Pennon Group Plc

Half Yearly Report 2009/10

19 November 2009

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PENNON GROUP PLC **19 November 2009**

HALF YEAR REPORT ON THE SIX MONTHS ENDED 30 SEPTEMBER 2009

Pennon Group announces its unaudited results for the half year ended 30 September 2009.

A presentation for City audiences will be held today, Thursday 19 November 2009, at 11am at The Merrill Lynch Financial Centre, 2 King Edward Street, London, EC1. A live webcast of the results presentation will be available on the Company's website, pennon-group.co.uk.

For further information today, 19 November 2009, please contact :

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FINANCIAL HIGHLIGHTS

- Underlying profit before tax (1) up 10.7% to £97.3m
  - South West Water up 10.6% to £71.8m
  - Viridor up 14.0% to £22.8m
- Underlying earnings per share (2) up 11.6% to 21.1p
- Dividend
  - Interim dividend per share up 3.0% to 6.95p
  - Continued dividend policy of 3% per annum real increases to end of current financial year
- £125m convertible bond issued in August
- Group cash balances of £428m at 30 September 2009
- Group businesses well positioned in the current economic slowdown

RECONCILIATION OF UNDERLYING AND STATUTORY RESULTS

	H1 2009/10	H1 2008/09*	Growth
	£m	£m	
PROFIT BEFORE TAX			
Statutory profit before tax	94.8	83.9	13.0%
Non-underlying costs :			
- Restructuring – South West Water	1.9	3.4	
- Intangibles amortisation – Viridor	0.6	0.6	
(1)Underlying profit before tax	97.3	87.9	10.7%
EARNINGS PER SHARE			
Statutory earnings per share	19.7p	9.6p	105.2%
Non-underlying costs :			
- Restructuring (after tax) - South West Water	0.4	0.7	
- Intangibles amortisation - Viridor	0.2	0.2	
Deferred tax	0.8	8.4	
(2)Underlying earnings per share	21.1p	18.9p	11.6%

*** Restated for the application of IFRIC 12 ‘Service concession arrangements’.**

Throughout this report, unless otherwise stated, all figures are underlying results excluding restructuring costs, intangibles amortisation and deferred tax. The Directors believe that the underlying measures provide a more useful comparison on business trends and performance.

OPERATIONAL HIGHLIGHTS

- **South West Water :**
    - On target to deliver 2005 – 2010 Regulatory Contract
    - Regulatory Capital Value expected to reach £2.5bn by end of K4
    - Thirteenth consecutive summer without hosepipe bans and drought orders
    - Operating efficiency target exceeded
    - Energy saving target achieved
    - Capital investment of £70.8m.

- **Viridor :**
    - Continued strong growth in PBT
    - Greater Manchester 25 year PFI contract operating successfully
        - planning permissions achieved for all required 23 sites / 36 facilities and construction programme underway
    - Lakeside energy from waste plant currently under final commissioning
    - Preferred bidder for Oxfordshire PPP
    - London Recycling and Intercontinental Recycling acquired during the period.

Ken Harvey, Chairman, said, “Our two key businesses, South West Water and Viridor, remain our focus and the good results which we have delivered in the context of the current difficult economic climate are testament to the success of that strategy. South West Water is on target to deliver the current regulatory contract to 2010. We await Ofwat’s Final Determination for South West Water – and for the rest of the water industry - due to be published next Thursday. Viridor continues to deliver a strong performance based on both organic growth and sound acquisitions. The Greater Manchester Waste PFI contract and Lakeside energy from waste project are further major steps in the delivery of Viridor’s successful growth strategy.”

GROUP OVERVIEW

- Revenue rose by 6.0% to £535.5m.

- Operating profit reduced 1.2% to £135.1m.

- Net interest payable reduced from £48.9m to £37.7m.

- Profit before tax up 10.7% to £97.3m.

- Earnings per share increased by 11.6% to 21.1p. Statutory earnings per share increased from 9.6p to 19.7p.

- Group capital expenditure £97.3m (H1 2008/09 – £103.9m).

- Net borrowings £1,898m, an increase of £6m since 31 March 2009. Gearing, (net borrowings to shareholders' funds plus net borrowings) was 77% (H1 2008/09 – 76%).

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

- South West Water net debt to RCV was 62.0% (31 March 2009 – 63.6%).

- Net interest cover (excluding pensions net interest, contract interest receivable and discount unwind on provisions) was 3.8 times (H1 2008/09 – 2.9 times).

- The interim dividend of 6.95p per share represents an increase of 3.0% over the equivalent figure for the half-year to 30 September 2008. It will be paid on 7 April 2010 to shareholders on the register on 22 January 2010. The Company is also offering a scrip dividend alternative. The final date for receipt of Forms of Election/Mandate in respect of the scrip dividend alternative for the interim dividend will be 22 March 2010. The Board's stated policy is to grow the Group dividend by 3% above inflation per annum up to the end of 2009/10.

SOUTH WEST WATER

South West Water's revenues rose 1.5% (£3.4m) to £226.5m as a result of tariff increases and new connections, offset by the effects of customers switching and lower demand. Approved tariff increases, including the 1.4% K factor, amounted to £11.0m. Customers switching from unmeasured to metered charging reduced turnover by £3.8m. 67% of South West Water's domestic customers are now metered. 2,600 new customer connections contributed £0.6m additional turnover.

South West Water's operating profit increased by £0.1m to £101.9m. Operating costs, excluding depreciation, increased from £77.3m to £77.7m. Additional costs from new capital schemes of £1.0m and other cost increases of £3.1m were offset by £2.0m of efficiency savings and £1.7m of other savings, primarily lower cost of other sales. Depreciation increased by £2.9m to £46.8m principally as a result of new capital schemes. Profit before tax increased by £6.9m to £71.8m with net interest payable reduced by £6.8m primarily from lower interest rates.

Energy saving projects, ranging from efficient lighting replacement to permanent deactivation of process equipment and machinery on-site, have resulted in a power demand saving of 1MW (out of a total annual usage of 28MW) for the company. Collectively these projects help us achieve an overall energy saving of 6.5GWh, a reduction of around 3,500 tonnes of CO_2 and a cost saving of around £600,000.

The direct impact of the current economic slowdown has been marginal to date. South West Water has a lower than average proportion of large industrial customers in its area. There was a £2.1m reduction in overall measured income as a result of reduced customer demand (reflecting the long-term trend).

The average rate of cash collection from customers is in line with previous years. South West Water is progressing a number of customer debt management initiatives, and performance has benefited from new operational systems and processes.

