potential and pursuing profitable opportunities in line with the Government's developing waste strategy.

In addition, the Group has put in place a long-term funding structure to enable it to continue to finance its activities efficiently.

Ken Harvey, Chairman
29 November 2007

DISCLAIMER IN RESPECT OF FORWARD-LOOKING STATEMENTS

This half yearly report contains forward-looking statements based on current expectations of, and assumptions and forecasts made by, Pennon Group management. Various known and unknown risks, uncertainties and other factors could lead to substantial differences between the actual future results, financial situation development or performance of the Group and the estimates and historical results given herein. Undue reliance should not be placed on forward-looking statements which are made only as of the date of this document. The Group accepts no obligation publicly to revise or update these forward-looking statements or adjust them as a result of new information or for future events or developments, except to the extent legally required.

	Note	Unaudited Half year ended 30 September 2007 £m	Unaudited Half year ended 30 September 2006 £m	Year ended 31 March 2007 £m
Revenue	5	**435.9**	373.6	748.3
Operating costs				
Manpower costs		**(50.6)**	(44.7)	(91.0)
Raw materials and consumables used		**(25.7)**	(22.3)	(47.2)
Other operating expenses		**(171.2)**	(144.8)	(294.6)
Restructuring costs		**(1.0)**	-	-
Depreciation		**(63.8)**	(56.2)	(113.7)
Amortisation of intangibles		**(0.8)**	(1.1)	(1.8)
Operating profit	5	**122.8**	104.5	200.0
Finance income		**19.2**	14.8	29.1
Finance costs		**(59.7)**	(48.4)	(98.3)
Share of post-tax profit from joint ventures		**-**	0.2	0.3
Profit before tax	5	**82.3**	71.1	131.1
Taxation	6	**(1.8)**	(17.6)	(37.2)
Profit for the period		**80.5**	53.5	93.9
Profit attributable to equity shareholders		**80.5**	53.5	93.9
Earnings per share (pence per share)	7			
- Basic		**22.9**	15.1	26.5
- Diluted		**22.7**	15.0	26.3
Dividend per share (pence per share)	8	**6.25**	5.85	18.55
Dividend proposed for the period (£m)	8	**21.8**	20.8	65.6

All operating activities are continuing operations.

The notes on pages 13 to 22 form part of these condensed half year financial statements.

	Unaudited		
	Half year ended 30 September 2007 £m	Half year ended 30 September 2006 £m	Year ended 31 March 2007 £m
Profit for the period	**80.5**	53.5	93.9
Actuarial gains/(losses) on defined benefit schemes (before deferred tax)	**8.2**	(5.4)	(1.2)
Cash flow hedges			
Net fair value (losses)/gains	**(3.1)**	6.0	15.7
Tax on items taken directly to equity	**(3.3)**	1.6	0.4
Net gains taken directly to equity	**1.8**	2.2	14.9
Total recognised income for the period	**82.3**	55.7	108.8
Attributable to equity shareholders	**82.3**	55.7	108.8

The notes on pages 13 to 22 form part of these condensed half year financial statements.

	Note	Unaudited 30 September 2007 £m	Unaudited 30 September 2006 (restated note 4) £m	31 March 2007 £m
Assets				
Non-current assets				
Goodwill		**134.3**	120.4	134.3
Other intangible assets		**7.0**	8.2	7.8
Property, plant and equipment		**2,601.6**	2,482.1	2,559.4
Trade and other receivables		**8.5**	4.5	6.9
Investments accounted for using equity method		**1.4**	1.5	1.4
		2,752.8	2,616.7	2,709.8
Current assets				
Inventories		**5.3**	5.2	5.1
Trade and other receivables		**160.6**	135.1	122.5
Derivative financial instruments		**12.9**	6.5	16.0
Cash and cash equivalents	12	**340.3**	90.4	127.9
		519.1	237.2	271.5
Liabilities				
Current liabilities				
Borrowings	12	**(86.2)**	(71.1)	(85.8)
Derivative financial instruments		**-**	(0.4)	-
Trade and other payables		**(227.2)**	(212.0)	(175.9)
Current tax liabilities		**(53.1)**	(37.6)	(36.5)
Provisions for other liabilities and charges		**(12.7)**	(12.9)	(13.2)
		(379.2)	(334.0)	(311.4)
Net current assets/(liabilities)		**139.9**	(96.8)	(39.9)
Non-current liabilities				
Borrowings	12	**(1,868.1)**	(1,513.6)	(1,599.4)
Other non-current liabilities		**(1.9)**	(2.1)	(2.1)
Retirement benefit obligations		**(37.0)**	(41.7)	(41.2)
Deferred tax liabilities		**(299.1)**	(307.0)	(313.7)
Provisions for other liabilities and charges		**(87.0)**	(82.5)	(86.3)
		(2,293.1)	(1,946.9)	(2,042.7)
Net assets		**599.6**	573.0	627.2
Shareholders' equity				
Share capital	9	**144.5**	144.9	144.9
Share premium account	10	**11.7**	11.5	11.7
Capital redemption reserve	10	**144.2**	143.8	143.8
Retained earnings and other reserves	10	**299.2**	272.8	326.8
Total shareholders' equity		**599.6**	573.0	627.2

