PENNON GROUP PLC **24 November 2011**

HALF YEAR REPORT ON THE SIX MONTHS ENDED 30 SEPTEMBER 2011

Pennon Group announces its unaudited results for the half year ended 30 September 2011.

A presentation for City audiences will be held today, Thursday 24 November 2011, at 9am at the Auditorium, The Bank of America Merrill Lynch Financial Centre, 2 King Edward Street, London, EC1. A live webcast of the results presentation will be available at pennon-group.co.uk /investor/presentations, and a recording of the presentation will be available thereafter.

For further information today, 24 November 2011, please contact :

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FINANCIAL HIGHLIGHTS

- Profit before tax up 11.6% to £107.4m
    - South West Water up 8.5% to £76.2m
    - Viridor up 7.0% to £30.6m
- Underlying earnings per share[1] up 11.9% to 23.5p
- Dividend
    - Interim dividend per share up 9.6% to 8.22p
- Group capital investment up 41% to £99.9m
- Strong liquidity and funding position
    - £251m new/refinanced facilities since 31 March 2011
    - £918m cash and facilities at 30 September 2011
- Group businesses remain well positioned in current difficult economic conditions

[1] Underlying earnings per share exclude deferred tax. Basic earnings per share were 26.1p.

OPERATIONAL HIGHLIGHTS

- **South West Water:**
  - Strong performance against 2010 – 2015 regulatory contract
  - Average funding cost 4.2%
  - Capital investment up 26% to £51m
  - Further advance in operating efficiency
  - Best ever bathing water results
  - 2011 fifteenth consecutive summer without hosepipe bans or drought orders
  - Leakage target met - every year since inception
  - Private sewers transferred to South West Water on 1 October 2011 – estimated network length increased by over 50%
  - Improvement in Service Incentive Mechanism (SIM) performance. Customer complaints down 22% in H1 2011/12

- **Viridor:**
  - Continued growth in profit, driven by further progress in recycling, contracts and power generation, offsetting decline in landfill
  - 51% of profits from recovering value in waste
  - Three acquisitions since year-end
  - Greater Manchester PFI on track – 37 out of 42 facilities now operational
  - Preferred bidder for South Lanarkshire
  - Energy from Waste roll-out on track:
    - Runcorn phases I and II on schedule
    - Exeter contract signed and detailed design under way
    - Legal challenge for Ardley EfW successfully resolved and Oxford PPP Notice to Proceed issued
    - Cardiff Engineering Procurement Construction contract negotiations under way

"I am pleased to report another successful half year for the Group" said Ken Harvey, Chairman. "South West Water continues its very strong operational performance and is well placed to outperform the assumptions for the current K5 regulatory period. Viridor continues to grow and its long-term profit momentum is underpinned by its developing pipeline of major Energy from Waste and PPP projects. I am delighted to say that Pennon Group has invested a further £100m in key infrastructure which supports the development of the UK economy."

GROUP OVERVIEW

- Revenue up by 8.3% to £642.6m.
- Operating profit up by 7.4% to £143.1m.
- Net interest payable down by 4.6% to £37.2m.
- Profit before tax up 11.6% to £107.4m.
- Underlying earnings per share up by 11.9% to 23.5p. Basic earnings per share increased from 24.7p to 26.1p.
- Group capital investment up 41% to £99.9m.
- Investment in joint ventures of £4.2m (H1 2010/11 – £7.2m).
- Net borrowings £1,930m, a decrease of £4m since 31 March 2011. Gearing (1) was 72% (H1 2010/11 – 74%).
- The Group has substantial cash resources and committed facilities to fund future investment - well placed in current financial market conditions.
- South West Water net debt to RCV was 58% (31 March 2011 – 57%).
- Net interest cover (2) was 3.7 times (H1 2010/11 – 3.4 times).
- Average debt maturity 22 years.

(1) Net borrowings to (shareholders' funds plus net borrowings).

(2) Excluding pensions net interest, IFRIC 12 contract interest receivable and discount unwind on provisions.

DIVIDEND

The interim dividend of 8.22p per share represents an increase of 9.6% for the half year, in line with the previously announced policy to grow the Group dividend by 4% above inflation per annum up to the end of 2014/15.

The dividend will be paid on 3 April 2012 to shareholders on the register on 3 February 2012. 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 12 March 2012.

SOUTH WEST WATER

South West Water has continued its excellent start to K5 with very strong operational delivery, providing high standards of customer service, coupled with a strong financial performance.

Financial Highlights

Revenues rose 5.8% to £244.3m as a result of tariff increases and new connections offset by an overall reduction in demand and the effects of customers switching to a metered tariff. Approved tariff increases, including the 3.4% K factor, amounted to £19.1m. Customers switching from unmeasured to metered charging reduced revenue by £3.7m, but 3,137 new customer connections contributed £1.4m of additional revenue. Customer demand has fallen by 2.3% on the same period last year, with general economic conditions impacting industrial and commercial customer demand. 72.5% of South West Water's domestic customers are now metered.

South West Water's operating profit increased by £7.5m (7.5%) to £107.9m. Operating costs, including depreciation and restructuring costs, increased from £130.5m to £136.4m.

Good operational cost control has been achieved in a high inflation environment with general cost increases of £3.4m being below the 5.1% average inflation for the period and offset by £3.4m of efficiency savings. Other cost drivers were:

- costs from new capital schemes of £3.7m (including £1.6m of depreciation and additional asset maintenance costs of £2.1m relating to the increased emphasis on maintenance in the investment programme);
- new legislative commitments for the adoption of Private Sewers of £1.5m;
- higher bad debt charges of £1.0m reflecting the difficult economic environment; and
- lower property sales in the half year of £1.2m; partially offset by
- a £1.5m reduction in restructuring costs.

South West Water's programme of organisational restructuring continues with £0.9m (H1 2010/11 - £2.4m) incurred on restructuring in the first half of 2011/12. It is expected that a further £1.6m will be provided in the second half of 2011/12.

The net interest charge of £31.7m was £1.5m above the first half of 2010/11, primarily as a result of higher expected November RPI on index-linked facilities.

Profit before tax rose by 8.5% to £76.2m.

Capital investment in the half year was up 26% to £50.9m compared with £40.3m in the first half of last year. The focus for the capital programme is weighted towards asset maintenance schemes, increasing the resilience of the company's infrastructure and improving water quality. Major investments include construction of a new borehole, significant improvements to three water treatment works and a programme of waste water works improvements.

South West Water achieved a consistent 'stable serviceability' rating (as defined by Ofwat) for its operating asset base.

Efficiency

South West Water is on track to deliver the 2.8%[(1)] per annum required operating cost efficiency over K5. South West Water has maintained an accelerated pace of delivery in H1 2011/12, resulting in a front end loaded efficiency equivalent to 5.4%[(2)] per annum. Cumulative efficiencies of £11.8m have been delivered to date in K5 (£3.4m H1 2011/12). Efficiency delivery is being achieved through South West Water's improvement programmes including:

- operational ways of working (PUROS[(3)]);
- energy procurement and usage, with energy prices for K5 fixed at rates favourable to the Final Determination;
- rationalising administration and support services; and
- right-sourcing and innovative contracting.

