

24 November 2020

Half Year Results 2020/21 for the period ended 30 September 2020

*Bringing water to life
Supporting the lives of people and the places they love for generations to
come*

Susan Davy, Pennon Chief Executive, commented:

"I am delighted to be leading the business at this important time in Pennon's history. The completion of the Viridor sale in July this year has seen significant shareholder value realised, allowing us to refocus our business on excellence in the water and wastewater sector. It is an incredibly exciting time for the Group as we forge ahead with our 'New Deal' plans for the K7 2020-25 period.

We will deliver our New Deal by being even closer to the people we serve, understanding people's needs, demonstrating the positive impacts we're making, and above all else, doing the right thing. We are promoting social mobility, addressing racial and gender inequality, and providing secure jobs across our regions.

This starts with our new WaterShare+ scheme, in which one in 16 of our household customers are now shareholders in the business helping us to create a new kind of water company, closer to the customers and communities we serve. Environmental considerations continue to be at the heart of our decision making, and we are focused on delivering on our commitments.

Pennon has delivered resilient operational and financial performance through the first half of 2020/21, making good progress in the new K7 regulatory period and against the backdrop of COVID-19. I'd like to recognise the exceptional commitment and resilience of all our people during this time. Since taking on the role of CEO I have spent time out and about on our sites and have been humbled by their dedication and professionalism that has allowed us to continue to deliver for customers, communities and the environment."

Reshaping the Group

- Successful sale of Viridor
 - £1.7 billion profit on disposal following sale of Viridor: £3.7 billion net cash proceeds received
 - Debt rightsizing progressing well with c.£0.75 billion repaid to date
 - £36 million contribution to Pennon's principal pension scheme
 - £2.7 billion headroom for investment
- Focused on UK Water
 - Sector leading dividend policy – growth of CPIH +2%, underpinned by our sustainable strategy with expectations for continued outperformance

A new deal for K7 – changing the nature of our relationship with customers, communities and people

- Driving operational excellence for customers in H1 2020/21
 - Continued improvements in key customer measures with period on period reductions in supply interruptions (down 51%), improvements to water quality (taste and odour complaints down 18%) and written complaints (down 5%)
 - Maintaining excellent bathing water quality – 99.3% meeting the quality standard
 - Catchment and biodiversity gains through improvements on 14,000 hectares of land
 - Delivering against our commitments for K7 with 80% already on target or in reward. Key focus on improving pollutions performance.
- Nurturing talent with 500 apprenticeships planned over the next 5 years and we are an early adopter of the Government's Kickstart scheme
- Creating a diverse and inclusive place to thrive. We are in the top quartile for the Hampton Alexander review, our gender pay gap is significantly below the national average and have become a signatory to Change the Race:Ratio taking action to increase racial and ethnic participation in our business
- Delivered our ground breaking innovative WaterShare+ scheme giving customers a stake and a say
 - c.£20 million of outperformance from 2015-20 shared with customers through unique WaterShare+ scheme
 - One in 16 household customers opted to receive shares, more than tripling the number of Pennon shareholders, demonstrating significant customer ownership for a listed company

Financial and operational performance throughout COVID-19 remains robust

- Resilient COVID-19 operations – limited financial impact
- Cash collections for South West Water and Pennon Water Services remain robust
- No requirement for the use of regulatory or market support mechanisms

- 21,000 additional customers added to South West Water's dedicated COVID-19 priority services register

Resilient financial results following K7 revenue reset

- Results in line with management expectations
- WaterShare RORE¹ of c.8.0% driven by strong totex[^] and financing outperformance
 - £34 million totex efficiency delivered to date, maintaining momentum over K7
 - 2.5% average effective interest rate[^], significantly below Ofwat's 4.2% notional cost of debt
- £86.7 million Continuing Group underlying profit before tax[^] (H1 2019/20 £101.4 million²)
- 17.9p underlying earnings per share[^] for the Continuing Group (H1 2019/20 20.1p²)

PENNON BUSINESS REVIEW

Continuing to deliver for our customers and communities through the ongoing COVID-19 pandemic

The COVID-19 pandemic has presented the water industry with an unprecedented test of what it means to be sustainable and resilient. With our responsibility for critical infrastructure providing essential services to customers and communities, maintaining our focus on delivering outstanding services, safely, has never been so important. We are proud that our ongoing commitment to do the right thing, in the right way, has continued to deliver sustainable results.

We rapidly adapted to the operational and financial challenges presented by COVID-19 and we are well placed to weather the ongoing situation arising from the global pandemic. Our focus remains on delivering for all stakeholders and making a positive contribution in the communities we serve. We will continue to identify and support those who are most in need of help.

In order to meet our commitments, we are advancing expenditure including delivering two bathing water quality improvements and earlier than planned upgrades in our network to reduce leakage.

Reshaping the Group – focused on UK water

2020 has been a landmark year for Pennon Group. On 8 July we completed the sale of Viridor to KKR³ for an enterprise value of £4.2 billion, with net cash proceeds of £3.7 billion received. The sale recognised the strategic value developed over many years, realising significant value for Pennon shareholders.

¹ Annual equivalent Return on Regulated Equity (RORE)

[^] Measures with this symbol [^] are defined in the Alternative Performance Measures (APMs) as outlined on pages 65 to 68

² The comparatives for the half year ended 30 September 2019 have been restated to show the performance of the Continuing Group in accordance with IFRS 5: *Non-current assets held for sale and discontinued operations*

³ Kohlberg, Kravis and Roberts and Co. L.P (KKR)

Following the disposal, we committed to right-sizing our debt portfolio at the Pennon company level, which is well underway with c.£0.75 billion repaid to date, and we have also contributed an additional £36.0 million to Pennon's principal pension scheme.

The Group is now focused on its sector leading water and wastewater businesses, with our environmental, social and governance (ESG) commitments at the heart of all we do.

Creating value for shareholders and customers

We believe there is significant value potential for shareholders from the reinvestment of the Viridor sale proceeds in the UK water sector. The Group has significant funds available of £2.7 billion and we are working extensively to narrow down the potential opportunities. At this stage we are continuing to assess whether any opportunities are executable and can deliver attractive financial returns.

As we demonstrated with our acquisition of Bournemouth Water in 2015, value from any potential opportunity would be driven by our ability to deliver totex outperformance, financial efficiencies, synergies and growth.

The Board's highly disciplined approach to assessing all opportunities considers a range of factors including earnings accretion, value creation from the impact on shareholder returns (both income and growth), and the impact on customers and other stakeholders.

All opportunities are benchmarked against a return of capital to shareholders. If a compelling value creating opportunity is not available, capital will be returned to shareholders.

Our vision and purpose

The changing shape and leadership of the Group presented an appropriate point at which to refresh our vision and purpose. Our new vision and purpose demonstrate our ongoing focus on the UK water sector, and reflects our deep understanding that water forms the lifeblood of communities.

Our vision is 'Bringing water to life' and our purpose is 'Supporting the lives of people and the places they love for generations to come'.

Our vision and purpose guide us in every aspect of our operation, ensuring that we are focused on making a positive impact by doing the right things, in the right way, and ultimately delivering for our customers, the environment and shareholders.