Capital expenditure in the half year was £70.8m (H1 2008/09 - £67.4m). £45m was invested in water supply improvements including water mains renovation and water treatment works enhancement. Continued high levels of investment in the £240m water mains renovation programme to replace or reline water mains have been a key element during the current K4 period and the programme is on track to finish ahead of schedule in December 2009. A further 89km of water mains were laid, replaced or refurbished during the half year and a two year project of mains improvement in St Ives was completed. Drinking water quality was very high at 99.96%.

South West Water has put in place a comprehensive strategy to help ensure a continued secure supply of water for the region. 2009 was the thirteenth consecutive summer with no water restrictions and it is most unlikely that there will need to be any restrictions in 2010.

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 its leakage target of not more than 84 megalitres per day. South West Water has achieved Ofwat's leakage targets every year since their inception. Our leakage remains amongst the lowest in the industry at 5.6 cubic metres per kilometre of pipe per day.

2008/09 waste water treatment works performance was at an all time high. Investment expenditure, predominantly on small maintenance and improvement projects, totalled £26m for the half year.

The target of £13m per annum of efficiency cost savings by the end of the K4 period has been achieved ahead of schedule. Efficiency projects have created a platform to enable further improvements to operational and customer service performance. South West Water is continuing to drive and deliver efficiencies through investment in infrastructure to move the organisation towards a more centralised operational structure employing increased levels of automation and remote working. The company has also implemented a significant programme of organisational restructuring across the business costing £10.9m to date of which £1.9m was spent in the first half of 2009/10. It is expected that a further £3.1m will be provided in the second half of 2009/10. To support operational and service improvements, a number of staff completed a Continuous Professional Development programme within the School of Business and Economics at Exeter University. A Management Academy was launched in October aimed at developing the skills of front line managers.

South West Water continues to deliver capital projects in line with Ofwat, Drinking Water Inspectorate and Environment Agency expectations. The company is targeting efficient delivery of Ofwat's allowed K4 capital programme for 5% less than Ofwat's assumed £762m (2002/03 price base). In addition, circa £15m of required investment identified in the K5 Final

Business Plan is being delivered in 2009/10, in line with Government plans to stimulate infrastructure spending during the economic downturn. This additional investment will be recognised as part of the Final Determination.

Ofwat's Draft Determination for the K5 period (2010 – 2015) was published on 23 July, and allows for a headline weighted average cost of capital of 4.5% real and a K5 capital programme of approximately £640m. The company has had a number of subsequent meetings and discussions with Ofwat. The Final Determination will be announced on 26 November by Ofwat and the company has until the end of January 2010 to respond.

VIRIDOR

Revenue was up 9.5% (£26.9m) to £309.8m, of which the acquisitions of London Recycling and Intercontinental Recycling plus the Greater Manchester Waste PFI project accounted for £42.4m. Existing business decreased by £15.5m (the total increase is net of a reduction in landfill tax collected of £2.4m from lower volumes).

Viridor's earnings before interest, tax, depreciation and amortisation (EBITDA) was stable at £55.0m. Profit before interest, tax and amortisation of intangibles (PBITA) for the year decreased by 1.5% (£0.5m) to £32.6m compared with £33.1m in H1 2008/09.

Income from joint venture projects (Lakeside and Viridor Laing Greater Manchester) contributed £1.2m of interest receivable on shareholder loans (H1 2008/09 - £0.3m). The share of the JV losses after tax was £0.1m (H1 2008/09 - Nil).

Profit before tax at £22.8m was up 14.0% on the previous year as a result of lower interest rates. Capital expenditure for the half year was £26.4m (H1 2008/09 - £36.5m) of which £11.5m was on a range of growth projects which are expected to contribute to profits in future years.

<u>Landfill</u>

Total landfill disposal volumes decreased by 0.4m tonnes (17%) to 2.1m tonnes in the half year. Site closures (including the Beddingham landfill site in East Sussex whose 2008/09 full year profit contribution was £4.4m) accounted for a decrease of 0.1m tonnes. The underlying decrease of 0.3m tonnes was primarily due to recession related reductions in third party industrial and commercial volumes. Domestic volumes were slightly down but our inputs from Viridor's own collection fleet were maintained. Average revenue per tonne increased by 4.4% (to £21.68 per tonne) and margins rose to £6.35 per tonne. Consented landfill void reduced from 81m cubic metres at 31 March 2009 to 78m cubic metres at 30 September 2009, reflecting usage during the period.

Renewable Energy Generation - Landfill Gas

Viridor's landfill gas power generation output increased by a further 11% to 273 Gigawatt hours (GWh) during the half year reflecting capacity brought on at 2008/09 year end. All of the increase was accredited for full ROCs. Average revenues per Megawatt hour (MWh) grew by 25% to £82 per MWh (H1 2008/09 - £66 per MWh), reflecting higher energy contract prices. Taking advantage of favourable market conditions in May 2008, we sold forward the brown energy component of our ROC-able electricity to March 2010. Current market prices are substantially lower than this. At 30 September 2009, our landfill gas power generation capacity was 102MW compared with 85MW at September 2008 and 101MW at March 2009 (all figures exclude a small amount of sub-contract capacity). At 30 September 2009 62% of our power generating capacity was eligible for ROCs and 38% for Non Fossil Fuel Obligation (NFFO).

Recycling

The UK is required under the EU Landfill Directive to reduce the amount of biodegradable municipal waste going to landfill sites. (Municipal waste accounts for around one third of Viridor's landfill market. The alternatives to landfill sites for final waste disposal in the UK are currently limited.) To meet the requirements of the Landfill Directive, local authorities have been set statutory targets by the Government for the recycling of household waste and must also implement strategies for the diversion of biodegradable municipal waste away from landfill. The Chancellor's Budget announcement of 22 April 2009, continuing the increase in landfill tax of £8 a year from £40 per tonne currently to £72 per tonne in 2013/14, will further increase the long-term economics of recycling. In addition, recyclate costs are typically significantly lower than the cost of using virgin materials for manufacturers.

As previously noted in the Preliminary Results for 2008/09, recyclate prices were high in the first half of 2008/09 and low in the second half – reflecting the prevailing general world economic conditions. Overall recycling revenues per tonne in the first half of 2009/10 were back to around the levels seen in the first half of last year. Revenues from glass and plastics were ahead of H1 2008/09; metal and paper were behind. Domestic UK economic conditions also affected recycling volumes which were down 10% half year on half year to 688,000 tonnes.