The notes on pages 13 to 22 form part of these condensed half year financial statements.

	Note	Unaudited Half year ended 30 September 2007 £m	Unaudited Half year ended 30 September 2006 £m	Year ended 31 March 2007 £m
Cash flows from operating activities				
Cash generated from operations	11	**165.1**	136.6	305.1
Interest paid		**(37.6)**	(24.0)	(58.1)
Tax paid		**(3.1)**	(0.1)	(12.0)
Net cash generated from operating activities		**124.4**	112.5	235.0
Cash flows from investing activities				
Interest received		**6.2**	3.9	6.7
Acquisition of subsidiaries (net of cash acquired)		**-**	(22.4)	(37.0)
Return of loan from joint venture		**-**	-	0.1
Proceeds from investment disposal		**-**	0.6	0.6
Purchase of property, plant and equipment		**(111.9)**	(121.6)	(251.4)
Proceeds from sale of property, plant and equipment		**0.2**	1.3	5.0
Net cash used in investing activities		**(105.5)**	(138.2)	(276.0)
Cash flows from financing activities				
Net proceeds from issue of ordinary share capital		**-**	1.7	1.9
Purchase of ordinary shares subsequently cancelled		**(5.9)**	(3.5)	(3.5)
Purchase of ordinary shares held as treasury shares		**(40.8)**	-	-
Proceeds from treasury shares reissued		**1.4**	-	-
Purchase of ordinary shares by the Pennon Employee Share Trust		**(0.3)**	(2.3)	(2.3)
Deposit of restricted funds		**(2.1)**	-	(4.1)
Net proceeds from new borrowing		**308.7**	110.0	110.0
Repayment of borrowings		**(54.4)**	(58.8)	(71.1)
Finance lease drawdowns		**10.1**	-	130.2
Finance lease principal repayments		**(5.1)**	(0.8)	(21.4)
Dividends paid		**(20.8)**	(19.4)	(61.0)
B Share payments		**-**	(5.7)	(5.7)
Net cash received from financing activities		**190.8**	21.2	73.0
Net increase/(decrease) in cash and cash equivalents		**209.7**	(4.5)	32.0
Cash and cash equivalents at beginning of period	12	**112.3**	80.3	80.3
Cash and cash equivalents at end of period	12	**322.0**	75.8	112.3

The notes on pages 13 to 22 form part of these condensed half year financial statements.

NOTES

1. GENERAL INFORMATION

Pennon Group Plc is a Company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 24. Pennon Group's business is operated through two main subsidiaries: South West Water Limited holds the water and sewerage appointments for Devon, Cornwall and parts of Dorset and Somerset, Viridor Limited's business is waste treatment and disposal.

These condensed half year financial statements were approved by the Board of Directors on 28 November 2007.

The financial information for the year ended 31 March 2007 does not constitute full financial statements within the meaning of section 240 of the Companies Act 1985. The full financial statements for that year were approved by the Board of Directors on 23 June 2007 and have been delivered to the Registrar of Companies. The independent auditors' report on those financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

2. BASIS OF PREPARATION

These condensed half year financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS34 "Interim financial reporting" as adopted by the European Union (EU). These condensed half year financial statements should be read in conjunction with the Pennon Group Plc Annual Report and Accounts for the year ended 31 March 2007, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

These condensed half year financial statements have not been audited or reviewed by the independent auditors pursuant to the Auditing Practices Board guidance on the "Review of Interim Financial Information".

3. ACCOUNTING POLICIES

The accounting policies adopted in these condensed half year financial statements are consistent with those applied and set out in the Pennon Group Plc Annual Report and Accounts for the year ended 31 March 2007 and are also in accordance with all IFRS and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) expected to be applicable for the year ended 31 March 2008 in issue which have been endorsed by the European Union and effective at 31 March 2008.