South West Water continues to deliver capital projects in line with Ofwat, Drinking Water Inspectorate and Environment Agency expectations. Expenditure for the K5 period to date is favourable compared with the Capital Incentive Scheme (CIS) baseline[(4)] and is targeted to achieve 5% outperformance of the Final Determination[(5)] K5 capital programme.

(1) average over K5 (2010 – 2015)

(2) annual equivalent rate based on first 18 months of K5

(3) PUROS – Phased Utilisation of Remote Operating Systems

(4) based on current published Construction Output Price Index (COPI)

(5) using 2009 Final Determination estimates of COPI

Operational Highlights

South West Water's company-wide 'Pure Water, Pure Service, Pure Environment' strategy is the cornerstone of the company's operations, with the top priorities being to improve customer service and deliver operational efficiencies.

Pure Water

South West Water has successfully managed its water resources to enable a continued secure supply of water for the region. 2011 was the 15th consecutive summer with no water restrictions. Further comprehensive strategies are being implemented over the winter months to support and maintain the security of future water supplies. Park and Stannon Lakes, both operational in 2011, represent a significant addition to water resources in Cornwall and further increase the robustness of the company's water supply system. Additionally South West Water is constructing its first new borehole in 18 years.

The company has maintained its exemplary industry leading performance in meeting its 2010/11 leakage target, as it has done every year since targets were introduced.

A significant proportion of the company's capital programme is focused on drinking water quality to enable the near perfect compliance rate of 99.97% achieved during the 2010 calendar year to be maintained. Investments made in the first half of 2011/12 include process developments at water treatment works to improve filtration and further water mains replacements.

Pure Service

South West Water's emphasis on excellent service is delivering tangible improvements for customers and is reflected in reducing levels of contacts and customer complaints. South West Water is driving higher levels of customer satisfaction including increasing 'self-service' offerings to customers such as online account management and 'Water Live', a new service which keeps customers informed about the progress of operational incidents. The company is achieving improvements in the Ofwat Service Improvement Mechanism (SIM) scores, which are used to monitor the consumer experience, with its highest ever satisfaction score. Customer complaints have continued to fall since March 2011, with a 22% reduction in the average number of written complaints compared with the same period last year.

The cost of bad debts marginally increased in the period, reflecting the challenging economic climate. South West Water has a number of schemes in place to assist vulnerable customers. Targeted collections initiatives are being supported by debt advice.

South West Water is also committed to delivering excellent service to its c.70,000 business customers and has launched 'Source for Business', a new and enhanced range of tailored water, sewerage and environmental services for businesses. Many of these services will be available to customers outside the South West Water region.

In response to Government's commitment to fund a cut in the customer bills in the region, South West Water continues to work closely with Government and its regulators to examine the practicality of all options to aid customers.

Pure Environment

The 2011 bathing season ended with best ever bathing water results with 137 out of 144 (95.1%) achieving European 'guideline' standard (excellent status) performance. 142 (98.6%) achieved European 'good' standard (mandatory status) compared with 139 (96.5%) in the 2010 bathing season.

South West Water is committed to delivering sustainable environmental improvements, focusing on the South West's bathing waters:

- 'Beach Live', a trial website set up to give beach users real-time information about bathing water quality, was successfully launched this summer.
- efforts to uncover the often hidden causes of pollution are ongoing. With assistance from the Environment Agency, South West Water has successfully traced and corrected a significant number of properties that had been incorrectly connected or not connected to the sewerage system.

Work continues on the innovative industry-leading programme of work called 'Upstream Thinking' to improve raw water quality in a sustainable way. South West Water is working on six major catchment management projects, including a significant programme on the main moor sources on Exmoor and a pilot project on Dartmoor, to re-establish the wetlands that naturally cleanse water thereby improving water quality in rivers and reservoirs. With the help of farmers and landowners work is under way across the region to identify necessary investment projects that will protect rivers and watercourses from pollution and erosion, with the largest projects targeted around the company's biggest reservoirs – Roadford and Wimbleball.

The transfer of private sewers and lateral drains to South West Water's responsibility and ownership on 1 October 2011 followed nearly a year of intensive preparation:

- the transfer has resulted in an estimated increase of over 50% in the company's existing 9,300km base sewer network.

- estimated costs of the transfer are:
    - set-up expenditure reflecting system developments and sewer mapping c.£2m, of which £1.5m was incurred in the half year;
    - ongoing operational expenditure, for example, sewer blockage removals of £2m-£5m per annum dependent on activity levels;
    - ongoing maintenance of the asset base, for example, sewer repairs of £4m-£6m per annum dependent on activity levels; and
    - Infrastructure improvements, for example, specific housing estates transferred which are not constructed to appropriate standards needing investment of up to £44m dependent on the condition of assets transferred.

- current costs and operational activities are in line with expected levels.

Private pumping stations are expected to be transferred by 1 October 2016. There are estimated to be in the order of 900 in South West Water's region. The above costs include an estimate for this.

Shareholders are expected to receive appropriate returns for K5 private sewers expenditure, provided that the money is spent efficiently, through the regulatory IDoK (Interim Determination of K) mechanism.

The assets transferred on 1 October 2011 will be accounted for on a consistent basis with that used for other adoptions under IFRIC 18, and are not expected to have a material impact on balance sheet net assets. Future capital investment in these assets will grow the Regulatory Capital Value, consistent with other regulatory capital expenditure.

South West Water Outlook

The company has already delivered efficiencies ahead of the target profile and will continue to focus on delivering further efficiency whilst satisfying its regulatory requirements and improving services to its customers.

Growth in Regulatory Capital Value is expected to continue to exceed growth in net borrowings over the K5 period.

VIRIDOR

Viridor's strategy is to grow and add value by

- proactively developing new recycling operations to meet ambitious EU/UK targets
- successfully exploiting the huge potential in waste-based renewable energy generation
- capitalising on its strong position in landfill waste disposal.

At the beginning of this year two factors were highlighted concerning Viridor: firstly, that for the next two years Viridor's profits are expected to be driven primarily by recycling, and secondly, that Viridor's Energy from Waste (EfW) pipeline (operations commencing 2013/14 onwards) could more than double Viridor's EBITDA in five years time. Profits in H1 2011/12 continued to increase driven by further progress in recycling, contracts and power generation, partially offset by a decline in landfill. Construction is well under way on the Runcorn I and II EfWs (due to complete in March 2013 and mid 2014 respectively); contracts have been signed for the Exeter EfW and detailed design work is under way with a view to commencing on site early in the New Year; the Notice to Proceed for the Ardley (Oxfordshire PPP) EfW and the construction programme will commence shortly following the favourable resolution of the legal challenge; and Viridor expects to finalise the Engineering Procurement Construction (EPC) contract for the Cardiff EfW in the next few months.

Financial Highlights

Revenue was up 9.9% to £399.2m, of which the acquisition of Storm Recycling in H1 2011/12, and the full-year effect of the five 2010/11 acquisitions, accounted for £19.6m. Existing business revenue increased by £16.5m (including an increase in landfill tax collected of £6.7m). Export sales were £36.1m (H1 2010/11 - £29.4m).