In June Viridor acquired London Recycling Limited for a cash consideration of £10.6m, plus debt acquired of £1.8m. Headquartered in London E16, near West Ham, the business comprises a full range of recycling operations, including a fleet of collection vehicles, a waste electrical and electronic equipment ("WEEE") facility, paper processing, confidential destruction, a material recycling facility (MRF) and a waste auditing facility. It handles approximately 50,000 tonnes of material per annum. London Recycling has had a good track record over recent years in providing essential recycling services to businesses in the capital and has an excellent geographic and business fit with Viridor's operations in the South East of England.

Plastics in particular are a significant and growing part of Viridor's recycling business and in July, Viridor acquired International Recycling Limited for a cash consideration of £4.2m, plus debt acquired of £3.9m. Headquartered in Skelmersdale, Lancashire, the company processes High Density PolyEthylene ('HDPE') and PolyEthylene Terephthalate ('PET') plastic bottles, such as are recovered by Viridor's Materials Recycling Facilities. It converts the bottles to pellet or flake which are sold on to plastic manufacturers, mostly within the UK. The plant has the capacity to treat 40,000 tonnes of plastics waste per annum. Like London Recycling Limited, Intercontinental Recycling has a good geographic and business fit with Viridor's existing operations and is particularly well placed to receive volumes from the Viridor/Laing Greater Manchester Waste PFI.

<u>Contracts and Collection</u>

Contracts profits were well ahead with continued good performance from the West Sussex PFI and around 10 other municipal contracts. The sludge contracts business that performed poorly in H2 2008/09 was back in profit. There was also a significant contribution from the Greater Manchester Waste PFI sub-contract. Profits from the collection business were up with enhanced margins more than offsetting reduced volumes (down 7% on last year) as a result of current UK economic conditions.

<u>Public Private Partnerships and Private Finance Initiatives</u>

Public Private Partnership (PPP) and Private Finance Initiative (PFI) contracts are a key part of Viridor's strategy.

Financial Close on the Greater Manchester Waste PFI 25 year contract was achieved on 8 April 2009. It is the UK's largest ever combined waste and renewable energy project, managing 1.3m tonnes of waste per year. The total potential energy generation will be approaching 130MW (including Phases I and II of the Runcorn plant), in addition to the existing 9MW of the Bolton Energy from Waste (EfW) plant. The PFI is a joint venture between Viridor and John Laing Infrastructure. Operation of the associated facilities is being carried out on a sub-contract basis by Viridor. The associated EfW/Combined Heat and Power (CHP) facility (Runcorn Phase I) is a three way joint venture between Ineos Chlor, Viridor and John Laing. Total capital expenditure for the PFI is projected to be £405m with an additional £235m for the associated EfW/CHP plant (Runcorn Phase I). Viridor's contribution will be £85m plus further possible mezzanine debt of up to £40m in 2010. In addition to winning the PFI contract itself, we have also secured 100% of Phase II of the planned EfW/CHP facility at Runcorn. This will be targeted at the North West market more generally and is a significant addition to the initial project given the rising landfill tax and the shortage of competing capacity in the North West. Planning permission was achieved by Ineos for the EfW/CHP plant at Runcorn in September 2008 and in October 2009 it was confirmed that all required 23 sites/36 facilities planned for development have received planning permission.

In addition to the above contracts, we continue to bid selectively for other projects. We are preferred bidder for the Oxfordshire PPP and one of the last two for the Cheshire PFI.

<u>Waste and Renewable Energy</u>

There is substantial energy embedded in waste and recovering this is providing a large and growing amount of renewable energy in the UK. Energy can be recovered from waste in two main ways: (i) thermal treatment or combustion, typically called Energy from Waste; and (ii) where it has been landfilled, capturing the methane gas released (as the waste degrades anaerobically) and using the gas for power generation. Various newer technologies are also being developed to recover energy from waste including advanced thermal treatments such as pyrolysis and gasification, and anaerobic digestion (where methane gas is again produced for power generation); the contribution to UK energy production from these newer technologies is very small at present.

Energy recovery from waste currently accounts for 30% or the largest portion of total UK renewable energy (24% from landfill gas and 6% from thermal treatment noted above). This 30% equates to 1.5% of total UK electricity production (from both renewable and non-renewable sources).

Because a gate fee is charged for the disposal of waste, the marginal cost of energy production is low – waste is effectively the UK's cheapest form of renewable energy. In addition, energy recovery from waste provides base load power (generating for 80% plus of the time). It is also distributed round the electricity grid, typically close to users of energy. For these reasons, Viridor sees huge potential for increased energy generation from waste. Our estimate is that waste could account for a total of 6% of total UK electricity generation by 2015 compared to 1.5% at present.

This proven, low cost, base load source of distributed renewable energy is critically important given the UK's targets of generating 15% of total electricity from renewable sources by 2015 and 15% of total energy (30% to 40% of electricity) by 2020. In his Budget announcement of April 2009, the Chancellor referred to £4bn potential EIB funding specifically for renewable energy projects in the UK. However meeting the above deadlines will be tight as obtaining planning approval for infrastructure projects is a lengthy process, often involving appeals.

In addition to the 102MW of landfill gas capacity, Viridor is pursuing a number of other renewable energy opportunities.

- The **Lakeside** joint venture with Grundon Waste Management comprises a 400,000 tonnes per annum and up to 37MW EfW plant at Colnbrook, near Heathrow. As previously reported, it involves £160m capital expenditure financed by 86% non-recourse debt with the balance split equally between the two companies. The project is under final commissioning.

- The **Bolton** 120,000 tonnes per annum, 9MW EfW facility (part of the Greater Manchester Waste PFI) is already operational.

- Planning permission has been achieved for the 60,000 tonnes, 3MW **Exeter** EfW.

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

- We are also pursuing other possible long-term EfW opportunities including in **Cardiff**, **Dunbar** and **Ardley** near Oxford (all have had planning permission turned down locally and are being appealed).

- We are building four **anaerobic digestion** plants for Greater Manchester (which already have planning permission) totalling 430,000 tonnes per annum and 8MW of electricity (included in the Greater Manchester figure of 130MW above.) We have also received planning permission for two further plants which we are developing at Beddington (near Croydon) and Walpole (Somerset) respectively.

GROUP FINANCIAL POSITION

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

During the half year additional funding has been raised as follows :

- £125m convertible bond for Pennon
- £25m finance lease facility for Viridor
- £25m RCF renewed and increased to £35m

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 net debt up to March 2010. In addition, £353m or circa 25% of South West Water current net debt is index-linked to 2041 – 2057, at an average real rate of 1.66%.