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

IFRS8	"Operating segments"
IAS23	"Borrowing costs" (revised)
IAS1	"Presentation of financial statements" (revised)
IFRIC12	"Service concession arrangements"
IFRIC13	" Customer loyalty programmes"
IFRIC14	"IAS19 – The limit on a defined benefit asset, minimum funding requirements and their interaction"

The Directors expect that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group.
The presentational impact of these Standards is being assessed.

4. RESTATEMENTS AT 30 SEPTEMBER 2006

At 30 September 2006 the accounting for the acquisition of Wyvern Waste Services Limited (renamed Viridor Waste (Somerset) Limited) was provisional. Completion of the accounting for the acquisition by 31 March 2007 resulted in an increase in goodwill of £11.9 million, a decrease in intangible assets of £3.9 million, a decrease in property, plant and equipment of £3.3 million and an increase in provisions for other liabilities and charges of £4.7 million. Comparative figures at 30 September 2006 have been restated accordingly.

5. SEGMENT INFORMATION

	Unaudited Half year ended 30 September 2007 £m	Unaudited Half year ended 30 September 2006 £m	Year ended 31 March 2007 £m
Revenue			
Water and sewerage	**215.0**	195.9	381.5
Waste management	**221.3**	178.2	367.7
Other	**4.4**	4.1	7.6
Less intra-segment trading *	**(4.8)**	(4.6)	(8.5)
	435.9	373.6	748.3
Segment result			
Operating profit before interest, tax, depreciation, amortisation (EBITDA)			
Water and sewerage	**138.7**	122.0	234.5
Waste management	**49.1**	39.8	82.8
Other	**(0.4)**	-	(1.8)
	187.4	161.8	315.5
Operating profit before amortisation			
Water and sewerage	**97.0**	84.2	156.8
Waste management	**27.1**	21.8	46.8
Other	**(0.5)**	(0.4)	(1.8)
	123.6	105.6	201.8
Operating profit			
Water and sewerage	**97.0**	84.2	156.8
Waste management	**26.3**	20.7	45.0
Other	**(0.5)**	(0.4)	(1.8)
	122.8	104.5	200.0
Profit before tax			
Water and sewerage	**64.2**	55.6	98.9
Waste management	**16.0**	12.8	27.6
Other	**2.1**	2.7	4.6
	82.3	71.1	131.1

All operating activities are continuing operations.

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

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

6. TAXATION

	Unaudited Half year ended 30 September 2007 £m	Unaudited Half year ended 30 September 2006 £m	Year ended 31 March 2007 £m
Tax on profit on ordinary activities comprises :			
United Kingdom corporation tax	**19.7**	13.0	23.9
Deferred tax	**4.5**	4.6	13.3
Deferred tax arising on change of rate	**(22.4)**	-	-
	1.8	17.6	37.2

The tax charge for September 2007 and September 2006 has been derived by applying the anticipated effective annual tax rate to the first half year profit before tax. The deferred tax charge has been reduced by a non-recurring credit of £22.4m reflecting the reduction in the rate of UK corporation tax from 30% to 28% effective from 1 April 2008.

The effective tax rate for the period before the benefit of the £22.4m deferred tax credit was 29% and after the deferred tax credit 2% (six months to 30 September 2006 25%).

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

During the year it was announced that industrial building allowances will be phased out over three years commencing 1 April 2008 but at 30 September 2007 the change was not substantively enacted. The provision to abolish industrial building allowances is expected to be contained in the Finance Bill 2008 and, if fully enacted, is likely to increase the deferred tax liability by an estimated £37m.

7. BASIC AND DILUTED EARNINGS PER SHARE

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

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

	Unaudited Half year ended 30 September 2007	Unaudited Half year ended 30 September 2006	Year ended 31 March 2007
Weighted average number of ordinary shares (millions)			
For basic earnings per share	**351.8**	353.7	353.9
Effect of dilutive potential ordinary shares : Share options	**3.1**	3.2	3.2
For diluted earnings per share	**354.9**	356.9	357.1

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

Adjusted basic and diluted earnings per share

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

	Unaudited								
	Half year ended 30 September 2007			Half year ended 30 September 2006			Year ended 31 March 2007		
	Profit after tax £m	**Basic p**	**Earnings per share Diluted p**	Profit after tax £m	Basic p	Earnings per share Diluted p	Profit after tax £m	Basic p	Earnings per share Diluted p
Earnings per share	**80.5**	**22.9**	**22.7**	53.5	15.1	15.0	93.9	26.5	26.3
Deferred tax	**(17.9)**	**(5.1)**	**(5.1)**	4.6	1.3	1.3	13.3	3.8	3.7
Adjusted earnings per share	**62.6**	**17.8**	**17.6**	58.1	16.4	16.3	107.2	30.3	30.0

All operating activities are continuing operations.