Viridor's earnings before interest, tax, depreciation and amortisation (EBITDA) rose £2.8m to £58.4m. PBIT increased by £1.8m to £35.2m. Interest receivable on shareholder loans and share of profit after tax on the joint venture projects, Lakeside and Viridor Laing Greater Manchester, decreased slightly by £0.2m, reflecting full half year depreciation for Lakeside in H1 2011/12. PBIT plus joint ventures taking account of the above increased 4.2% to £40.0m. Profit before tax at £30.6m was up 7.0%.

Within the half year, financial performance in the second quarter was less strong than in the first quarter, reflecting deteriorating world economic and tough trading conditions.

Capital investment for the half year was £49.0m (H1 2010/11 - £30.5m) including £32.3m on the Runcorn II EfW. In addition, £4.2m was invested in joint ventures (H1 2010/11 - £7.2m).

Operational Highlights

UK context

The UK is required under the EU Landfill Directive to reduce the amount of biodegradable municipal waste going to landfill sites. This is being achieved by a major increase in recycling, with residual waste increasingly being used for energy recovery. The latter is a significant source of energy already accounting for 1.5% of total UK electricity production: Viridor has called on the Government to set a target of 6% of electricity to come from waste sources by 2015.

The Government's main mechanism for diverting waste from landfill and incentivising recycling and Energy from Waste facilities is landfill tax. The Chancellor's Budget announcement of March 2011 reconfirmed the continuation of the increase in landfill tax of £8 a year from £56 per tonne currently to £80 per tonne from 1 April 2014. This increase will enhance further the long-term economics of recycling and energy recovery. In addition, recyclate costs are typically significantly lower than the cost of using virgin materials for manufacturers.

Viridor's clearly stated strategy is to expand in recycling and waste based renewable energy whilst exploiting its existing landfill void. 51% of Viridor's profits are now derived from recovering value in waste, either by recycling or renewable energy generation.

Recycling

Overall recycling revenue per tonne in H1 2011/12 was up 16% to £125. Recycling volumes traded increased by 53,000 tonnes (6%) to 913,000 tonnes, with an improved mix. Higher value recyclates increased by 122,000 tonnes, mainly due to acquisitions whilst lower value recyclates fell 69,000 tonnes. Revenue per tonne may ease back in the second half of the year reflecting world economic conditions. Profit per tonne remains appreciably higher in recycling than in landfill.

Viridor now has the largest Materials Recycling Facilities (MRFs) capacity in the UK. To feed its recycling and renewable energy plants Viridor relies on both its own and third party collection services.

In June 2011 Viridor acquired Storm Recycling Limited, a family owned cardboard and plastics recycling business with associated collection based in Cheshire, for £1.7m. It has an annual volume of around 20,000 tonnes of recyclate.

In October 2011 Viridor acquired Veolia's trade waste collection interests in Cornwall and North Devon for £0.6m.

The above acquisitions are in line with Viridor's strategy of expanding its waste management activities, particularly in the recycling sector, and have significant operational synergies with Viridor's key strategic hubs in the UK and also provide additional recyclate volumes for Viridor's national and international trading network. The acquisitions were made on a debt-free basis and are expected to be earnings enhancing in their first full year.

Renewable Energy

Energy can be recovered from waste in two ways, either via gas (notably landfill gas and anaerobic digestion) or combustion (in EfW plants and similar facilities, some of which may be a part of Combined Heat and Power (CHP) schemes). Energy recovery from waste currently accounts for around 25% of total UK renewable energy (20% from landfill gas and 5% from combustion). This 25% equates to 1.5% of total UK electricity production (from both renewable and non-renewable sources).

Viridor's landfill gas power generation remained at last year's H1 level of 280 Gigawatt hours (GWh) as it now approaches peak output. Average revenues per Megawatt hour (MWh) increased by 15% to £80 per MWh from £69 per MWh in H1 2010/11. Total landfill gas power generation operational capacity decreased by 2MW during the half year to 106MW due to reductions on Somerset sub-contract sites. The proportion of operational capacity eligible for ROCs increased from 69% to 71%, with the remaining 29% being on NFFO contracts. Viridor's NFFO contracts end in tranches, after which the capacity for all Viridor's sites will transfer to ROCs (about 60% will move across in 2013/14 with the balance in the period up to 2016/17).

As well as the 106MW of landfill gas capacity Viridor has an interest in the following operational renewable power facilities:

- The Lakeside EfW joint venture plant with Grundon Waste Management at Colnbrook near Heathrow which treats 410,000 tonnes of waste per annum and has a capacity of 37MW.

- The Greater Manchester Waste PFI contract’s existing Bolton EfW facility (120,000 tonnes per annum, 9MW).

- Greater Manchester’s first two Mechanical and Biological Treatment (MBT) plants with Anaerobic Digestion (AD) facilities at Reliance Street and Longley Lane. The 2MW plants became operational in the first half of this year and each treat 50,000 tonnes per annum.

In addition to the above operational projects, Viridor is pursuing a number of other renewable energy opportunities:

- Both phases of the 750,000 tonnes, 120MW Runcorn/Ineos Chlor EfW/CHP plant are under construction. Runcorn I is due to be completed in March 2013 and Runcorn II in mid 2014.

- Detailed design for the 60,000 tonnes, 3MW Exeter EfW plant commenced in October and Viridor expects to be on site early in the New Year; construction is due to be completed in July 2014.

- In November 2011 the Notice to Proceed was issued for the 300,000 tonnes, 24MW EfW plant at Ardley, near Oxford, with the legal challenge having been successfully resolved. The construction programme will commence shortly.

- Planning permission has also been achieved for the 350,000 tonnes, 28MW EfW plant at Trident Park, Cardiff. Viridor is in the final stages of negotiation of the required EPC contract. Construction is anticipated to commence in 2012.

- In April 2011 a planning appeal was successful, with costs awarded, for a 350,000 tonnes, 28MW EfW at Avonmouth. The Secretary of State's decision to grant planning permission for the site is currently subject to challenge.

- In December 2010 a planning appeal was successful for a 300,000 tonnes, 40MW EfW/CHP plant at Dunbar, near Edinburgh.

- Two further AD plants are proposed for Greater Manchester, and planning permission has also been obtained for a further AD plant at Walpole (Somerset) with a contract agreed with Somerset County Council.

Viridor's total operational renewable energy capacity is currently 135MW with around a further 115MW (electricity plus heat) committed but not operational (these figures include joint venture capacity on a pro-rata basis). Viridor is targeting total renewable energy capacity of over 300MW in five years' time.

PPPs/PFIs

The 25 year Greater Manchester Waste PFI contract through Viridor Laing (Greater Manchester) Limited (VLGM) is the UK's largest ever combined waste and renewable energy project. VLGM is a joint venture between Viridor and John Laing Infrastructure. Operation of the associated facilities (both existing facilities and those which are to be developed) is being carried out on a sub-contract basis by Viridor. As of 30 September 2011, 37 of the 42 facilities had been completed and handed over to Viridor to operate. The client, Greater Manchester Waste Disposal Authority, has reported 99.7% customer satisfaction with the Household Waste Recycling Centres (HWRCs).