The Group had a strong liquidity and funding position as at 30 September 2009 :

- Cash balances of £428m, including £71m deposits with Letters of Credit providers and lessors
- Committed undrawn facilities of £224m
- Committed funding in place for South West Water to at least 2011

£180m loan repayments are required by March 2010; the refinancing of existing facilities is being progressed.

A substantial portion of debt is finance leasing which provides a long maturity profile and secured credit margins. The Group's average debt maturity is now 22 years.

PENSIONS

The Group's defined benefit pension schemes had a deficit (net of deferred tax) under IAS 19 at 30 September 2009 of £93m (£129m gross).

The increase in the net deficit of £45m from 31 March 2009 is primarily due to the impact of a reduction in the interest rate used to discount fund liabilities.

Fund assets increased from £276m to £384m reflecting increases in asset values and the inclusion of the Group’s share of the Greater Manchester pension funds.

TAXATION

The mainstream corporation tax charge for the half year was £23.1m (H1 2008/09 – £21.2m) giving a mainstream effective current tax rate of 24% (H1 2008/09 – 25%). The full year 2008/09 charge included tax relief on pension contributions of £39m. A further contribution of £11m is expected in H2 2009/10.

Deferred tax for the half year was a charge of £3.0m (H1 2008/09 – £29.3m). In September 2008 £29.2m related to the abolition of industrial buildings allowances as contained in the 2008 Finance Act.

PRINCIPAL RISKS AND UNCERTAINTIES

Whilst the current UK and worldwide economic situation is uncertain, both businesses are well positioned and have generally limited exposure to unfavourable conditions from the economic slow-down. In accordance with DTR 4.2.7 the principal risks and uncertainties for the remaining six months of the financial year of the Group are : variations in RPI impacting the cost of SWW index linked borrowings; reductions in waste volumes generally arising from weak economic conditions and specific impacts on landfill arising from the impact of the UK Government's waste strategy; changing recyclate prices driven by global supply/demand trends as outlined above; and increased pension net liabilities due to market forces affecting liabilities and fund value. The other principal risks and uncertainties facing the Group are set out on pages 21, 26-27 and 32-33 of the Group's 2009 Annual Report and Accounts which can be viewed on or downloaded from the Group's website, pennon-group.co.uk or obtained from the Company Secretary at the Company's registered office.

COMMUNICATIONS

Since obtaining the approval of our shareholders at our 2007 Annual General Meeting we have, in accordance with the Companies act 2006, provided many shareholder communications electronically (unless shareholders have requested otherwise) rather than in traditional paper format. For shareholders who have agreed, or who are treated as having agreed, to receive electronic communications, the Company's website is now the main method for them to access shareholder information. Shareholders who have specifically chosen electronic communications will be sent electronically a "notice of availability" notifying them that the Half Year Report is available on the Company's website: pennon-group.co.uk. For other shareholders a letter will be sent out by the Company shortly summarising the Half Year Report. As shareholders were informed last year, printed copies of the Half Year Report are no longer produced as there is no legal requirement to do so.

STRATEGY AND PROSPECTS

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

South West Water expects to complete the successful delivery of the current five year regulatory contract and has grown significantly its Regulatory Capital Value which is expected to reach circa £2.5 billion by 2010. The company has put in place a platform to deliver further efficiencies for K5 and awaits the K5 Final Determination from Ofwat, which is due to be published on 26 November.

Viridor's successful strategy to create long-term sustainable profit growth is expected to continue through capitalising on its leading position in landfill waste disposal, proactively developing new waste management facilities to meet ambitious EU/UK recycling targets and successfully exploiting the huge potential in waste-based renewable energy generation.

Both businesses are well positioned in the current economic slowdown and the Group has a long-term funding structure to continue to finance its activities efficiently.

Ken Harvey
Chairman
18 November 2009

CAUTIONARY STATEMENT IN RESPECT OF FORWARD-LOOKING STATEMENTS

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

PENNON GROUP PLC

Consolidated income statement for the half year ended 30 September 2009

	Note	Unaudited Half year ended 30 September 2009 £m	Unaudited Half year ended 30 September 2008 (Restated note 3) £m	Year ended 31 March 2009 (Restated note 3) £m
Revenue	5	**535.5**	505.1	958.2
Operating costs				
Manpower costs (excluding restructuring costs)		**(64.7)**	(54.9)	(108.6)
Raw materials and consumables used		**(33.2)**	(31.7)	(59.1)
Other operating expenses		**(233.3)**	(215.8)	(402.2)
Depreciation		**(69.2)**	(65.9)	(131.3)
Restructuring costs		**(1.9)**	(3.4)	(5.0)
Amortisation of intangibles		**(0.6)**	(0.6)	(1.2)
Operating profit	5	**132.6**	132.8	250.8
Finance income		**17.0**	25.8	45.8
Finance costs		**(54.7)**	(74.7)	(138.0)
Share of post-tax (loss)/profit from joint ventures		**(0.1)**	-	0.8
Profit before tax	5	**94.8**	83.9	159.4
Taxation	6	**(26.1)**	(50.5)	(67.9)
Profit for the period		**68.7**	33.4	91.5
Profit attributable to equity shareholders		**68.7**	33.4	91.5
Earnings per share (pence per share)	7			
- Basic		**19.7**	9.6	26.3
- Diluted		**19.6**	9.5	26.2
Dividend per share (pence per share)	8	**6.95**	6.75	21.0
Dividend proposed for the period (£m)	8	**24.5**	23.6	73.4

The notes on pages 24 to 35 form part of these condensed half year financial statements.

PENNON GROUP PLC

Consolidated statement of comprehensive income for the half year ended 30 September 2009

	Unaudited		
	Half year ended 30 September 2009	Half year ended 30 September 2008 (Restated note 3)	Year ended 31 March 2009 (Restated note 3)
	£m	£m	£m
Profit for the period	**68.7**	33.4	91.5
Other comprehensive income			
Actuarial losses on defined benefit schemes	**(54.7)**	(37.6)	(66.8)
Cash flow hedges			
Net fair value gains/(losses)	**6.1**	0.4	(21.0)
Tax on items taken directly to or transferred from equity	**15.3**	10.5	18.7
Other comprehensive income for the period net of tax	**(33.3)**	(26.7)	(69.1)
Total comprehensive income for the period	**35.4**	6.7	22.4
Total comprehensive income attributable to equity shareholders	**35.4**	6.7	22.4

The notes on pages 24 to 35 form part of these condensed half year financial statements.