Living our core values, operating in the public interest

We understand that water companies play a unique role in providing a vital service for the public good. Our core values have been embedded within our organisation over many years and underpin our everyday operations from how we work with each other to how we deliver exceptional results for all stakeholders:

- **Trusted** – we do the right thing for our customers and stakeholders
- **Responsible** – we keep our promises to our customers, communities and each other
- **Collaborative** – we forge strong relationships, working together to make a positive impact
- **Progressive** – we are always looking for new ways to improve and make life better.

A strong performance base – delivering on our plans

Pennon is focused on its sector leading water and wastewater businesses operating in the attractive long-term UK water market. Delivery of South West Water's 2020-25 (K7) business plan is well underway following the fast start afforded by the award of fast-track status, and we continue to lead the sector with voluntary sharing of outperformance⁴. Driven by a strong performance in totex and financing, we have delivered a RORE of c.8.0% for H1 2020/21, doubling base returns⁵.

- **Totex** – £34 million efficiency recognised to date, with the momentum of savings in K7 comparable to those in K6, driven by innovative and efficient solutions. One third has been delivered through operating cost efficiency with the remaining two thirds through capital investment saving
- **Financing** – 2.5% effective interest rate[^] is significantly below Ofwat's 4.2% allowed nominal cost of debt, reflecting locked-in efficiencies
- **ODIs**⁶ – 80% of our ODIs are on track or ahead of target, and we are targeting improvements in all areas.

Pennon Water Services continues to increase its customer base in the highly competitive retail market, winning new contracts through its differentiated customer service proposition. The business is well positioned for the future, through its ongoing focus on targeting a high quality, sustainable customer base, supported by its exceptional service offering and deep customer knowledge.

Dividend policy

The Board has evaluated the Group's dividend for H1 2020/21 in light of the COVID-19 pandemic and has concluded that it is appropriate for Pennon to continue to deliver on its dividend commitment.

⁴ South West Water has committed to share outperformance on the cost of embedded debt with customers

⁵ K7 base returns – 3.9%

⁶ Outcome Delivery Incentives

The Group has significant cash and liquidity of c.£3.5 billion, has not received any Government support measures and has delivered on its WaterShare+ commitment, sharing £20 million of outperformance with customers. c.60% of Pennon's shareholders are UK based pension funds, charities, employees, customers and other retail holders who rely on this income. In addition, one in 16 household customers opted to become Pennon shareholders through WaterShare+, marking significant customer ownership for a listed utility and more than tripling the number of Pennon shareholders.

Pennon announced its new sector leading dividend policy at the full year 2019/20 results in June 2020, based on the Continuing Group post the sale of Viridor, with growth of CPIH +2%. The dividend policy is underpinned by our sustainable earnings and growth strategy with expectations for continued outperformance in K7, supporting sustainable dividend growth and cover.

For H1 2020/21 the Board has declared an interim dividend of 6.77p for the Continuing Group. The interim dividend will be paid on 1 April 2021 to shareholders on the register on 29 January 2021. Pennon offers shareholders the opportunity to invest their dividend in a Dividend Reinvestment Plan (DRIP).

FINANCIAL HIGHLIGHTS

Underlying[^]	H1 2020/21	H1 2019/20 (restated ⁷)	Change
Revenue	£319.7m	£325.8m	(1.9%)
EBITDA [^]	£174.5m	£191.5m	(8.9%)
Operating profit	£114.8m	£132.0m	(13.0%)
Profit before tax (PBT)	£86.7m	£101.4m	(14.5%)
Non-underlying items before tax ⁸	(£24.8m)	£18.0m	-
Profit before tax	£61.9m	£119.4m	(48.2%)
Tax	(£11.5m)	(£25.5m)	+54.9%
Discontinued operations	£1,720.0m	£39.6m	-
Profit for the period	£1,770.4m	£133.5m	-
Earnings per share			
- Adjusted EPS - continuing operations	17.9p	20.1p	(10.9%)
- Statutory EPS - continuing and discontinued operations	420.9p	30.1p	+1,298.3%
Dividend per share ⁹	6.77p	13.66p	N/A

[^] Measures with this symbol [^] are defined in the Alternative Performance Measures (APMs) as outlined on pages 65 to 68

⁷ As noted above, the comparatives for the half year ended 30 September 2019 have been restated to show the performance of the Continuing Group in accordance with IFRS 5: *Non-current assets held for sale and discontinued operations*

⁸ Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of financial performance

⁹ The CPIH rate used is 0.7% as of 30 September 2020

Continuing Group

Following the sale of Viridor, the Continuing Group is focused on its water and wastewater businesses of South West Water and Pennon Water Services. The comparatives for the half year ended 30 September 2019 have been restated to show the performance of the Continuing Group in accordance with IFRS 5: *Non-current assets held for sale and discontinued operations*.

Despite the challenges posed by COVID-19, the performance of the business has been resilient, and the results are in line with management expectations.

The results of the Continuing Group compared to H1 2019/20 reflect:

- Underlying revenue down marginally, from £325.8 million to £319.7 million due to the impact of the K7 revenue reset, a reduction in water usage and other services by non-household customers as a result of the COVID-19 lockdown, partially offset by high household demand and contract wins for Pennon Water Services
- EBITDA lower at £174.5 million from £191.5 million reflecting the K7 revenue reset and the impact of COVID-19, including reduced developer activity during lockdown
- £2.5 million reduction in financing costs arising primarily from lower swap rates through K7
- Profit before tax of £86.7 million (H1 2019/20 £101.4 million)
- £20.5 million non-underlying reduction in revenue reflecting the sharing of our success with customers through the pioneering Watershare+ scheme
- The Group's principal defined benefit pension scheme will be closed to future accrual¹⁰ resulting in non-underlying charge of £4.3 million
- Continuing Group underlying earnings per share down 10.9% to 17.9p
- Sector leading dividend growth with dividend per share up 2.7% to 6.77p¹¹

A full reconciliation of the statutory reported results is included in Item (i) in the Alternative Performance Measures on pages 65 to 68 of this announcement.

Viridor Disposal

- Sale of Viridor completed on 8 July 2020 – £4.2 billion¹² enterprise value
- £3.7 billion net cash proceeds received on completion
- £1.7 billion profit from discontinued operations for the period to 30 September 2020, including gain on disposal of £1,729.3 million and non-underlying cost items of £57.4 million associated with the disposal and subsequent debt retirement costs
- Tax exemption on sale proceeds through Substantial Shareholding Exemption

¹⁰ Agreement was reached in H1 2020/21 to close the scheme to future accrual from July 2021

¹¹ 6.59p of the interim dividend for H1 2019/20 of 13.66p relates to the Continuing Group based on the proportionate value of the Continuing Group to the total group including Viridor

¹² Includes £0.5 billion debt and debt-like items transferred with Viridor

- Debt right-sizing well progressed with c.£0.75 billion repaid to date of the c.£0.9 billion of debt originally drawn by Pennon to fund Viridor's investment strategy
- £36.0 million contribution into the Group's principal pension scheme
- £2.7 billion of available cash resources following the disposal and retirement of certain Group borrowings
- Statutory earnings per share from the combined Continuing Group and discontinued operations of 420.9p resulting from significant gain on disposal of Viridor.

Presentation of results

A presentation of these results hosted by Susan Davy, Chief Executive Officer and Paul Boote, Group Finance Director, will be available on our website www.pennon-group.co.uk/investor-information at 08.00am BST, today 24 November 2020.