As reported previously, solid recovered fuel produced from the waste will be used to generate heat and power at a plant being built at Runcorn in Cheshire. Phase I is being built primarily for the Greater Manchester Waste PFI contract and Phase II will be available for the market generally, as steeply rising landfill tax drives residual waste disposal away from landfill towards EfW.

As well as the Greater Manchester project, Viridor is currently operating PPP/PFI projects for the South London Waste Partnership, Somerset, and West Sussex. Detailed design is under way for the Exeter EfW plant and Viridor is due to start construction of the EfW required for the Oxfordshire PPP contract shortly (Notice to Proceed issued in November 2011).

In addition to the above contracts, Viridor continues to bid selectively for other PPP projects. Viridor is preferred bidder for South Lanarkshire (subject to challenge); provisional preferred bidder for Cheshire; one of the last two for the Glasgow, South London Waste Partnership, Peterborough (EfW and MRF), West Lothian and South East Wales (Prosiect Gwyrdd) projects; and one of the last three for the Heads of the Valleys project. Most of these contracts include Combined Heat and Power enabled renewable energy plants and recycling opportunities.

Contracts

Profits in “Contracts & Other” were well ahead with significant contributions from Greater Manchester and Lakeside, local authority volumes and other PFI/PPP contracts. Other municipal contracts and sludge contracts were also ahead.

In November 2011 Viridor acquired JWS Churngold Limited which provides transport and logistics solutions to the Lancashire Waste PFI for £14.25m. The acquisition is expected to be earnings enhancing in its first full year.

Joint Ventures

Joint ventures’ contribution, consisting of interest on shareholders loans and share of profit after tax, fell slightly to £4.8m from £5.0m. Sub-contract profit relating to joint venture contracts was up £0.5m and is included within the contracts segment.

Interest receivable on shareholder loans from the Lakeside joint venture was £0.6m, down £0.7m due to partial repayment of shareholder loans. Share of profit after tax from Lakeside was £1.2m, down £0.5m reflecting full half year depreciation in the period.

Interest receivable on shareholder loans from the Viridor Laing Greater Manchester joint venture was £2.7m, up £0.9m due to increased shareholder loans. Share of profit after tax from Viridor Laing Greater Manchester was £0.3m, up £0.1m.

As noted above, there has been a very high level of customer satisfaction at the Greater Manchester HWRCs. In addition, the Lakeside project has won the 2011 Chartered Institute of Wastes Management’s “Peel People’s Cup” for the best run facility in the UK, and the “Energy from Waste Facility of the Year” and “Best Designed Renewable Energy Facility” categories in the UK Renewable Infrastructure Awards 2011.

Landfill

Viridor's strategy is based on expanding recycling and renewable energy activities as landfill declines in line with Government policies. Viridor's landfill disposal volumes decreased by 0.2m tonnes (9%) to 1.7m tonnes in the half year. The reduction was primarily a result of the closure of the landfill site at Horton (0.1m tonnes) and increased recycling and landfill diversion by third party industrial and commercial customers. The weak UK economy was also a factor. Average gate fees increased by 4.9% to £22.83 per tonne. Consented landfill void reduced from 69 million cubic metres (mcm) at 31 March 2011 to 67mcm at 30 September 2011, reflecting usage during the period.

Outlook for Viridor

Viridor has successfully transformed itself over the last ten years from predominantly a landfill operator to being one of the country's leading recycling, renewable energy and waste management companies. Recycling is now the company's largest profit generator and will be key in the next two years. Viridor is not immune to the difficult conditions in the world economy which may have an impact on results in the shorter-term. EfW/PPP projects already contribute to the bottom line, and a healthy pipeline is expected to underpin the profit momentum of the company longer-term as the plants come on stream from 2013/14 onwards.

GROUP FINANCIAL POSITION

The Group funding strategy utilises a mix of fixed, floating and index-linked rate borrowings. A substantial portion of debt is finance leasing which provides a long maturity profile and secured credit margins.

The Group has fixed or put in place swaps to fix the interest rate on at least 50% of South West Water's net debt for the entire K5 period. The average rate achieved on the fixed rate debt is circa 3.3%. In addition, £368m of South West Water's debt is index-linked at an overall real rate of 1.66%. As set out below, the Group has substantial pre-funding to support future capital investment, notwithstanding volatile market conditions. The Group's average interest rate is impacted by the cost of carry of pre-funding, with interest rates on cash deposits currently at very low levels. SWW's average rate of 4.2% for the six months comprises debt interest of 3.7% and pre-funding costs of 0.5%. South West Water's and Pennon Group Plc's average interest rates for the half year to 30 September 2011 were 4.2% and 4.0% respectively.

The Group had a strong liquidity and funding position as at 30 September 2011 and is well placed in current financial market conditions:

- cash balances of £510m (SWW £222m), including £107m restricted cash
- undrawn facilities of £408m

During the six months to 30 September 2011 the following finance initiatives were implemented:

- £251m of new and renewed facilities including:
  - £65m EIB facility committed for SWW (first tranche of a £125m facility)
  - £15m new finance lease
- £100m further swaps to fix SWW debt

The fair value benefit (ie the difference between the principal value and fair value) of Group debt has reduced by £63m over the last six months to £226m at 30 September 2011. The Group's average debt maturity is 22 years.

PENSIONS

The Group's defined benefit pension schemes had a deficit (net of deferred tax) under IAS 19 at 30 September 2011 of circa £80m (£108m gross).

The net deficit represents less than 4% of current market capitalisation.

Schemes' assets reduced from £454m at 31 March 2011 to £442m at 30 September 2011, reflecting investment volatility, and schemes' liabilities increased from £540m to £550m over the same period.

South West Water's pension cash contributions continue to be within the Final Determination for the K5 period.

TAXATION

The mainstream corporation tax charge for the half year was £23.4m (2010/11 – £22.2m) giving a mainstream effective current tax rate of 22% (2010/11 – 23%).

Deferred tax for the half year was a credit of £9.3m (2010/11 credit – £13.1m) which included a credit of £12.8m from the impact of the reduction in the rate of corporation tax from April 2012.

PRINCIPAL RISKS AND UNCERTAINTIES

In accordance with DTR 4.2.7 of the Disclosure and Transparency Rules the principal risks and uncertainties for the remaining six months of the financial year of the Group remain as set out on pages 24 to 27 inclusive of the Group's 2011 Annual Report and Accounts, namely:

- changes in law, regulation or decisions by governmental bodies or regulators could have a material adverse effect on financial results or operations;
- economic and tough trading conditions could materially affect the Group's revenues and profitability;
- access to finance and funding costs may be adversely affected by perceived credit rating and by prolonged periods of market volatility or liquidity. The Group is subject to limitations and restrictive obligations in respect of borrowing and debt arrangements;
- poor operating performance or a failure of, or interruption to, operating systems or the inability to carry out network operations or damage to infrastructure may have a material adverse impact on both the Group's financial position and reputation;
- the failure or increased costs of capital projects or acquisitions or joint ventures not achieving predicted revenues or performance could have a material adverse effect on both the Group's financial position and reputation;
- a reduced customer base, increased competition affecting prices or reduced demand for services could have a material adverse impact on the Group's financial position; and
- information technology and business continuity systems and processes may fail which may cause material disruption to the Group's businesses and could have a material adverse impact on both the Group's financial position and reputation.