PENNON GROUP PLC

Consolidated balance sheet at 30 September 2009

		Unaudited		
		30 September 2009	30 September 2008 (Restated note 3)	31 March 2009 (Restated note 3)
	Note	**£m**	£m	£m
ASSETS				
Non-current assets				
Goodwill		**248.6**	235.9	236.5
Other intangible assets		**4.8**	6.0	5.4
Property, plant and equipment		**2,808.3**	2,683.7	2,745.8
Other non-current assets		**72.3**	43.3	46.2
Derivative financial instruments		**0.7**	3.9	0.2
Investments in joint ventures		**2.2**	1.4	2.2
		3,136.9	2,974.2	3,036.3
Current assets				
Inventories		**6.7**	6.4	5.8
Trade and other receivables		**217.2**	203.6	178.3
Cash and cash deposits	11	**427.8**	306.0	353.3
		651.7	516.0	537.4
LIABILITIES				
Current liabilities				
Borrowings	11	**(316.9)**	(49.8)	(262.9)
Derivative financial instruments		**(0.9)**	-	(3.6)
Trade and other payables		**(250.4)**	(247.5)	(166.8)
Current tax liabilities		**(54.6)**	(53.6)	(44.8)
Provisions		**(19.5)**	(17.0)	(18.8)
		(642.3)	(367.9)	(496.9)
Net current assets		**9.4**	148.1	40.5
Non-current liabilities				
Borrowings	11	**(2,008.8)**	(2,065.6)	(1,982.4)
Other non-current liabilities		**(27.5)**	(3.8)	(3.7)
Derivative financial instruments		**(12.7)**	-	(16.5)
Retirement benefit obligations		**(129.1)**	(58.4)	(66.0)
Deferred tax liabilities		**(313.6)**	(326.6)	(327.1)
Provisions		**(77.8)**	(82.9)	(79.2)
		(2,569.5)	(2,537.3)	(2,474.9)
Net assets		**576.8**	585.0	601.9
Shareholders' equity				
Share capital	9	**144.5**	144.5	144.5
Share premium account		**11.7**	11.7	11.7
Capital redemption reserve		**144.2**	144.2	144.2
Retained earnings and other reserves		**276.4**	284.6	301.5
Total shareholders' equity		**576.8**	585.0	601.9

The notes on pages 24 to 35 form part of these condensed half year financial statements.

PENNON GROUP PLC

Statement of changes in equity

	Share capital (note 9) £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other Reserves (restated note 3) £m	Total equity (Restated note 3) £m
					Unaudited
At 1 April 2008	144.5	11.7	144.2	344.7	645.1
Profit for the period	-	-	-	33.4	33.4
Other comprehensive income for the period	-	-	-	(26.7)	(26.7)
Total comprehensive income for the period	-	-	-	6.7	6.7
Transactions with equity shareholders					
Dividends paid or approved	-	-	-	(69.1)	(69.1)
Adjustment in respect of share-based payments	-	-	-	1.0	1.0
Proceeds from treasury shares re-issued	-	-	-	1.3	1.3
	-	-	-	(66.8)	(66.8)
At 30 September 2008	144.5	11.7	144.2	284.6	585.0

	Share capital (note 9) £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Total equity £m
					Unaudited
At 1 April 2009	144.5	11.7	144.2	301.5	601.9
Profit for the period	-	-	-	68.7	68.7
Other comprehensive income for the period	-	-	-	(33.3)	(33.3)
Total comprehensive income for the period	-	-	-	35.4	35.4
Transactions with equity shareholders					
Dividends paid or approved	-	-	-	(73.4)	(73.4)
Adjustment in respect of share-based payments	-	-	-	1.3	1.3
Equity component of convertible bond	-	-	-	10.0	10.0
Proceeds from treasury shares re-issued	-	-	-	1.6	1.6
	-	-	-	(60.5)	(60.5)
At 30 September 2009	**144.5**	**11.7**	**144.2**	**276.4**	**576.8**

The notes on pages 24 to 35 form part of these condensed half year statements

PENNON GROUP PLC

Consolidated statement of cash flows for the half year ended 30 September 2009

	Note	**Unaudited** Half year ended 30 September 2009 £m	Half year ended 30 September 2008 (Restated note 3) £m	Year ended 31 March 2009 (Restated note 3) £m
Cash flows from operating activities				
Cash generated from operations	10	**157.7**	160.5	300.6
Interest paid		**(30.1)**	(48.8)	(103.9)
Tax paid		**(13.1)**	(11.7)	(30.8)
Net cash generated from operating activities		**114.5**	100.0	165.9
Cash flows from investing activities				
Interest received		**6.5**	16.3	23.8
Acquisition of subsidiary undertakings (net of cash acquired)		**(9.3)**	(3.4)	(3.4)
Investment in joint ventures		**(0.1)**	-	-
Proceeds from business disposal		**1.0**	-	-
Purchase of property, plant and equipment		**(102.1)**	(117.1)	(237.9)
Proceeds from sale of property, plant and equipment		**0.8**	0.5	2.6
Net cash used in investing activities		**(103.2)**	(103.7)	(214.9)
Cash flows from financing activities				
Proceeds from treasury shares re-issued		**1.6**	1.3	1.6
Convertible bond issued (net proceeds)		**121.9**	-	-
(Deposit)/return of restricted funds		**(52.3)**	97.8	93.0
Net proceeds from new borrowing		**-**	-	100.0
Repayment of borrowings		**(42.7)**	(11.9)	(14.9)
Finance lease sale and leaseback		**12.8**	-	49.8
Finance lease principal repayments		**(5.4)**	(4.6)	(16.8)
Dividends paid		**(23.6)**	(21.8)	(69.1)
Net cash received from financing activities		**12.3**	60.8	143.6
Net increase in cash and cash equivalents		**23.6**	57.1	94.6
Cash and cash equivalents at beginning of period	11	**322.0**	227.4	227.4
Cash and cash equivalents at end of period	11	**345.6**	284.5	322.0

The notes on pages 24 to 35 form part of these condensed half year financial statements.

PENNON GROUP PLC

Notes to the condensed half year financial statements

1. General information

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

These condensed half year financial statements were approved by the Board of Directors on 18 November 2009.

The financial information for the year ended 31 March 2009 does not constitute full financial statements within the meaning of section 434 of the Companies Act 2006. The full financial statements for that year were approved by the Board of Directors on 25 June 2009 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 IAS 34 "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 2009, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

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

3. Accounting policies and prior year adjustments

Except as described below, 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 2009 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 2010 in issue which have been adopted by the European Union.