We will be hosting a live Q&A session from 09:00am via conference call. Details are included below:

United Kingdom (Toll Free)	0800 640 6441
United Kingdom (Local):	020 3936 2999
Access code	933993

For further information, please contact:

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Final dividend payment information

28 January 2021	Ordinary shares quoted ex-dividend
29 January 2021	Record date for final dividend
8 March 2021	Final date for receipt of DRIP applications
1 April 2021	Final dividend payment date

Upcoming events

30 March 2021	Trading Statement
3 June 2021	Full Year Results 2020/21
22 July 2021	Annual General Meeting
28 September 2021	Trading Statement
30 November 2021	Half Year Results 2021/22

CHIEF EXECUTIVE'S REVIEW

2020 has been a landmark year for Pennon following completion of the sale of Viridor in July, with the Group now solely focused on its core water and wastewater businesses.

With a renewed focus on excellence in the water and wastewater sector, this is an incredibly exciting time for the Group as we forge ahead with our 'New Deal' plans for the next 2020-25 period. We have set ourselves ambitious targets and are confident we can build on past achievements to deliver for our customers and stakeholders, further cementing our leadership within UK water, while working in ever more innovative and sustainable ways.

A New Deal for K7 – changing the nature of our relationship with customers, the environment, and our employees

Our New Deal business plan (2020-25) is about empowering customers – offering them a greater stake and a say in the business. The plan, informed by our most extensive engagement programme to date, sets out our ambitious priorities and our commitment to delivering outstanding service for customers, the environment and our employees. Our fast-tracked status has given us a head start in delivering our comprehensive capital investment programme, which includes our biggest environmental programme for 15 years. We have also successfully commenced operations on the Isles of Scilly following the expansion of South West Water's licence, with essential investments already underway. Work is underway to deliver improvements including projects to increase the resilience of water supplies in the Plymouth area, critical telemetry and IT infrastructure and the advanced planning of two new water treatment works in the Bournemouth water region.

WaterShare+

A key feature of the New Deal is WaterShare+, a pioneering scheme sharing our success with customers, and empowering them with a stake and a say in the business. c.£20 million of outperformance from 2015-20 has now been shared with customers, equating to £20 per customer. Customers were invited to choose how they would like to receive their £20 – as either a credit on their bill, or as shares in Pennon Group. We were delighted with the positive response to this trailblazing initiative, with one in 16 household customers opting to become Pennon Group shareholders. WaterShare+ has more than tripled the number of Pennon shareholders, representing significant customer ownership for a listed company, and marking an important milestone on our journey to create a new kind of water company, closer to the customers and communities we serve.

As well as sharing success, WaterShare+ gives customers a greater say in what South West Water does and how the company is run. From January 2021 a series of meetings of the WaterShare+ Advisory Panel – South West Water's independent customer champions – will be held in public every three months. The meetings will be independently chaired by Lord Matthew Taylor of Goss Moor, at

which customers can hold the company to account on progress against its plans. In addition, customers will have the opportunity to attend a dedicated Customer Annual General Meeting.

Our environmental, social and governance commitments are front and centre of what we do

We are committed to providing even greater transparency on ESG matters going forwards. Our ESG framework is aligned with the UN Sustainable Development Goals and centred around making a positive impact globally and locally.

Built around our ESG framework, our sustainability strategy helps us to focus on the positive impact we can have on the communities we serve, and on the natural environment on which we rely. Our strategy supports the creation of value – financial, social and environmental – for our shareholders and other stakeholders. A clear, strategic and long-term approach to sustainability enhances our business performance, strengthens our resilience and is an integral element of our risk management processes.

Protecting the environment, natural capital stewardship

We are committed to protecting the diverse natural habitat in which we operate for the benefit of generations to come.

- Driving the green economy – Pennon is proud to have been awarded the LSE Green Economy mark awarded to companies seen to be driving the green economy, deriving over 50% or more of their revenues from environmental solutions
- South West Water is targeting net zero carbon by 2030 and is working with colleagues across the sector to develop a Net Zero Roadmap for the water industry
- Enhancing biodiversity across the region – South West Water has been driving improvements through innovative catchment management initiatives since 2005, improving over 650km of rivers and over 70,000 hectares of land over K6, with ambitious targets for K7.

Good governance enabling investment, innovation, and sustainable growth

Our business model is designed to deliver sustainable shareholder value by providing high-quality environmental infrastructure and customer service.

- We embody a transparent corporate structure with strong governance processes in place, with disciplined decision making driven from Board level throughout the whole organisation – this transparency is a cornerstone of the constructive relationships we maintain with our regulators
- Our pioneering Sustainable Financing Framework has raised c.£900m to date and the Group continues to find a range of products to meet our sustainable financing goals. Ensuring

sustainability is embedded at the heart of the business leaves Pennon well placed to meet future challenges whilst continuing to deliver essential services to customers

- Pennon was the first water and environmental infrastructure Group to achieve the Fair Tax Mark accreditation, demonstrating our contribution to society through a responsible approach to tax
- c.60% of Pennon's shareholders are UK based pension and savings funds, charities, individuals and employees, with a recent significant increase in customer representation on Pennon's share register through WaterShare+.

Supporting lives and businesses

We provide positive investment and support for our communities through a combination of services and our supply chain, along with sponsorship, partnerships and donation programmes, education and outreach, and employee volunteering.

- We are proud to be a Social Mobility Pledge signatory – this represents a powerful shift towards being a truly purpose-led organisation, committed to social mobility
- We are committed to addressing water poverty in our region by 2025, and our bills are now lower than they were 10 years ago
- As the largest employer in the region we provide high quality employment, promoting diversity and development.

Talented people doing great things for customers and each other

Protecting employees

Our HomeSafe programme, designed to deliver improvements in our safety performance, represents a clear, focused approach to how we keep all of our employees safe. A core element of the programme is supporting the mental health of our people with c.1,800 employees having completed mental health training and we have expanded our mental health first aider programme across the business. All of our employees are provided 24/7 access to our employee assistance programme providing free, confidential support including debt management, emotional support, legal advice and personal coaching.

Nurturing talent

We are focused on providing quality careers to the people living in our communities. Over the next 5 years, we will deliver our ambitious plan to create 500 new apprenticeships and our new graduate programme launches in 2021, focused on managerial and engineering disciplines. Additionally, we are proud to be an early adopter of the Government's Kickstart initiative, and have committed to providing 50 placements for young people aged between 16-24.

Since H1 2019/20, we have welcomed over 150 new employees to the Group as we have sought to insource certain activities to bolster our incident response capabilities, as well as enhancing our digital technology resilience. This brings the total number of employees across the Group to almost 2,000.

A diverse and inclusive place to thrive

Building a sustainable, agile, diverse and engaged workforce is central to Pennon's success. We are pleased to have been recognised as a top quartile company in the Hampton Alexander review and our gender pay gap at 4.3%¹³ remains significantly below the national average of just over 18%. We are also the first water company to become a signatory of the 'Change the Race Ratio', helping society to advance ethnic diversity at all levels.

Operational Delivery

Delivering outstanding services for customers and communities

K7 has reset the performance measurement for customer service, with SIM replaced by C-Mex (Customer measure of experience) and D-Mex (Developer measure of experience).

C-Mex performance is drawn from a sample survey of all customers' experience, including those who have not had any direct contact with the company. These surveys are conducted quarterly and based on the first two quarters, South West Water customers who have had direct contact with us rank our relative service twice as high as those who have not contacted us.