Further details of these principal risks and uncertainties and the mitigating actions of the Group can be viewed on or downloaded from the Group's website, pennon-group.co.uk/investor/reports or obtained from the Group Company Secretary at the Company's registered office.

STRATEGY AND PROSPECTS

The Pennon Board's priority continues to be the creation of shareholder value through its strategic focus on water and sewerage services; recycling, renewable energy and waste management.

South West Water's continued outstanding operational delivery is on track to outperform the K5 regulatory contract. Viridor is successfully leading the way in exploiting opportunities arising from the Government's landfill diversion, recycling and renewable energy targets – 51% of its profits already come from recovering value in waste. Its recycling business is key to profits in the next two years. Major EfW planning successes and its strong PPP pipeline underpin its expected long-term profit momentum from 2013/14 onwards.

Ken Harvey
Chairman
23 November 2011

FINANCIAL TIMETABLE FOR THE YEAR ENDED 31 MARCH 2012

1 February 2012	Ordinary shares quoted ex-dividend
3 February 2012	Record date for interim cash dividend
Mid-February 2012	Interim Management Statement
20 February 2012	Posting of Scrip dividend offer
12 March 2012	Final date for receipt of Forms of Election
3 April 2012	Interim cash dividend payment date
29 May 2012	2011/12 Preliminary Results
Late June 2012	Annual Report & accounts published
26 July 2012 *	Annual General Meeting
August 2012	Interim Management Statement
8 August 2012 *	Ordinary shares quoted ex-dividend
10 August 2012 *	Record date for final cash dividend
17 September 2012 *	Scrip election date for final dividend
5 October 2012 *	Final cash dividend payment date

* These dates are provisional and, in the case of the final dividend, subject to obtaining shareholder approval at the 2012 Annual General Meeting.

CAUTIONARY STATEMENT IN RESPECT OF FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements relating to the Pennon Group’s operations, performance and financial position based on current expectations of, and assumptions and forecasts made by, Pennon Group management. Words such as "anticipates", "aims", “believes", “continue”, "could", "due", "estimates“, "expects", "goal", “intends", "may", “plans", “project”, “seeks”, "should", "targets", “will” and related and similar expressions, as well as statements in the future tense, identify forward – looking statements in this Report. 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.

UNSOLICITED COMMUNICATIONS WITH SHAREHOLDERS

A number of companies, including Pennon Group Plc, continue to be aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters which imply a connection to the company concerned. These are typically from overseas based ‘brokers’ who target UK shareholders offering to buy their shares. Shareholders are advised to be wary of any unsolicited advice, offers to buy shares or offers of free reports into the Company. Details of any share dealing facilities that the Company endorses will be included in Company mailings.

PENNON GROUP PLC

Consolidated income statement for the half year ended 30 September 2011

	Note	**Unaudited** Half year ended 30 September 2011 £m	Unaudited Half year ended 30 September 2010 £m	Year ended 31 March 2011 £m
Revenue	5	**642.6**	593.2	1,159.2
Operating costs				
Manpower costs		**(77.8)**	(73.9)	(148.3)
Raw materials and consumables used		**(72.8)**	(39.5)	(121.6)
Other operating expenses		**(275.3)**	(275.6)	(486.7)
Depreciation and amortisation		**(73.6)**	(70.9)	(141.7)
Operating profit	5	**143.1**	133.3	260.9
Finance income	6	**91.5**	21.9	45.1
Finance costs	6	**(128.7)**	(60.9)	(121.8)
Net finance costs	6	**(37.2)**	(39.0)	(76.7)
Share of post-tax profit from joint ventures		**1.5**	1.9	4.3
Profit before tax	5	**107.4**	96.2	188.5
Taxation	7	**(14.1)**	(9.1)	(16.9)
Profit for the period		**93.3**	87.1	171.6
Profit attributable to equity shareholders		**93.3**	87.1	171.6
Earnings per share (pence per share)	8			
- Basic		**26.1**	24.7	48.4
- Diluted		**25.9**	24.5	48.1

The notes on pages 29 to 38 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of comprehensive income for the half year ended 30 September 2011

	Unaudited		
	Half year ended 30 September 2011 £m	Half year ended 30 September 2010 £m	Year ended 31 March 2011 £m
Profit for the period	**93.3**	87.1	171.6
Other comprehensive loss			
Actuarial (losses)/gains on defined benefit pension schemes	**(26.3)**	(5.9)	2.4
Cash flow hedges			
Net fair value losses	**(29.9)**	(21.9)	(0.1)
Share of other comprehensive loss from joint ventures	**(2.9)**	(1.9)	(3.0)
Tax on items taken directly to or transferred from equity	**10.7**	6.8	(3.3)
Other comprehensive loss for the period net of tax	**(48.4)**	(22.9)	(4.0)
Total comprehensive income for the period	**44.9**	64.2	167.6
Total comprehensive income attributable to equity shareholders	**44.9**	64.2	167.6

The notes on pages 29 to 38 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated balance sheet at 30 September 2011

	Note	Unaudited **30 September 2011 £m**	Unaudited 30 September 2010 (Restated note 4) £m	31 March 2011 (Restated note 4) £m
ASSETS				
Non-current assets				
Goodwill		**301.5**	276.2	300.0
Other intangible assets		**4.1**	4.8	4.4
Property, plant and equipment		**2,952.7**	2,840.5	2,920.5
Other non-current assets		**112.4**	88.0	116.0
Financial assets at fair value through profit		**-**	-	2.6
Derivative financial instruments		**19.3**	-	-
Investments in joint ventures		**0.1**	0.2	1.5
		3,390.1	3,209.7	3,345.0
Current assets				
Inventories		**7.0**	6.6	7.3
Trade and other receivables		**254.4**	232.9	219.0
Financial assets at fair value through profit		**-**	-	0.9
Derivative financial instruments		**5.4**	3.7	6.9
Cash and cash deposits	12	**510.1**	539.5	555.5
		776.9	782.7	789.6
LIABILITIES				
Current liabilities				
Borrowings	12	**(49.6)**	(77.8)	(99.2)
Financial liabilities at fair value through profit		**(0.6)**	-	-
Derivative financial instruments		**(13.2)**	(1.2)	(5.3)
Trade and other payables		**(311.7)**	(254.0)	(249.1)
Current tax liabilities		**(69.9)**	(85.7)	(79.7)
Provisions		**(23.8)**	(21.8)	(23.4)
		(468.8)	(440.5)	(456.7)
Net current assets		**308.1**	342.2	332.9
Non-current liabilities				
Borrowings	12	**(2,390.4)**	(2,338.7)	(2,390.1)
Other non-current liabilities		**(39.7)**	(19.8)	(33.0)
Financial liabilities at fair value through profit		**(19.3)**	-	-
Derivative financial instruments		**(34.2)**	(38.0)	(16.3)
Retirement benefit obligations		**(108.5)**	(115.1)	(85.8)
Deferred tax liabilities		**(272.5)**	(290.4)	(292.5)
Provisions		**(75.5)**	(77.1)	(80.7)
		(2,940.1)	(2,879.1)	(2,898.4)
Net assets		**758.1**	672.8	779.5
Shareholders' equity				
Share capital	10	**147.3**	145.9	147.0
Share premium account		**8.9**	10.3	9.2
Capital redemption reserve		**144.2**	144.2	144.2
Retained earnings and other reserves		**457.7**	372.4	479.1
Total shareholders' equity		**758.1**	672.8	779.5