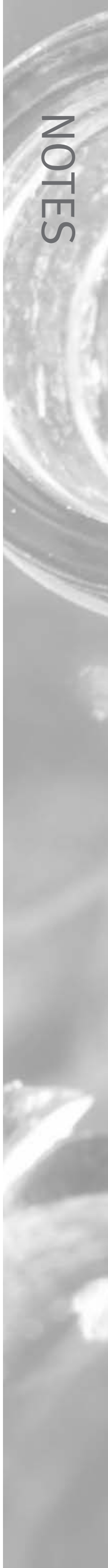
8. DIVIDENDS

	Unaudited		
	Half year ended 30 September 2007 £m	Half year ended 30 September 2006 £m	Year ended 31 March 2007 £m
Interim dividend paid for the year ended 31 March 2007 : 5.85p (2006 5.5p) per share	**20.8**	19.4	19.4
Final dividend approved for the year ended 31 March 2007 : 12.7p (2006 11.7p) per share	**44.8**	41.6	41.6
	65.6	61.0	61.0

Proposed interim dividend	**Unaudited**		
	Half year ended 30 September 2007 £m	Half year ended 30 September 2006 £m	Year ended 31 March 2007 £m
Proposed interim dividend for the year ended 31 March 2008 : 6.25p (2007 5.85p) per share	**21.8**	20.8	20.8

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

The interim dividend of 6.25p per share will be paid on 9 April 2008 to shareholders on the register on 25 January 2008.



9. SHARE CAPITAL

Allotted, called up and fully paid

1 April 2006 to 30 September 2006	**Number of shares**		
	Deferred shares	Ordinary shares	£m
At 1 April 2006			
Ordinary shares of £1.22 $^{1}/_{10}$ each		118,608,847	144.8
Deferred shares of £1.10 each	3,585,821		39.4
			184.2
Deferred shares of £1.10 each cancelled	(3,585,821)		(39.4)
For consideration of £3.5m, shares purchased and subsequently cancelled		(245,000)	(0.3)
		118,363,847	
Sub-division into three new ordinary shares of 40.7p each		355,091,541	
For consideration of £0.2m, shares purchased and subsequently cancelled		(50,000)	-
For consideration of £1.7m, shares issued under the Company's Sharesave Scheme		977,485	0.4
Ordinary shares of 40.7p each at 30 September 2006		356,019,026	144.9

1 April 2007 to 30 September 2007	**Number of shares**		
	Treasury shares	Ordinary shares	£m
At 1 April 2007			
Ordinary shares of 40.7p each		356,123,879	144.9
For consideration of £5.9m, shares purchased and subsequently cancelled		(960,000)	(0.4)
For consideration of £40.8m, shares purchased and held as treasury shares	6,850,024	(6,850,024)	-
For consideration of £1.4m, shares issued under the Company's Sharesave Scheme	(747,652)	748,047	-
Ordinary shares of 40.7p each at 30 September 2007	**6,102,372**	**349,061,902**	**144.5**

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

The weighted average price of the Company's shares at the date of exercise of Sharesave options during the half year was 602p (2006 468p).

10. RESERVES

1 April 2006 to 30 September 2006

	Unaudited		
	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves £m
At 1 April 2006	10.2	98.4	288.4
Profit for the period	-	-	53.5
Other recognised income and expense for the period	-	-	2.2
Dividends paid or approved	-	-	(61.0)
Premium on shares issued for cash consideration	1.3	-	-
Deferred shares cancelled	-	39.4	-
Own shares purchased and subsequently cancelled	-	0.3	(3.5)
Adjustment in respect of share-based payment	-	-	1.0
Deferred tax in respect of share-based payment	-	-	0.2
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	(2.3)
B Share payments	-	5.7	(5.7)
At 30 September 2006	11.5	143.8	272.8

1 April 2007 to 30 September 2007

	Unaudited		
	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves £m
At 1 April 2007	11.7	143.8	326.8
Profit for the period	-	-	80.5
Other recognised income and expense for the period	-	-	1.8
Dividends paid or approved	-	-	(65.6)
Own shares purchased and subsequently cancelled	-	0.4	(5.9)
Own shares purchased and held as treasury shares	-	-	(40.8)
Proceeds from treasury shares re-issued	-	-	1.4
Adjustment in respect of share-based payment	-	-	1.3
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	(0.3)
At 30 September 2007	**11.7**	**144.2**	**299.2**