In addition to improving our direct customer service by simpler account management, enhancing our digital 'MyAccount' offering and improving our response and resolution rates, we are also focusing on changing our relationship with our customers and communities, of which our Watershare+ engagement plans are the first step toward this.

South West Water's D-Mex performance is currently above the median position in Ofwat's comparator group¹⁴, reflecting our strong proactive engagement with developers. We have re-structured our teams to focus on providing excellent service to our developers, with a key account manager for our larger customers. We have also undertaken successful developer engagement, hosting virtual events on key developments within the market including introducing a standard Code for Adoption.

¹³ Gender pay gap for the Continuing Group

¹⁴ Based on quarter 1 performance

Reducing customer complaints

Our focus is on the priorities that matter most to our customers, delivering tailored solutions which resolve issues first time and creating more meaningful connections. This includes reducing average wait times on our billing helplines, speeding up visible leak repairs and introducing a case management approach where customers have issues which need to be resolved. As a result, written complaints have reduced by 5% in H1 2020/21 compared to the prior period, with a cumulative reduction since H1 2015/16 of 58%.

Providing support to vulnerable customers

In response to COVID-19, South West Water was one of the first companies to proactively expand our priority services register so that those who may have been shielding or isolating were identified. As a result, an additional 21,000 customers were added to ensure priority services would be maintained in the event of an outage. During the first lockdown, our WaterCare advisors have completed over 2,700 virtual home visits realising c.£1 million of financial support as a result of our innovative affordability and WaterCare+ programme supporting customers to ensure they are receiving all eligible benefits.

South West Water also continues to expand its customer tool kit with a 17% increase in customers now benefitting from our social tariff compared to the prior period. Cumulatively since H1 2015/16, the number of customers on our social tariff has increased by 76%. Over 28,000 customers now receive support through reduced tariffs, with more than 36,500 customers supported through one or more of our affordability schemes.

Digital improvements for customers

Digital improvements have been made to website functionality to give customers the choice of how to engage with us in a way and a time that is convenient to them. Improvements to the website include increased self-service options, improved navigation and increased webchat availability to provide customers with help and support, quickly. As a result, 42% of customers now use our digital platforms and we are targeting continuous improvements in this area.

Driving operational excellence for customers

Our focus remains on ensuring the supply of clean, safe and reliable drinking water whilst protecting the precious natural resources within our region.

Robust water resources

Over the 6 months to 30 September 2020, whilst overall demand has been lower than the prior half year, we have experienced two peaks in demand driven by the hot and dry period in the spring,

coupled with an increase in 'staycations' following the lifting of lockdown restrictions at the beginning of July. Through this period, we have successfully managed our water resources, balancing supply across the network to maintain safe and resilient supplies at all times. As we head into the winter months our reservoir levels remain robust at 74.9%, broadly in line with the prior year.

Reducing customer interruption times

We understand the importance that our customers place on having a reliable supply of drinking water, and the inconvenience that supply interruptions can cause. In H1 2020/21, we achieved our lowest ever level at 2 minutes 57 seconds, a 51% reduction on the H1 2019/20 time of 5 minutes 59 seconds for those customers who have an outage for more than three hours. Since the start of K6 (H1 2015/16) we have delivered a c.65% improvement in the average duration of water supply interruptions.

A key component of our strategy to tackle supply interruptions includes the increased use of network sensors and business intelligence to enable us to better predict and respond to network issues. The strategy is supported by a dedicated team, equipped with a fleet of state of the art rapid response vehicles, our innovative network services alliance and maximising new technology to enable repairs to be undertaken on a pressurised network whilst maintaining customer supplies.

Delivering sustainable leakage solutions

Our customers feel very strongly that we should prevent water from being lost due to leakage, and we continue to invest significantly to prevent and manage leaks on our network. South West Water has met its leakage target every year since they were introduced in 1998 and is on target to reduce leakage by 15% by 2025, with innovative techniques, such as the deployment of acoustic logging technology, helping to identify and fix leaks and bursts quickly. During H1 2020/21, leakage detection has increased by 40% and we are achieving over 10,000 detection hours per month, resulting in the length of time a leak is running reducing by 25%.

Improving water quality for customers

We continue to target improvements in the quality of water for customers and have seen an 18% reduction in taste, odour and colour contacts over H1 2020/21. This continues the momentum of improvement we have seen over K6 with a cumulative 38% reduction since H1 2015/16. During H1 2020/21 our new innovative Mayflower water treatment works serving Plymouth entered operation and we have continued to make improvements across our region, including the completion of new GAC¹⁵ filters at College water treatment works, serving c.35,000 customers around Falmouth in Cornwall, and UV¹⁶ treatment processes at other locations. We continue to target further

¹⁵ GAC - Granular Activated Carbon

¹⁶ UV - Ultraviolet

improvements through our planned K7 c.£100 million investment in new treatment works in the Bournemouth water region along with the introduction of a smarter network.

Protecting the environment

We are committed to investing in biodiversity and stewardship programmes to help boost habitat restoration.

Maintaining excellent quality bathing waters, supporting our region's economy

We recognise the benefit that tourism brings to our region's economy, and the significant role that bathing waters play in this. We also appreciate the positive contribution to health and wellbeing that beaches and rivers provide, which is why we are passionate about protecting and enhancing them. Our bathing water quality investments are currently two years ahead of plan with improvements at Gorran Churchtown, Luxulyan, Seaton and Clennon Valley underway. For 2020 we are forecasting¹⁷ to achieve 99.3% of beaches rated as 'sufficient' (149 out of 150), and 84.7% rated as 'excellent' (127 out of 150). We also continue to work alongside partners across the region to tackle bathing water quality issues in a holistic and sustainable way.

Sector leading catchment management – increasing biodiversity

Our award winning 'Upstream Thinking' programme has driven an increase in the region's biodiversity since 2005, with active catchment management in over 80% of our supply area. At H1 2020/21, we have recognised improvements at c.14,000 hectares in key catchments, improving both water quality and natural capital in our region. By 2025 we aim to have over 120,000 hectares of land under active management, including a focus on sites of special scientific interest.

We have recently introduced a hot washdown facility to clean boating equipment at Roadford lake, our largest reservoir, for use before and after lake-based activities. The wastewater from this facility is contained and passed through filtration to remove invasive non-native species (INNS) material. This is one of the first such facilities introduced in the UK to prevent the spread of INNS.

We are targeting a 10% net gain in biodiversity and in H1 2020/21 we assessed the baseline at 14 new sites in South Devon and Plymouth with management plans established to achieve improvements associated with our environmental obligations.

We have committed to planting c.100,000 trees by 2025, with c.50,000 planted to date, and we continue to work closely in partnership with wildlife charities, national parks and farmers to deliver continued environmental benefits.

¹⁷ 2020 forecast based on internal assessment of available data, but formal classification may not be issued in light of COVID-19

Reliable wastewater services

Reducing flooding incidents

We understand the impact that sewer flooding has on customers, and we continue to do all we can to reduce the likelihood of these events. We have maintained our strong performance period on period, and we are ahead of our commitment in this area. Since H1 2015/16, we have delivered a c.35% reduction in the number of internal flooding incidents and we continue to target improvements across our wastewater networks. To achieve this, we have introduced a range of measures, including enhanced sewer cleansing and monitoring as well as educational campaigns such as 'Love Your Loo', aimed at influencing customer behaviours.