The tax charge for September 2009 and September 2008 has been derived by applying the anticipated effective annual rate to the first half year profit before tax.

The following new standard and revised standard, which are mandatory for the first time in the financial year beginning 1 April 2009, are relevant for the Group.

IAS 1 "Presentation of financial statements" (revised)

The revised standard requires non-owner changes in equity to be presented separately from owner changes in equity. The Group has elected to present two statements; an income statement and a statement of comprehensive income. These condensed half year financial statements have been prepared under the revised disclosure requirements.

IFRS 8 "Operating segments"

The adoption of this standard has not required any change in reported segments.

PENNON GROUP PLC

Notes to the condensed half year financial statements (continued)

3. **Accounting policies and prior year adjustments (continued)**

The following new standards and interpretations, which are mandatory for the first time in the financial year beginning 1 April 2009, are relevant for the Group but have had no material impact.

IFRS 2 "Share-based payment" (amendment)
IAS 23 "Borrowing costs" (revised)
IFRIC 14 "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction"

The following new interpretation is mandatory for the first time in the financial year beginning 1 April 2009 and the Group's accounting policies have been amended accordingly.

Accounting policy for service concession arrangements

The application of IFRIC 12 "Service concession arrangements" has necessitated a restatement of amounts for prior years. Where a contract for the provision of public services meets the scope of IFRIC 12 the service concession is to be treated as a contract receivable, split between the profit on the construction of assets, operation of the service and provision of finance through interest receivable. The Group's contract with West Sussex County Council for the provision of waste collection and disposal services falls within the scope of IFRIC 12 and accordingly comparatives have been restated.

At 30 September 2008 the accounting for the acquisitions of Grosvenor Waste Management Limited (renamed Viridor Resource Management Limited) and Ledge 806 Limited (renamed Viridor Electrical Recycling (Holdings) Limited), the holding company of Shore Recycling Limited, were provisional. The completion of the accounting for the acquisitions has resulted in a change to comparative amounts for September 2008.

In addition at 31 March 2009 accrued finance charges arising on obligations under finance leases were re-analysed between current and non-current amounts. Comparative amounts for September 2008 have been restated accordingly.

As a result of the above changes in accounting policy and other restatements required, comparative figures have been restated :

	Half year ended 30 September 2008 (Unaudited)			Year ended 31 March 2009 (Unaudited)		
	Previously reported £m	Application of IFRIC 12 £m	Restated now reported £m	Previously reported £m	Application of IFRIC 12 £m	Restated now reported £m
INCOME STATEMENT						
Revenue	503.3	1.8	505.1	952.9	5.3	958.2
Other operating expenses	(213.6)	(2.2)	(215.8)	(394.2)	(8.0)	(402.2)
Depreciation	(66.3)	0.4	(65.9)	(132.0)	0.7	(131.3)
Finance income	24.7	1.1	25.8	43.5	2.3	45.8
Taxation – current tax	(20.9)	(0.3)	(21.2)	(30.7)	(0.6)	(31.3)
Taxation – deferred tax	(29.5)	0.2	(29.3)	(36.9)	0.3	(36.6)
Profit for the period	32.4	1.0	33.4	91.5	-	91.5

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Notes to the condensed half year financial statements (continued)

3. Accounting policies and prior year adjustments (continued)

	30 September 2008 (Unaudited)				
	Previously reported	Application of IFRIC 12	Restatements for acquisitions	Accrued finance charges	Restated now reported
	£m	£m	£m	£m	£m
BALANCE SHEET					
Non-current assets					
Goodwill	234.6	-	1.3	-	235.9
Other intangibles assets	8.6	-	(2.6)	-	6.0
Property, plant and equipment	2,705.6	(24.7)	2.8	-	2,683.7
Trade and other receivables	10.6	32.7	-	-	43.3
Current liabilities					
Borrowings	(82.7)	-	-	32.9	(49.8)
Trade and other payables	(247.7)	-	0.2	-	(247.5)
Current tax	(52.3)	(1.3)	-	-	(53.6)
Non-current liabilities					
Borrowings	(2,033.4)	-	0.7	(32.9)	(2,065.6)
Deferred tax	(326.2)	(0.9)	0.5	-	(326.6)
Provisions	(80.0)	-	(2.9)	-	(82.9)
Shareholder's equity					
Retained earnings					
Brought forward	341.3	4.8	-	-	346.1
Profit for the period	32.4	1.0	-	-	33.4
Carried forward	278.3	5.8	-	-	284.1
STATEMENT OF CASH FLOWS					
Cash generated from operations					
Profit for the period	32.4	1.0	-	-	33.4
Depreciation charge	66.3	(0.4)	-	-	65.9
Finance income	(24.7)	(1.1)	-	-	(25.8)
Taxation	50.4	0.1	-	-	50.5
Increase in trade and other receivables	(30.3)	(3.6)	-	-	(33.9)
Purchase of property, plant and equipment	(121.1)	4.0	-	-	(117.1)

PENNON GROUP PLC

Notes to the condensed half year financial statements (continued)

3. **Accounting policies and prior year adjustments (continued)**

	31 March 2009			31 March 2008		
	Previously reported £m	Application of IFRIC 12 £m	Restated now reported £m	Previously reported £m	Application of IFRIC 12 £m	Restated now reported £m
BALANCE SHEET						
Non-current assets						
Property, plant and equipment	2,774.2	(28.4)	2,745.8	2,665.8	(21.1)	2,644.7
Trade and other receivables	10.6	35.6	46.2	10.4	28.0	38.4
Current liabilities						
Current tax	(43.2)	(1.6)	(44.8)	(43.1)	(1.0)	(44.1)
Non-current liabilities						
Deferred tax	(326.3)	(0.8)	(327.1)	(306.7)	(1.1)	(307.8)
Shareholder's equity						
Retained earnings						
Brought forward	341.3	4.8	346.1	318.2	2.9	321.1
Profit for the period	91.5	-	91.5	133.6	1.9	135.5
Carried forward	317.6	4.8	322.4	341.3	4.8	346.1
STATEMENT OF CASH FLOWS						
Cash generated from operations						
Profit for the period	91.5	-	91.5	133.6	1.9	135.5
Depreciation charge	132.0	(0.7)	131.3	127.9	(0.7)	127.2
Finance income	(43.5)	(2.3)	(45.8)	(42.0)	(1.8)	(43.8)
Taxation	67.6	0.3	67.9	16.0	0.8	16.8
Increase in trade and other receivables	(15.4)	(5.3)	(20.7)	(29.9)	(4.4)	(34.3)
Purchase of property, plant and equipment	(245.9)	8.0	(237.9)	(219.2)	4.2	(215.0)

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 :

IFRS 3	"Business combinations" (revised) and consequential amendment to IAS 27 "Consolidated and separate financial statements"
IFRIC 17	"Distribution of non-cash assets to owners"
IFRIC 18	"Transfers of assets from customers"

The presentational impact of these standards and interpretations is being assessed. 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.