11. CASH FLOW FROM OPERATING ACTIVITIES

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

	Unaudited		
	Half year ended 30 September 2007 £m	Half year ended 30 September 2006 £m	Year ended 31 March 2007 £m
Cash generated from operations			
Profit for the period	**80.5**	53.5	93.9
Adjustments for:			
Employee share schemes	**1.3**	1.0	2.1
Deferred income released to profits	**-**	(0.1)	-
Loss/(profit) on disposal of property, plant and equipment	**0.1**	(0.3)	(2.6)
Profit on disposal of investment	**-**	(0.6)	(0.6)
Depreciation charge	**63.8**	56.2	113.7
Amortisation of intangible assets	**0.8**	1.1	1.8
Share of post-tax profit from joint ventures	**-**	(0.2)	(0.3)
Finance income	**(19.2)**	(14.8)	(29.1)
Finance costs	**59.7**	48.4	98.3
Taxation	**1.8**	17.6	37.2
Changes in working capital *(excluding the effect of acquisition of subsidiaries)*			
Increase in inventories	**(0.2)**	(0.2)	(0.1)
Increase in trade and other receivables	**(37.8)**	(28.7)	(20.7)
Increase in trade and other payables	**11.1**	10.2	16.9
Increase/(decrease) in retirement benefit obligations	**5.2**	(3.7)	2.0
Decrease in provisions for liabilities and charges	**(2.0)**	(2.8)	(7.4)
Net cash generated from operations	**165.1**	136.6	305.1

12. NET BORROWINGS

	Unaudited 30 September 2007 £m	Unaudited 30 September 2006 £m	31 March 2007 £m
Cash and cash equivalents	**340.3**	90.4	127.9
Borrowings – current			
Bank overdrafts	**(11.5)**	(14.0)	(10.9)
Other current borrowings	**(23.2)**	(18.3)	(26.0)
Finance lease obligations	**(51.5)**	(38.8)	(48.9)
Total current borrowings	**(86.2)**	(71.1)	(85.8)
Borrowings – non-current			
Bank and other loans	**(618.8)**	(367.6)	(350.1)
Other non-current borrowings	**(204.3)**	(218.4)	(215.9)
Finance lease obligations	**(1,045.0)**	(927.6)	(1,033.4)
Total non-current borrowings	**(1,868.1)**	(1,513.6)	(1,599.4)
Total net borrowings	**(1,614.0)**	(1,494.3)	(1,557.3)

During the period South West Water Finance Plc, a subsidiary of South West Water Limited, issued £200m of 1.99% index linked bonds due 2057. The issue was made in two equal parts, the second, a tap issue, at a price of 107.6% reflecting accrued interest. The aggregate real yield of the bonds was 1.86%.

Also during the period the Company issued £100m of bonds due 2022 having an initial 6% fixed cash coupon for the first three years.

Cash and cash equivalents comprise the following for the purposes of the cash flow statement :

	Unaudited 30 September 2007 £m	Unaudited 30 September 2006 £m	31 March 2007 £m
Cash and cash equivalents as above	**340.3**	90.4	127.9
Bank overdrafts as above	**(11.5)**	(14.0)	(10.9)
	328.8	76.4	117.0
Less : deposits with a maturity of three months or more	**6.8**	0.6	4.7
	322.0	**75.8**	**112.3**

13. CAPITAL EXPENDITURE

	Unaudited		
	Half year ended 30 September 2007 £m	Half year ended 30 September 2006 £m	Year ended 31 March 2007 £m
Property, plant and equipment			
Additions	**109.0**	113.9	245.1
Net book value of disposals	**0.3**	1.0	2.4
Capital commitments			
Contracted but not provided	**77.0**	93.7	71.7
Share of commitment contracted but not provided by joint venture	**39.0**	63.5	41.7

14. CONTINGENT LIABILITIES

There have been no material changes to the Group's contingent liabilities since 31 March 2007.

15. RELATED PARTY TRANSACTIONS

The Group's significant related parties remain its joint ventures as disclosed in the Pennon Group Plc Annual Report and Accounts for the year ended 31 March 2007. There was no material change in transactions with these related parties in the period.

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors named below confirm on behalf of the Board of Directors that these unaudited condensed half year financial statements have been prepared in accordance with IAS34 "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 DTR4.2.7 and DTR4.2.8 of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the period and their impact on the unaudited condensed half year financial statements; a description of the principal risks and uncertainties for the remainder of the current financial year; and the disclosure requirements in respect of material related party transactions.

The Directors of Pennon Group Plc are listed in the Annual Report and Accounts for the year ended 31 March 2007 and there has been no change since that date.

For and on behalf of the Board of Directors

K G Harvey	D J Dupont
Chairman	Group Director of Finance

28 November 2007

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