Pollution incidents

Recognising that our performance for category 1-3 pollutions is not where we targeted at this point, we have established a Pollution Incident Reduction Plan, which has renewed focus in this area to drive improvements.

The plan centres on strengthening our round the clock incident response capacity through the introduction of an enhanced 24/7 incident recovery and data centre. We now have a dedicated task force and are rolling out culture training and employee engagement along with using enhanced data modelling to predict and prevent future incidents.

We are committed to delivering a step change in our performance in order to achieve the challenging targets set for K7.

Delivering for shareholders

Return on Regulated Equity (RORE) – doubling base returns

South West Water has performed well in H1 2020/21, with strong performance in totex and financing contributing to a RORE of c.8.0%. This compares well against Ofwat's maximum RORE of 8.5%¹⁸ within the Final Determination.

Totex

The momentum of savings in K7 is comparable to those in K6, with £34 million totex efficiency recognised to date, of which one third is through operating cost efficiencies and the remaining two thirds from capital investment savings. Further efficiencies will be embedded into our everyday way of working through a range of initiatives including:

¹⁸ Final Determination RORE reflected base returns of 3.9%, with performance in the range of -1.2% to +1.2% financing, -0.8% to +1.2% totex and -2.6% to +2.2% ODIs including C-Mex and D-Mex

- Outcome-driven smart design through better monitoring of networks and asset condition, proactively targeting hot spots and using flow monitoring and modelling to reduce the scale of investment required
- Investments will be delivered efficiently, through packaging work for effective delivery, and use of offsite build technique
- Innovation supporting delivery including the use of artificial intelligence and machine learning alongside new technology such as automated CCTV in sewer inspections. South West Water is also trialling the use of I-Phyc's algae-based treatment to sustainably remove phosphorus and micro-pollutants from sewerage. This nature-based approach is beneficial to the environment whilst reducing costs to operate with lower power and chemical consumption required
- Achieving the optimal balance between internal and external resources to deliver the most flexible and cost-efficient delivery route. We have continued to build on our successful relationships with strategic suppliers and during this half year have extended the scope with our key network operational partner, covering both water and wastewater activity. This has increased flexibility and out of hours responsiveness to minimise adverse impacts for customers
- Operational ways of working will be refined across the business optimising activities and efficiency across our water and wastewater sites including centralised control centres and incident management, cross business teams to drive compliance and focusing on water and energy efficiency of our sites
- Reviewing the most efficient level of support and administrative services.

Financing

Our efficient financing strategy continues to drive outperformance with South West Water's effective interest rate[^] at 2.5% (H1 2019/20 3.4%), significantly lower than Ofwat's nominal cost of debt of 4.2%. Over half of the 90 basis point reduction from the prior year is linked to active management of our debt portfolio in the current lower rate environment, whilst the remainder relates to index-linked debt.

Outcome Delivery Incentives

For 2020/21, South West Water is on track to meet or exceed 80% of its ODIs across a broad range of challenging bespoke, common and comparative measures. For those areas not currently on track we have introduced targeted initiatives to deliver improvements in performance. Following the achievement of fast-track status, we accelerated investments to focus on the most stretching targets and we continue to target ODI net rewards over K7.

Overall, ODIs for H1 2020/21 are in small net penalty position (£1.3 million)¹⁹. Bespoke ODIs such as biodiversity, bathing water quality and sewer blockages have delivered £3.5 million net reward. Common ODIs including leakage and water quality have achieved a net £0.1 million reward and comparative ODIs of internal flooding, supply interruptions and pollutions are in a net penalty position of £4.9 million, predominantly as a result of performance on pollution incidents.

RORE	2020/21
Base return	3.9%
Totex performance	2.2%
ODI performance	(0.2%)
Financing performance	2.1%
WaterShare RORE²⁰	8.0%
<i>Ofwat RORE²¹</i>	<i>7.1%</i>

Pennon Water Services – customer growth despite a challenging environment

The largest revenue impact of COVID-19 for the Group in H1 2020/21 has been on businesses and commercial customers. Pennon Water Services has continued to leverage its deep customer knowledge, supporting those customers who find themselves in financial difficulty. We have seen a decline in non-household demand and numerous customers being identified as temporarily vacant within the market. With the easing of restrictions over the summer, billing recommenced and activity towards the end of H1 2020/21 returned to more normal levels.

Pennon Water Services' customer service operations and contact centre has operated effectively through this period and we continue to focus on cash collections, which remain robust. Pennon Water Services has not had to take advantage of any regulatory liquidity support mechanisms to date.

Operating costs continue to reduce through investment in our people, processes and technology, increasing the automation of systems and offering greater self-service to customers.

Pennon Water Services continues to grow its revenue, with its strategy focused on high quality, sustainable customers and during the period has won national customers such as Mars and Smurfit Kappa. New contract wins in H1 2020/21 will deliver c.£15.0 million annualised revenue. This growth has helped mitigate some of the demand reduction due to the pandemic, with a £10.5 million benefit compared with the prior period. Pennon Water Services' market leading customer service, recognised through an excellent Trustpilot score of 4.9/5, continues to be a key differentiator.

¹⁹ H1 2020/21 reflects 50% of full year assumptions

²⁰ WaterShare RORE financing outperformance is based on the outturn effective interest rate on net debt, translated into an effective real interest rate using cumulative K7 forecast RPI/CPIH blended inflation of 2.4%

²¹ Financing outperformance calculated based on full year equivalent forecast blended inflation

Growth platform in place

Broadening the base for South West Water

Earlier this year, we successfully completed our expansion to the Isles of Scilly. Assets have been transferred, key suppliers are in place and our operational teams are already working hard to deliver essential water and wastewater services. Our plans over the next 5 years include significant investment (c.£36 million allowed in the Final Determination) in critical infrastructure and improvements for both customers and the environment, with this investment reflected in South West Water's Regulatory Capital Value (RCV).

Building Back Better

We are passionate about the environment and pleased to support the Government's campaign to Build Back Better through their drive to promote a green recovery. We have been working closely with our regulators and water sector peers over the past few months and have identified the areas in which we believe we can bring forward some of our planned investment in order to benefit customers, the environment and the economy. The focus areas we have identified at a high level are:

- **Sustainable water resources and water quality** – expanding our water resources grid and resilience, supporting the national water resources strategy and accelerating the development of the second water treatment works in the Bournemouth region
- **Healthier places and environment** – catchment management, transforming rivers through piloting inland bathing water improvements, accelerating coastal bathing water investment and proactive investigations informing long-term strategic investment
- **Smarter, healthier homes** – targeting customer side leakage, replacing customers' lead pipes and smart meters helping customers understand how they use water.

We look forward to engaging with Government and our regulators to agree a programme of investment that will further deliver for communities and the environment in addition to our base K7 plan.

Pennon Water Services

With a continued focus on securing sustainable, high quality customers supported by their deep customer knowledge and excellent service, Pennon Water Services continue to grow in the competitive retail market and is well placed for the future.

Pennon Group

With £2.7 billion of available funds, Pennon remains focused on creating value for shareholders and customers and believe there is significant value potential for shareholders from the reinvestment of the Viridor proceeds into UK water.

Our strong operational and financial performance coupled with our track record in creating value through totex outperformance, financial efficiency, synergies and growth provides a solid platform from which Pennon can deliver further growth and value for all shareholders.

Underpinned by our core values and our strong governance which enables investment, innovation and sustainable growth, Pennon is well placed to deliver on its commitments to customers, the environment, and our employees.