The notes on pages 29 to 38 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of changes in equity

	Share capital (note 10) £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Total equity £m
					Unaudited
At 1 April 2010	145.3	10.9	144.2	362.5	662.9
Profit for the period	-	-	-	87.1	87.1
Other comprehensive loss for the period	-	-	-	(22.9)	(22.9)
Total comprehensive income for the period	-	-	-	64.2	64.2
Transactions with equity shareholders					
Dividends paid or approved	-	-	-	(79.6)	(79.6)
Adjustment for shares issued or to be issued under the scrip dividend alternative	0.6	(0.6)	-	22.8	22.8
Adjustment in respect of share-based payments	-	-	-	1.2	1.2
Proceeds from treasury shares re-issued	-	-	-	1.3	1.3
	0.6	(0.6)	-	(54.3)	(54.3)
At 30 September 2010	145.9	10.3	144.2	372.4	672.8

	Share capital (note 10) £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Total equity £m
					Unaudited
At 1 April 2011	147.0	9.2	144.2	479.1	779.5
Profit for the period	-	-	-	93.3	93.3
Other comprehensive loss for the period	-	-	-	(48.4)	(48.4)
Total comprehensive income for the period	-	-	-	44.9	44.9
Transactions with equity shareholders					
Dividends paid or approved	-	-	-	(88.2)	(88.2)
Adjustment for shares issued or to be issued under the scrip dividend alternative	0.3	(0.3)	-	19.1	19.1
Adjustment in respect of share-based payments	-	-	-	1.5	1.5
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	-	(0.3)	(0.3)
Proceeds from treasury shares re-issued	-	-	-	1.6	1.6
	0.3	(0.3)	-	(66.3)	(66.3)
At 30 September 2011	**147.3**	**8.9**	**144.2**	**457.7**	**758.1**

The notes on pages 29 to 38 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of cash flows for the half year ended 30 September 2011

	Note	**Unaudited** Half year ended 30 September 2011 £m	Unaudited Half year ended 30 September 2010 £m	Year ended 31 March 2011 £m
Cash flows from operating activities				
Cash generated from operations	11	**176.5**	187.8	376.2
Interest paid		**(42.4)**	(43.5)	(78.2)
Tax paid		**(23.2)**	(20.4)	(43.2)
Net cash generated from operating activities		**110.9**	123.9	254.8
Cash flows from investing activities				
Interest received		**9.9**	6.4	14.4
Acquisition of subsidiary undertakings (net of cash and debt acquired)		**(1.5)**	(5.3)	(25.1)
Loans advanced to joint ventures		**(4.2)**	(7.2)	(12.5)
Loan repayments received from joint ventures		**3.6**	-	3.5
Purchase of property, plant and equipment		**(94.8)**	(71.1)	(190.3)
Proceeds from sale of property, plant and equipment		**1.5**	2.6	4.7
Net cash used in investing activities		**(85.5)**	(74.6)	(205.3)
Cash flows from financing activities				
Proceeds from treasury shares re-issued		**1.6**	1.3	1.6
Return/(deposit) of restricted funds		**15.7**	5.4	(30.8)
Purchase of ordinary shares by the Pennon Employee Share Trust		**(0.3)**	-	-
Proceeds from new borrowing		**25.0**	132.0	187.0
Repayment of borrowings		**(65.0)**	(98.9)	(104.6)
Finance lease sale and leaseback		**15.0**	-	-
Finance lease principal repayments		**(7.4)**	(13.3)	(20.5)
Dividends paid		**(21.6)**	(17.5)	(56.8)
Net cash (used in)/received from financing activities		**(37.0)**	9.0	(24.1)
Net (decrease)/increase in cash and cash equivalents		**(11.6)**	58.3	25.4
Cash and cash equivalents at beginning of period	12	**414.9**	389.5	389.5
Cash and cash equivalents at end of period	12	**403.3**	447.8	414.9

The notes on pages 29 to 38 form part of this condensed half year financial information.

Notes to the condensed half year financial information

1. General information

Pennon Group Plc is a company registered in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 38. 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 recycling, renewable energy and waste management.

This condensed half year financial information was approved by the Board of Directors on 23 November 2011.

The financial information for the year ended 31 March 2011 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 22 June 2011 and have been delivered to the Registrar of Companies. The independent auditors' report on these financial statements was unqualified, and did not contain a statement under section 498 of the Companies Act 2006.

2. Basis of preparation

This condensed half year financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 "Interim financial reporting" as adopted by the European Union (EU). This condensed half year financial information should be read in conjunction with the Pennon Group Plc Annual Report and Accounts for the year ended 31 March 2011, which were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

The going concern basis has been adopted in preparing this condensed half year financial information.

This condensed half year financial information has 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

The accounting policies adopted in this condensed half year financial information are consistent with those applied and set out in the Pennon Group Plc Annual Report and Accounts for the year ended 31 March 2011 and are also in accordance with all IFRSs and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) expected to be applicable for the year ended 31 March 2012 in issue which have been adopted by the European Union.

The tax charge for September 2011 and September 2010 has been derived by applying the anticipated effective annual rate to the first half year profit before tax.

The following revised standards, amended standard and interpretations, which are mandatory for the first time in the financial year beginning 1 April 2011, are relevant for the Group, but have had no material impact.

IFRS 1 "First-time adoption of IFRS" (revised)
IAS 24 "Related party disclosures" (revised)
Improvements to IFRSs 2010
IFRIC 14 "Prepayments of a minimum funding requirement" (amendment)
IFRIC 19 "Extinguishing financial liabilities with equity instruments"

4. Acquisitions and restatements

At 30 September 2010 and 31 March 2011 the accounting for the acquisitions of Oakley Waste Management (renamed Viridor Waste (Corby) Limited) and Basecall Limited from Reconomy (Acquisition) Limited was provisional. At 31 March 2011 the accounting for the acquisition of Pearsons Group Holdings Limited was also provisional. Completion of the accounting for these acquisitions has resulted in an increase to goodwill of £7.6m, a decrease in property, plant and equipment of £7.0m, a decrease in inventories of £0.1m, a decrease in trade and other receivables of £1.6m, a decrease in trade and other payables of £9.8m, an increase in other non-current liabilities £2.6m, an increase in current tax liabilities of £0.3m, an increase in provisions of £7.1m and a decrease in deferred tax of £1.3m. Comparative figures at 30 September 2010 and 31 March 2011 have been restated accordingly.