4. **Acquisitions**

On 8 April 2009 the entire issued share capital of Greater Manchester Waste Limited (now renamed Viridor Waste (Greater Manchester) Limited) was purchased by Viridor Waste Management Limited for a nominal consideration. The acquisition has been accounted for using the acquisition method. No goodwill arises on the acquisition. The cash balances on acquisition of £6.3m will principally be applied to the retirement benefit obligations of the acquired business.

On 5 June 2009 the entire issued share capital of London Recycling Limited (now renamed Viridor London Recycling Limited) was purchased by Viridor Waste Management Limited for a cash consideration of £10.6m, excluding costs. The acquisition has been accounted for using the acquisition method. Provisional goodwill of £8.5m has been capitalised.

On 31 July 2009 the entire issued share capital of Intercontinental Recycling Limited (now renamed Viridor Polymer Recycling Limited) was purchased by Viridor Waste Management Limited for a cash consideration of £4.2m, excluding costs. The acquisition has been accounted for using the acquisition method. Provisional goodwill of £4.2m has been capitalised.

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

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Notes to the condensed half year financial statements (continued)

5. **Segment information**

	Unaudited		
	Half year ended 30 September 2009	Half year ended 30 September 2008 (Restated note 3)	Year ended 31 March 2009 (Restated note 3)
	£m	£m	£m
Revenue			
Water and sewerage	**226.5**	223.1	431.7
Waste management	**309.8**	282.9	528.0
Other	**4.6**	4.3	8.7
Less intra-segment trading *	**(5.4)**	(5.2)	(10.2)
	535.5	505.1	958.2
Segment result			
Underlying operating profit before depreciation and amortisation (EBITDA)			
Water and sewerage	**148.8**	145.8	281.4
Waste management	**55.0**	55.1	105.2
Other	**0.5**	1.8	1.7
	204.3	202.7	388.3
Underlying operating profit			
Water and sewerage	**101.9**	101.8	191.6
Waste management	**32.6**	33.1	63.5
Other	**0.6**	1.9	1.9
	135.1	136.8	257.0
Operating profit			
Water and sewerage	**100.0**	98.4	186.6
Waste management	**32.0**	32.5	62.3
Other	**0.6**	1.9	1.9
	132.6	132.8	250.8
Underlying profit before tax			
Water and sewerage	**71.8**	64.9	121.9
Waste management	**22.8**	20.0	41.1
Other	**2.7**	3.0	2.6
	97.3	87.9	165.6
Profit before tax			
Water and sewerage	**69.9**	61.5	116.9
Waste management	**22.2**	19.4	39.9
Other	**2.7**	3.0	2.6
	94.8	83.9	159.4

* 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.

Underlying measures exclude restructuring costs in South West Water and amortisation of intangibles in Viridor.

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

A full reconciliation between underlying and reported measures is included in the financial highlights on page 2 and in note 7 for earnings per share.

Notes to the condensed half year financial statements (continued)

6. **Taxation**

	Unaudited		
	Half year ended 30 September 2009	Half year ended 30 September 2008 (Restated note 3)	Year ended 31 March 2009 Restated note 3)
	£m	£m	£m
Analysis of charge :			
UK corporation tax	**23.1**	21.2	31.3
Deferred tax – other	**3.0**	0.1	11.7
Deferred tax arising on abolition of industrial buildings allowances	**-**	29.2	24.9
Total deferred tax	**3.0**	29.3	36.6
	26.1	50.5	67.9

UK corporation tax is calculated at 28% (2009 28%) of the estimated assessable profit for the year. The tax charge for September 2009 and September 2008 has been derived by applying the anticipated effective annual tax rate to the first half year profit before tax.

The deferred tax charge was increased in September 2008 by a non-recurring charge of £29.2m reflecting the phasing out of industrial buildings allowances over three years commencing 1 April 2008.

The effective tax rate for the period was 24% and after the deferred tax charge 28%.

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

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Notes to the condensed half year financial statements (continued)

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.

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

	Unaudited **Half year ended 30 September 2009**	Unaudited Half year ended 30 September 2008	Year ended 31 March 2009
Number of shares (millions)			
For basic earnings per share	**348.8**	347.7	348.1
Effect of dilutive potential ordinary shares from share options	**1.5**	2.3	1.7
For diluted earnings per share	**350.3**	350.0	349.8

Underlying basic and diluted earnings per share

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

	Unaudited								
	Half year ended 30 September 2009			Half year ended 30 September 2008			Year ended 31 March 2009		
	Profit after tax	**Earnings per share Basic**	**Diluted**	Profit after tax (Restated note 3)	Earnings per share Basic (Restated note 3)	Diluted (Restated note 3)	Profit after tax (Restated note 3)	Earnings per share Basic (Restated note 3)	Diluted (Restated note 3)
	£m	**p**	**p**	£m	p	p	£m	p	p
Statutory earnings per share	**68.7**	**19.7**	**19.6**	33.4	9.6	9.5	91.5	26.3	26.2
Restructuring costs (net of tax)	**1.4**	**0.4**	**0.4**	2.4	0.7	0.7	3.3	0.9	0.9
Amortisation of intangibles	**0.6**	**0.2**	**0.2**	0.6	0.2	0.2	1.2	0.3	0.3
Deferred tax	**3.0**	**0.8**	**0.8**	29.3	8.4	8.4	36.6	10.5	10.5
Underlying earnings per share	**73.7**	**21.1**	**21.0**	65.7	18.9	18.8	132.6	38.0	37.9

Notes to the condensed half year financial statements (continued)

8. Dividends

Amounts recognised as distributions to equity holders in the period :	Unaudited		
	Half year ended 30 September 2009 £m	Half year ended 30 September 2008 £m	Year ended 31 March 2009 £m
Interim dividend paid for the year ended 31 March 2009 : 6.75p (2008 6.25p) per share	**23.6**	21.8	21.8
Final dividend approved for the year ended 31 March 2009 : 14.25p (2008 13.56p) per share	**49.8**	47.3	47.3
	73.4	69.1	69.1

Proposed interim dividend	Unaudited		
	Half year ended 30 September 2009 £m	Half year ended 30 September 2008 £m	Year ended 31 March 2009 £m
Proposed interim dividend for the year ended 31 March 2010 : 6.95p (2009 6.75p) per share	**24.5**	23.6	23.6

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

The interim dividend of 6.95p per share will be paid on 7 April 2010 to shareholders on the register on 22 January 2010.