GROUP FINANCE DIRECTOR'S REVIEW

Following the sale of Viridor, the Continuing Group comprises South West Water and Pennon Water Services. The comparatives for the half year ended 30 September 2019 have been restated to show the performance of the Continuing Group in accordance with IFRS 5.

The table below provides an overview of the financial performance for the six-month period to 30 September 2020.

Underlying[^]	H1 2020/21	H1 2019/20 (restated)	Change
Revenue	£319.7m	£325.8m	(1.9%)
Operating costs	(£145.2m)	(£134.3m)	(8.1%)
EBITDA [^]	£174.5m	£191.5m	(8.9%)
Depreciation and amortisation	(£59.7m)	(£59.5m)	(0.3%)
Operating profit	£114.8m	£132.0m	(13.0%)
Net interest charge	(£28.1m)	(£30.6m)	+8.2%
Profit before tax	£86.7m	£101.4m	(14.5%)
Non-underlying items before tax ²²	(£24.8m)	£18.0m	-
Profit before tax	£61.9m	£119.4m	(48.2%)
Tax	(£11.5m)	(£25.5m)	+54.9%
Discontinued operations	£1,720.0m	£39.6m	-
Profit for the period	£1,770.4m	£133.5m	-
Adjusted earnings per share			
- Adjusted EPS - continuing operations	17.9p	20.1p	(10.9%)
- Adjusted EPS - continuing and discontinued operations	29.0p	31.1p	(6.8%)
Statutory earnings per share			
- Basic EPS - continuing operations	12.0p	20.7p	(42.0%)
- Basic EPS - continuing and discontinued operations	420.9p	30.1p	+1,298.3%
Dividend per share ²³	6.77p	13.66p	N/A
Capital investment	£73.5m	£77.6m	(5.3%)
- South West Water	£73.3m	£77.6m	(5.5%)
- Other	£0.2m	-	N/A
	30 Sept 2020	31 Mar 2020	
Total Group net cash/(debt)	£37.9m	(£3,264.0m)	

[^] Measures with this symbol [^] are defined in the Alternative Performance Measures (APMs) as outlined on pages 65 to 68

²² Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of financial performance

²³ The CPIH rate used is 0.7% as of 30 September 2020

Profit from discontinued operations

The sale of Viridor is the dominant feature of the results for this period. Profit from discontinued operations for the period to 30 September 2020 was £1,720.0 million including the gain on disposal of £1,729.3 million and non-underlying cost items associated with the disposal of £57.4 million (before tax), including costs associated with the retirement of debt.

The results for discontinued operations include a tax credit of £0.7 million (H1 2019/20 £4.1 million charge) relating to the trading of Viridor up to the point of disposal and subsequent retirement of debt originally drawn to fund Viridor's investment strategy. The gain on the sale of Viridor qualifies for the Substantial Shareholding Exemption and as such is not subject to corporation tax.

Resilient financial performance from the Continuing Group

Despite the challenges posed by COVID-19 the performance of the business has been resilient, and the results are in line with management expectations.

Underlying Continuing Group revenue has reduced by 1.9% (£6.1 million) to £319.7 million (H1 2019/20 £325.8 million). This expected reduction has arisen from the transition to the new K7 regulatory period (£10.5 million) and the impact of COVID-19, offset by the impact of new contract wins for Pennon Water Services outside the South West Water region. These contract wins contributed revenue growth of £10.5 million compared to the same period last year.

The overall revenue impact of COVID-19 is a reduction of £10.7 million, broadly in line with our initial expectations. In South West Water, the net impact on demand has been limited with higher household consumption largely offsetting lower non-household usage and developer services activity recovering from the COVID-19 lockdown and subsequent reduced levels of business activity. For the Group as a whole, there has been an overall reduction in demand as a result of COVID-19 due to the lower levels of non-household usage for Pennon Water Services outside the South West region.

Statutory revenue of £299.2 million reflects the recognition of the £20.5 million Watershare+ credit, as outlined previously.

Underlying operating costs are £145.2 million (H1 2019/20 £134.3m) reflecting inflationary and power price impacts in South West Water and higher wholesale charges in Pennon Water Services from new business won outside of the South West Water region.

Cash collections in both South West Water and Pennon Water Services have remained robust through this half year with expected credit loss charges of £2.0 million (0.7% of revenue) and £0.3 million (0.4% of revenue), respectively, being in line with the prior period. At 30 March 2020 the

Continuing Group recognised a non-underlying charge for expected credit losses in relation to COVID-19 of £7.8 million. The vast majority of the expected credit loss provision that was created from this charge remains in place.

Overall profitability has been resilient with limited financial impact from COVID-19 to date. As expected, Group EBITDA has reduced by 8.9% to £174.5 million (H1 2019/20 £191.5 million), reflecting the revenue impact of the K7 reset alongside the impact of COVID-19 on non-household demand and developer activity.

The overall expectation is for revenue to be weighted towards the first half of the financial year, with demand impacts typically being weighted to the summer months. The impact of the K7 revenue reset will continue, and whilst the impact of COVID-19 is expected to be limited, this is dependent on the extent of the pandemic and on continued government support for both our business and residential customers.

South West Water

Underlying [^]	H1 2020/21	H1 2019/20	Change
Revenue ²⁴	£282.9m	£292.9m	(3.4%)
Operating Costs	(£106.8m)	(£102.3m)	(4.4%)
EBITDA	£176.1m	£190.6m	(7.6%)
Depreciation and amortisation	(£59.3m)	(£59.1m)	(0.3%)
Operating profit	£116.8m	£131.5m	(11.2%)
Net interest charge	(£28.3m)	(£35.3m)	+19.8%
Profit before tax	£88.5m	£96.2m	(8.0%)

South West Water revenue for H1 2020/21 has reduced by 3.4% (£10.0 million) compared with the prior period. This expected reduction has arisen from the transition to the new K7 regulatory period, net of inflationary increases. The overall net impact of COVID-19 for South West Water has been limited due to higher household demand (up by c.5% compared to the same period last year), which has largely offset lower non-household demand (down by c.20% compared to the same period last year) and developer services revenue as a result of reduced construction activity during lockdown and subsequent restrictions.

Operating costs of £106.8 million increased by £4.5 million compared to £102.3 million in H1 2019/20. This increase principally reflects:

[^] Measures with this symbol [^] are defined in the Alternative Performance Measures (APMs) as outlined on pages 65 to 68
²⁴ Includes wholesale revenue for non-household customers

- Cost increases including inflationary impacts of c.£4 million, reflecting annual pay increases, higher power costs, reflecting our risk management policy of fixing electricity prices to mitigate volatility and the impact of higher commodity prices driving treatment costs
- Expansion to the Isles of Scilly has added c.£0.5 million to our operating cost base for the half year
- Other cost increases including the impact of maintaining supplies during peak demand and marginal increased costs for COVID-19 (for example PPE and IT related costs) have been offset by continued efficiency delivery.

Despite the potential future impact of COVID-19, cash collections have remained robust compared to H1 2019/20 with bad debt costs c.0.7% of revenue, ahead of our K7 target.

South West Water's EBITDA and operating profit reduced by 7.6% and 11.2%, respectively, in line with our expectations.

The Group's efficient funding and hedging strategy resulted in a reduction in net interest costs for South West Water of £7.0 million to £28.3 million (H1 2019/20 £35.3 million).