On 6 June 2011 the entire issued share capital of Storm Recycling Limited (renamed Viridor Waste (Winsford) Limited) was acquired by Viridor Waste Management Limited for a cash consideration of £1.7m. The acquisition has been accounted for using the acquisition method. Provisional goodwill arising of £1.5m has been capitalised. The provisional goodwill arising on this acquisition is attributed to the profitability of the acquired business and the anticipated future operating synergies arising from the combination.

Acquisition since 30 September 2011

On 17 November 2011 the entire issued share capital of JWS Churngold Ltd was acquired by Viridor Waste Management Ltd for a cash consideration of £14.3m. The acquisition will be accounted for using the acquisition method in the 2011/12 financial year.

5. Operating segments

Operating segments are reported in a manner consistent with internal reporting provided to the Chief Operating Decision-Maker, which has been identified as the Pennon Group Plc Board.

	Unaudited		
	Half year ended 30 September 2011 £m	Half year ended 30 September 2010 £m	Year ended 31 March 2011 £m
Revenue			
Water and sewerage	**244.3**	230.9	448.8
Waste management	**399.2**	363.1	712.0
Other	**5.1**	5.2	9.5
Less intra-segment trading *	**(6.0)**	(6.0)	(11.1)
	642.6	593.2	1,159.2
Segment result			
Operating profit before depreciation and amortisation (EBITDA)			
Water and sewerage	**158.4**	149.3	286.8
Waste management	**58.4**	55.6	116.5
Other	**(0.1)**	(0.7)	(0.7)
	216.7	204.2	402.6
Operating profit			
Water and sewerage	**107.9**	100.4	189.8
Waste management	**35.2**	33.4	71.6
Other	**-**	(0.5)	(0.5)
	143.1	133.3	260.9
Profit before tax			
Water and sewerage	**76.2**	70.2	128.9
Waste management	**30.6**	28.6	62.9
Other	**0.6**	(2.6)	(3.3)
	107.4	96.2	188.5

* 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.

Geographic analysis of revenue based on location of customers

	Unaudited		
	Half year ended 30 September 2011 £m	Half year ended 30 September 2010 £m	Year ended 31 March 2011 £m
UK	**606.5**	563.8	1,091.8
Rest of European Union	**7.7**	4.8	11.1
China	**25.2**	21.0	49.5
Rest of World	**3.2**	3.6	6.8
	642.6	593.2	1,159.2

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

PENNON GROUP PLC

Notes to the condensed half year financial information (continued)

6. **Net finance costs**

	Unaudited								
	Half year ended 30 September 2011			Half year ended 30 September 2010			Year ended 31 March 2011		
	Finance cost £m	**Finance income £m**	**Total £m**	Finance cost £m	Finance income £m	Total £m	Finance cost £m	Finance income £m	Total £m
Cost of servicing debt									
Bank borrowings and overdrafts	**(26.2)**	**-**	**(26.2)**	(28.3)	-	(28.3)	(55.5)	-	(55.5)
Interest element of finance lease rentals	**(19.4)**	**-**	**(19.4)**	(15.8)	-	(15.8)	(30.6)	-	(30.6)
Other finance costs	**(2.6)**	**-**	**(2.6)**	(0.8)	-	(0.8)	(3.9)	-	(3.9)
Interest receivable	**-**	**2.8**	**2.8**	-	2.6	2.6	-	6.1	6.1
Interest receivable on shareholder loans to joint ventures	**-**	**3.3**	**3.3**	-	3.1	3.1	-	6.7	6.7
	(48.2)	**6.1**	**(42.1)**	(44.9)	5.7	(39.2)	(90.0)	12.8	(77.2)
Other finance income									
Investment income received	**-**	**67.3**	**67.3**	-	-	-	-	-	-
Fair value losses on derivative financial instruments providing commercial hedges	**(63.9)**	**-**	**(63.9)**	-	-	-	-	-	-
	(63.9)	**67.3**	**3.4**	-	-	-	-	-	-
Notional interest									
Interest receivable on service concession arrangements	**-**	**1.5**	**1.5**	-	1.5	1.5	-	2.9	2.9
Retirement benefit obligations	**(14.6)**	**16.6**	**2.0**	(13.9)	14.7	0.8	(27.8)	29.4	1.6
Unwinding of discounts on provisions	**(2.0)**	**-**	**(2.0)**	(2.1)	-	(2.1)	(4.0)	-	(4.0)
	(16.6)	**18.1**	**1.5**	(16.0)	16.2	0.2	(31.8)	32.3	0.5
Finance (costs)/income	**(128.7)**	**91.5**	**(37.2)**	(60.9)	21.9	(39.0)	(121.8)	45.1	(76.7)

Other finance income represents enhanced yields from investment income received on deposits held partially offset by fair value losses on derivative financial instruments which provided commercial hedges against these short-term structured deposits. These transactions commenced and matured during the period.

PENNON GROUP PLC

Notes to the condensed half year financial information (continued)

7. **Taxation**

	Unaudited		
	Half year ended 30 September 2011 £m	Half year ended 30 September 2010 £m	Year ended 31 March 2011 £m
Analysis of charge :			
Current tax	**23.4**	22.2	38.6
Deferred tax – other	**3.5**	(0.8)	3.4
Deferred tax arising on change of rate of corporation tax	**(12.8)**	(12.3)	(25.1)
Total deferred tax credit	**(9.3)**	(13.1)	(21.7)
	14.1	9.1	16.9

UK corporation tax is calculated at 26% (2011 28%) of the estimated assessable profit for the year. The tax charge for September 2011 and September 2010 has been derived by applying the anticipated effective annual tax rate to the first half year profit before tax.

Deferred tax includes a non-recurring credit of £12.8m reflecting the reduction in the rate of UK corporation tax from 26% to 25% effective from 1 April 2012.

The effective tax rate for the period was 13% (2011 9%), excluding deferred tax it was 22% (2011 23%).

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

8. **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 2011	Half year ended 30 September 2010	Year ended 31 March 2011
Number of shares (millions)			
For basic earnings per share	**357.4**	353.0	354.6
Effect of dilutive potential ordinary shares from share options	**2.4**	2.3	2.0
For diluted earnings per share	**359.8**	355.3	356.6

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Notes to the condensed half year financial information (continued)

8. **Basic and diluted earnings per share (continued)**

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 2011			Half year ended 30 September 2010			Year ended 31 March 2011		
	Profit after tax £m	**Earnings per share Basic p**	**Earnings per share Diluted p**	Profit after tax £m	Earnings per share Basic p	Earnings per share Diluted p	Profit after tax £m	Earnings per share Basic p	Earnings per share Diluted p
Statutory earnings per share	**93.3**	**26.1**	**25.9**	87.1	24.7	24.5	171.6	48.4	48.1
Deferred tax	**(9.3)**	**(2.6)**	**(2.6)**	(13.1)	(3.7)	(3.7)	(21.7)	(6.1)	(6.1)
Underlying earnings per share	**84.0**	**23.5**	**23.3**	74.0	21.0	20.8	149.9	42.3	42.0

Notes to the condensed half year financial information (continued)

9. Dividends

Amounts recognised as distributions to equity holders in the period :

	Unaudited		
	Half year ended 30 September 2011 £m	Half year ended 30 September 2010 £m	Year ended 31 March 2011 £m
Interim dividend paid for the year ended 31 March 2011 : 7.50p (2010 6.95p) per share	**26.8**	24.5	24.5
Final dividend approved for the year ended 31 March 2011 : 17.15p (2010 15.60p) per share	**61.4**	55.1	55.1
	88.2	79.6	79.6

Proposed interim dividend

	Unaudited		
	Half year ended 30 September 2011 £m	Half year ended 30 September 2010 £m	Year ended 31 March 2011 £m
Proposed interim dividend for the year ended 31 March 2012 : 8.22p (2011 7.50p) per share	**29.6**	26.8	26.8

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

The interim dividend of 8.22p per share will be paid on 3 April 2012 to shareholders on the register on 3 February 2012.