9. **Share capital**

Allotted, called up and fully paid

1 April 2008 to 30 September 2008	Number of shares Treasury shares	 Ordinary shares	£m
At 1 April 2008 Ordinary shares of 40.7p each	6,411,406	348,752,868	144.5
For consideration of £1.3m, shares re-issued under the Company's Sharesave Scheme	(575,431)	575,431	-
At 30 September 2008 ordinary shares of 40.7p each	5,835,975	349,328,299	144.5

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

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 Scheme options during the half year was 462p (2008 612p).

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Notes to the condensed half year financial statements (continued)

10. **Cash flow from operating activities**

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

	Unaudited		
	Half year ended 30 September	Half year ended 30 September (Restated note 3)	Year ended 31 March (Restated note 3)
	2009	2008	2009
Cash generated from operations	**£m**	£m	£m
Profit for the period	**68.7**	33.4	91.5
Adjustments for:			
Employee share schemes	**1.3**	1.0	2.7
Profit on disposal of property, plant and Equipment	**(0.4)**	(0.3)	(2.1)
Depreciation charge	**69.2**	65.9	131.3
Amortisation of intangible assets	**0.6**	0.6	1.2
Share of post-tax loss/(profit) from joint ventures	**0.1**	-	(0.8)
Finance income	**(17.0)**	(25.8)	(45.8)
Finance costs	**54.7**	74.7	138.0
Taxation	**26.1**	50.5	67.9
Changes in working capital *(excluding the effect of acquisition of subsidiaries) :*			
Decrease in inventories	**-**	0.2	0.8
Increase in trade and other receivables	**(56.6)**	(33.9)	(20.7)
Increase/(decrease) in trade and other payables	**11.5**	5.4	(24.5)
Increase/(decrease) in retirement benefit obligations	**4.7**	(6.5)	(28.7)
Decrease in provisions	**(5.2)**	(4.7)	(10.2)
Cash generated from operations	**157.7**	160.5	300.6

11. **Net borrowings**

	Unaudited		
	30 September 2009	30 September 2008 (Restated note 3)	31 March 2009 (Restated note 3)
	£m	£m	£m
Cash and cash deposits	**427.8**	306.0	353.3
Borrowings – current			
Bank overdrafts	**(11.5)**	(7.9)	(12.9)
Other current borrowings	**(274.1)**	(15.2)	(219.9)
Finance lease obligations	**(31.3)**	(26.7)	(30.1)
Total current borrowings	**(316.9)**	(49.8)	(262.9)
Borrowings – non-current			
Bank and other loans	**(539.2)**	(705.7)	(507.5)
Other non-current borrowings	**(276.1)**	(190.2)	(287.7)
Finance lease obligations	**(1,193.5)**	(1,169.7)	(1,187.2)
Total non-current borrowings	**(2,008.8)**	(2,065.6)	(1,982.4)
Total net borrowings	**1,897.9**	(1,809.4)	(1,892.0)

Notes to the condensed half year financial statements (continued)

11. **Net borrowings (continued)**

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

	Unaudited		
	30 September 2009 £m	30 September 2008 £m	31 March 2009 £m
Cash and cash deposits as above	**427.8**	306.0	353.3
Bank overdrafts as above	**(11.5)**	(7.9)	(12.9)
	416.3	298.1	340.4
Less : deposits with a maturity of three months or more (restricted funds)	**(70.7)**	(13.6)	(18.4)
	345.6	284.5	322.0

12. **Capital expenditure**

	Unaudited		
	Half year ended 30 September 2009 £m	Half year ended 30 September 2008 (Restated note 3) £m	Year ended 31 March 2009 (Restated note 3) £m
Property, plant and equipment			
Additions	**97.3**	103.9	231.8
Net book value of disposals	**0.4**	0.2	0.5
Capital commitments			
Contracted but not provided	**94.6**	79.9	85.3
Share of commitment contracted but not provided by joint ventures	**120.5**	13.1	6.1

13. **Contingent liabilities**

There have been no material changes to the Group's contingent liabilities since 31 March 2009, other than Viridor Waste Limited's contingent obligation to further fund a maximum of £40m of mezzanine debt to Viridor Laing (Greater Manchester) Holdings Limited should a current lender not be able to refinance this amount by March 2010.

14. **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. Disclosures for Lakeside Energy from Waste Holdings Limited were made in the Pennon Group Plc Annual Report and Accounts for the year ended 31 March 2009 and there was no material change in transactions with this related party in the period. Sales of goods and services during the period to Viridor Laing (Greater Manchester) Limited, a wholly owned subsidiary of Viridor Laing (Greater Manchester) Holdings Limited, amounted to £37.0m and amounts receivable at 30 September 2009 were £26.7m.

Pennon Group Plc
Registered Office :
Peninsula House
Rydon Lane
Exeter
EX2 7HR
pennon-group.co.uk

Registered in England No 2366640

PENNON GROUP PLC

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors named below confirm on behalf of the Board of Directors that these unaudited condensed half year financial statements have been prepared in accordance with IAS 34 "Interim financial reporting" as adopted by the European Union and to the best of their knowledge the interim management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8 of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the period and their impact on the unaudited condensed half year financial statements; 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 statements may differ from legislation in other jurisdictions.

The Directors of Pennon Group Plc are listed on page 42 of the Annual Report and Accounts of the Company for the year ended 31 March 2009 and there have been no changes since that date.

For and on behalf of the Board of Directors

K G Harvey
Chairman

D J Dupont
Group Director of Finance

18 November 2009

PENNON GROUP PLC

INDEPENDENT REVIEW REPORT TO PENNON GROUP PLC

Introduction

We have been engaged by the Company to review the condensed half year financial statements in the half year financial report for the six months ended 30 September 2009 which comprises the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Statement of changes in equity, the Consolidated statement of cash flows and related notes. We have read the other information contained in the half year financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

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

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half year 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 year financial report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half year financial report for the six months ended 30 September 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
18 November 2009
Bristol