South West Water's capital expenditure in the first half of this financial year was £73.3 million, compared to £77.6 million in H1 2019/20.

In order to meet our commitments, we are advancing expenditure including delivering two bathing water quality improvements ahead of schedule. Significant investment continues to be advanced with earlier than planned upgrades in our network to reduce leakage with proactive replacement at susceptible locations and the installation of acoustic loggers to improve monitoring.

Upgrades to water treatment works continue with the completion of installation of GAC filters at College water treatment works and UV filters at other locations. Improved water resilience projects in the Plymouth area will ensure reliable supplies for the future, adding an additional raw water source to our recently opened, innovative Mayflower water treatment works. In line with the advancement of our targeted Pollution Incident Reduction Plan, additional expenditure has been incurred upgrading wastewater treatment works and pumping stations such as upgraded inlet screens and the replacement of pumps with newer, more efficient models, to reduce the probability of causing pollutions.

Pennon Water Services

Underlying [^]	H1 2020/21	H1 2019/20	Change
Revenue	£75.3m	£86.6m	(13.0%)
<i>SWW wholesale elimination</i>	<i>(£38.8m)</i>	<i>(£53.5m)</i>	<i>(27.5%)</i>
<i>Revenue – external to the Group</i>	<i>£36.5m</i>	<i>£33.1m</i>	<i>+10.3%</i>
Operating Costs ²⁵	(£75.0m)	(£85.7m)	+12.5%
<i>SWW wholesale elimination</i>	<i>£38.8m</i>	<i>£53.5m</i>	<i>+27.5%</i>
<i>Operating Costs – external to the Group</i>	<i>(£36.2m)</i>	<i>(£32.2m)</i>	<i>(12.4%)</i>
EBITDA	£0.3m	£0.9m	(66.7%)
Depreciation and amortisation	(£0.4m)	(£0.3m)	(33.3%)
Operating profit	(£0.1m)	£0.6m	(116.7%)
Net interest charge	(£0.8m)	(£0.9m)	+11.1%
Loss before tax	(£0.9m)	(£0.3m)	(200.0%)

The largest revenue impact of COVID-19 has been on businesses and commercial customers. The initial lockdown in April and May caused a significant reduction in non-household demand, due to the closure of numerous businesses. Demand has steadily increased over the summer months, though overall revenues, ignoring the impact of contract wins are down by c.20% on the same period last year.

Despite the impact of the pandemic, Pennon Water Services has made revenue gains through tender activity with c.£10.5 million of new business compared to the same period last year. Non-wholesale operating costs have remained stable and the business has maintained positive EBITDA despite the significant demand reductions.

The business continues to maintain its focus on targeting high quality, sustainable customers who will benefit from the value-added services that form part of Pennon Water Services differentiated service offering.

Group net finance costs

The Group continues to secure funding for South West Water through its Sustainable Financing Framework and has efficiently hedged c.50% of its interest rate risk through the K7 regulatory period. As a result, the effective interest rate for South West Water is 2.5%[^], representing a 90 basis point reduction on the same period last year.

Underlying net finance costs for the Continuing Group of £28.1 million are £2.5 million lower than last year (H1 2019/20 £30.6 million), benefitting from the efficient financing that has been achieved.

[^] Measures with this symbol [^] are defined in the Alternative Performance Measures (APMs) as outlined on pages 65 to 68
²⁵ Includes wholesale costs for non-household customers

Profit before tax before non-underlying items

Group underlying profit before tax is £86.7 million compared with the prior year (H1 2019/20 £101.4 million). The reduction of £14.7 million reflects the expected reduction in operating profit of £17.2 million from the revenue reset and COVID-19 impact, which has been offset by a £2.5 million reduction in net finance costs, as outlined above.

Non-underlying items before tax

Non-underlying items for H1 2020/21 total a charge of £24.8 million (H1 2019/20 credit of £18.0 million). The Directors believe excluding non-underlying items provides a more useful comparison of business trends and performance.

The non-underlying charge of £24.8 million consists of:

- £20.5 million reduction in revenue being the recognition in full of Watershare+, a pioneering scheme which shares our success with customers, empowering customers with a stake and a say in the business. Customers were given the option to receive their share, which equates to £20 per customer, as either a credit on their bill, or as shares in Pennon Group
- A non-underlying curtailment charge of £4.3 million has been recognised in respect of the Continuing Group's principal pension scheme which arises from the decision to close the main defined benefit scheme to future accrual with effect from 1 July 2021.

Taxation

The overall tax charge for the Continuing Group is £11.5 million (H1 2019/20 £25.5 million). On an underlying basis, the net tax charge for H1 2020/21 for the Continuing Group of £16.3 million (H1 2019/20 £20.7 million) consists of:

- Current year current tax charge of £12.4 million, reflecting an effective tax rate of 14.3% (H1 2019/20 £14.2 million, 14.0%). The lower effective rate versus the UK's mainstream corporation tax rate of 19% reflects the accelerated level of capital allowance claims available to the Group compared with the depreciation charge and tax relief on accelerated pension deficit recovery payments made during the year and in recent years
- Current year deferred tax charge of £4.2 million (H1 2019/20 £5.3 million) primarily reflects capital allowances across the Group in excess of depreciation charged
- In relation to prior years, there is a:
 - Current tax credit of £0.8 million (H1 2019/20 £0.8 million), as previous tax items have been clarified including capital allowance claims
 - Deferred tax charge of £0.5 million (H1 2019/20 £2.0 million credit), reflecting finalisation of capital allowance claims.

The H1 2020/21 non-underlying items result in a £4.8 million credit (H1 2019/20 £4.8 million charge), reflecting current tax relief on the cost of the WaterShare+ scheme and future tax relief available on pension contributions.

Earnings per share

Statutory earnings per share from the Continuing Group and discontinued operations of 420.9p (H1 2019/20 30.1p) include the profit from the sale of Viridor and non-underlying charges in discontinued operations resulting from the restructuring of debt that was drawn to fund Viridor's growth programme. Full details of earnings per share movements are in note 8 of the accompanying financial statements.

Net cash position at 30 September 2020

Cash generation has remained robust despite the potential for disruption from COVID-19. The Continuing Group's total operational cash inflows[^] in H1 2020/21 were £154.6 million (H1 2019/20 £178.7 million) with the reduction being driven from the expected decline in EBITDA and increased levels of pension payments. Working capital has remained stable with significant focus on managing collections.

These funds adequately support our effective finance structures (net interest paid²⁶ £37.4 million) and capital investment programme[^] (£80.8 million). Interest payments for the Continuing Group are higher than the net finance costs recognised in the income statement due to the timings on interest settlements impacting the levels of accrued interest compared to this same time last year.

The sale of Viridor generated net cash proceeds after transaction costs²⁷ of £3,691.2 million. The Group's net debt was further reduced by the net debt disposed of with Viridor of £201.7 million.

Other significant impacts on net debt include the Group's decision to repay its perpetual capital securities of £300 million in May 2020, a £36.0 million contribution to its principal pension scheme and costs incurred in restructuring debt following the Viridor sale.

Following the above, and the payment of our interim and full year dividends for full year 2019/20, the Group held a net cash position at 30 September 2020 of £37.9 million (31 March 2020 total Group net debt £3,264.0 million).

Efficient long-term financing strategy

The Group is currently undertaking a review of the portfolio of Pennon company debt following the sale of Viridor and is currently in a net cash position.