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Notes to the condensed half year financial information (continued)

10. **Share capital**

Allotted, called up and fully paid

1 April 2010 to 30 September 2010	Number of shares		
	Treasury shares	Ordinary shares	£m
At 1 April 2010 Ordinary shares of 40.7p each	5,092,574	352,058,253	145.3
Shares issued under the scrip dividend alternative	-	1,440,813	0.6
Shares re-issued under the Company's Performance and Co-investment Plan	(328,240)	328,240	-
For consideration of £1.3m, shares re-issued under the Company's Sharesave Scheme	(390,168)	390,168	-
At 30 September 2010 ordinary shares of 40.7p each	4,374,166	354,217,474	145.9

1 April 2011 to 30 September 2011	Number of shares		
	Treasury shares	Ordinary shares	£m
At 1 April 2011 Ordinary shares of 40.7p each	4,309,567	356,970,298	147.0
Shares issued under the scrip dividend alternative	-	824,749	0.3
Shares re-issued under the Company's Performance and Co-investment Plan	(246,793)	246,793	-
For consideration of £0.3m, shares re-issued to the Pennon Employee Share Trust	(44,667)	44,667	-
For consideration of £1.3m, shares re-issued under the Company's Sharesave Scheme	(332,466)	332,466	-
At 30 September 2011 ordinary shares of 40.7p each	**3,685,641**	**358,418,973**	**147.3**

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

The weighted average market price of the Company's shares at the date of exercise of Sharesave Scheme options during the half year was 650p (2011 577p).

Notes to the condensed half year financial information (continued)

11. Cash flow from operating activities

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

	Unaudited		
	Half year ended 30 September 2011	Half year ended 30 September 2010	Year ended 31 March 2011
Cash generated from operations	**£m**	£m	£m
Profit for the period	**93.3**	87.1	171.6
Adjustments for:			
Share-based payments	**1.5**	1.2	3.4
Profit on disposal of property, plant and equipment	**(1.0)**	(1.6)	(2.3)
Depreciation charge	**73.2**	70.6	141.0
Amortisation of intangible assets	**0.4**	0.3	0.7
Share of post-tax profit from joint ventures	**(1.5)**	(1.9)	(4.3)
Finance income	**(91.5)**	(21.9)	(45.1)
Finance costs	**128.7**	60.9	121.8
Taxation charge	**14.1**	9.1	16.9
Changes in working capital *(excluding the effect of acquisition of subsidiaries) :*			
Decrease/(increase) in inventories	**0.3**	(0.1)	(0.6)
Increase in trade and other receivables	**(30.7)**	(19.3)	(25.5)
(Decrease)/increase in trade and other payables	**(2.0)**	8.5	30.3
(Decrease)/Increase in retirement benefit obligations	**(1.6)**	2.1	(18.1)
Decrease in provisions	**(6.7)**	(7.2)	(13.6)
Cash generated from operations	**176.5**	187.8	376.2

12. Net borrowings

	Unaudited		
	Half year ended 30 September 2011 £m	Half year ended 30 September 2010 £m	Year ended 31 March 2011 £m
Cash and cash deposits	**510.1**	539.5	555.5
Borrowings – current			
Bank overdrafts	**-**	(5.4)	(18.1)
Other current borrowings	**(21.1)**	(52.6)	(56.4)
Finance lease obligations	**(28.5)**	(19.8)	(24.7)
Total current borrowings	**(49.6)**	(77.8)	(99.2)
Borrowings – non-current			
Bank and other loans	**(959.0)**	(879.7)	(948.4)
Other non-current borrowings	**(237.5)**	(258.5)	(252.5)
Finance lease obligations	**(1,193.9)**	(1,200.5)	(1,189.2)
Total non-current borrowings	**(2,390.4)**	(2,338.7)	(2,390.1)
Total net borrowings	**(1,929.9)**	(1,877.0)	(1,933.8)

Bank overdrafts at the balance sheet dates arise from the timing of the payment of unpresented cheques.

12. Net borrowings (continued)

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

	Unaudited		
	Half year ended 30 September 2011 £m	Half year ended 30 September 2010 £m	Year ended 31 March 2011 £m
Cash and cash deposits as above	**510.1**	539.5	555.5
Bank overdrafts as above	**-**	(5.4)	(18.1)
	510.1	534.1	537.4
Less : deposits with a maturity of three months or more (restricted funds)	**(106.8)**	(86.3)	(122.5)
	403.3	447.8	414.9

13. Capital expenditure

	Unaudited		
	Half year ended 30 September 2011 £m	Half year ended 30 September 2010 £m	Year ended 31 March 2011 £m
Property, plant and equipment			
Additions	**99.9**	70.9	199.0
Net book value of disposals	**0.5**	1.0	2.4
Capital commitments			
Contracted but not provided	**189.8**	76.9	218.3
Share of commitment contracted but not provided by joint ventures	**-**	130.4	-

14. Contingent liabilities

There have been no material changes to the Group's contingent liabilities since 31 March 2011.

15. 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, for which disclosures were made in the Pennon Group Plc Annual Report and Accounts for the year ended 31 March 2011. There was no material change in transactions with Lakeside Energy from Waste Holdings Limited 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 £41.6m (2010 £42.3m) and amounts receivable at 30 September 2011 were £35.7m (2010 £26.8m).

Pennon Group Plc
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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 this unaudited condensed half year financial information has been prepared in accordance with IAS 34 "Interim financial reporting" as adopted by the European Union and to the best of their knowledge the interim management report herein includes a fair review of the information required by DTR 4.2.7 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 information; a description of the principal risks and uncertainties for the remaining six months of the current financial year; and the disclosure requirements in respect of material related party transactions.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

The Directors of Pennon Group Plc are listed on pages 36 and 37 of the Annual Report and Accounts of the Company for the year ended 31 March 2011 and there have been no changes since that date.

For and on behalf of the Board of Directors

K G Harvey	D J Dupont
Chairman	Group Director of Finance

23 November 2011

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 information in the half-yearly financial report for the six months ended 30 September 2011, which comprises the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated statement of changes in equity, the Consolidated statement of changes in cash flows and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial information.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial 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 information included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial information in the half-yearly 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 half year financial information in the half-yearly financial report for the six months ended 30 September 2011 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
23 November 2011
Bristol