²⁶ Total Group interest paid of £45.4 million less Total Group interest received of £2.5 million, less net interest paid relating to discontinued operations of £5.5 million

²⁷ Transaction costs of £63 million

South West Water's cost of finance, with an effective rate[^] of 2.5% is among the lowest in the industry, continuing to benefit from the use of finance leasing as the main source of funding in the portfolio which provides long maturity at fixed margins, secured at the inception of each lease.

South West Water has a mix of fixed/swapped (£1,166 million, 53%), floating (£467 million, 21%) and index-linked borrowings (£578 million, 26%). South West Water's debt has a maturity of up to 37 years with a weighted average maturity of c.20 years. Where appropriate, derivatives are used to fix the rate on floating rate debt.

South West Water's index linked debt is below Ofwat's notional assumption of 33% and is amongst the lowest in the industry. This gives a comparative advantage through the regulatory transition from RPI to CPIH, given the uncertainty and volatility around pricing of the wedge between RPI and CPI. Moving forward as the CPI market continues to mature, we will seek to issue new index-linked instruments linked to CPI, we issued our first such instrument in 2019/20.

The combined South West Water and Bournemouth Water debt to RCV²⁸ ratio is 65.2%²⁹ (30 September 2019 64.2%). Gearing at South West Water is expected to fall during this regulatory period meeting the trajectory of Ofwat's notional structure of 60%.

Following South West Water's Final Determination, South West Water has aligned its hedging strategy with the changed regulatory methodology in this area. A proportion of new debt will be hedged in K7 on a rolling ten-year basis while still maintaining flexibility within the overall portfolio. Embedded debt hedging is aligned with the five-year regulatory delivery period. Around 60% of South West Water's embedded floating rate debt has already been hedged through K7, taking advantage of falling swap rates, ensuring the Group's smooth transition into the new regulatory period.

Sustainable and robust funding position

The Group has a strong liquidity and funding position with £3,486 million cash and committed facilities at 30 September 2020. This consists of cash and other short-term deposits of £3,071 million (including £230 million of restricted funds representing deposits with lessors against lease obligations) and £415 million of undrawn facilities. £2,772 million of the cash holdings (including other short-term deposits of £651 million are held at the Pennon company level.

During the first half of the year, the Group repaid £300 million perpetual capital securities, and following the sale of Viridor, Pennon has also reduced the number of Revolving Credit Facilities (RCFs), reflecting the current cash holdings of the Group.

²⁸ RCV as published in South West Water's Final Determination (2020-25), recognising the omission of data not included by Ofwat in relation to IFRS16: *Leases*

²⁹ Based on forecast regulatory capital value (RCV) at 31 March 2021 and South West Water group net debt including impact of IFRS 16: *Leases*. Regulatory South West Water Limited gearing based on forecast RCV at 31 March 2021 is 67.4% at 30 September 2020 (66.9% at 30 September 2019)

Given the current low interest rates the Group's cash is being managed to provide flexibility and liquidity to meet any required cashflow needs whilst ensuring appropriate security and counterparty limits are observed.

South West Water net debt at 30 September 2020 was £2,211 million, in line with the previous year (H1 2019/20 £2,249³⁰ million). During H1 2020/21, South West Water signed £60 million of new and renewed facilities. Following the continued success of our Sustainable Financing Framework, a new £30 million long funding finance lease will be allocated to sustainable projects under the Green Loan Principles. Additionally, the renewed facility extends the existing debt maturity providing additional support to South West Water in the current low rate environment.

Our 2020 Sustainable Financing Impact Report was published in October, detailing the progress we have made in this area and the allocation of funding to our sustainable projects in water and wastewater to support our communities.

In preparation for the cessation of LIBOR in December 2021, the Group is following current recommendations from regulators and looking to progress our transition plans over the coming year. Having completed our first LIBOR to SONIA amendment for a sustainable RCF in 2020, we are engaging with our banking counterparties to ensure we are prepared for the transition.

Post Viridor sale debt restructuring

Immediately prior to the Viridor disposal, the implied Pennon company borrowings, being Group borrowings not relating to South West Water, were c.£1.2 billion. The significant majority of these borrowings were originally drawn to fund the investment phase of Viridor. It was announced following the completion of the sale of Viridor that the Group would repay up to £900 million of its debt portfolio, whilst looking to maintain a small amount of debt at the Pennon company level, to support future opportunities.

Good progress has been made with the restructuring of debt since the disposal, with c.£750 million repaid to 30 September 2020. The majority of this debt was floating rate and has therefore been repaid at par showing the flexible approach secured when financing Viridor's energy recovery facility investment phase. The immediate repayment of this debt has also resulted in minimising the cost of carry on these instruments. There were a limited number of derivative transactions used to maintain our interest rate risk within the treasury policy which would no longer achieve hedge accounting and have therefore been terminated in line with the Group's policy to minimise income statement volatility.

³⁰ Re-analysed to incorporate IFRS 16: *Leases*

The Group also retired certain fixed rate debt during H1 2020/21. Given the commitments under these fixed rate agreements make whole costs were applicable. Through discussion, the debt was terminated at a value accreting basis where a discount to the full documented make whole cost was achieved. £56.8 million of non-underlying charges have been reflected in the profit from discontinued operations in respect of the costs of debt retirement.

Pensions

The Group operates defined benefit pension schemes for certain employees of Pennon Group. The main schemes were closed to new entrants on or before 1 April 2008.

As part of its long-term pension strategy, the Group completed its employee consultation on plans to modernise its ongoing pension arrangements. The outcome of the consultation has resulted in a decision to close Pennon's principal defined benefit scheme to future accrual with effect from 1 July 2021 with all employees transitioning to a new defined contribution scheme offered through a master trust arrangement. This has resulted in a non-underlying curtailment charge of £4.3 million.

At 31 March 2020, the Group's pension schemes showed an aggregate deficit (before deferred tax) of £8.5 million, of which a surplus of £6.6 million relates to the Continuing Group and a deficit of £15.1 million relates to Viridor. The deficit relating to the Continuing Group at 30 September 2020 is £51.8 million reflecting the following principal movements:

- £71.1 million increase in deficit from adverse movements in financial assumptions (notably corporate bond yields) increasing the liabilities by c.£128 million being offset by asset outperformance of c.£57 million largely from liability hedged investments
- £36.0 million contribution to Pennon's principal pension scheme
- £21.4 million increase in net pension liabilities relating to the transfer and settlement of certain pension obligations in connection with Viridor, and the impact of closing the principal defined benefit scheme to future accrual.

Since the half year market changes have continued, most notably related to the COVID-19 pandemic and the emergence of vaccines, and at the nearest practicable date to the report the deficit is estimated to have halved.

The net aggregate liabilities of c.£42 million (after deferred tax) represents c.1% of the Group's market capitalisation at 30 September 2020.

Technical Guidance – Full Year 2020/21

Pennon Group		2019/20	Change
Revenue	<ul style="list-style-type: none"> Impact of lower tariffs based on K7 Final Determination (c.£20m³¹) Reduced non-household demand and other services (c.£30m including c.£10m impact from customers outside of the South West Water region) partially offset by increased household demand (c.£15m) as a result of COVID-19 Non-underlying sharing of outperformance with customers through WaterShare+ of c.£20m 	£636.7m ³²	▼
Net debt	<ul style="list-style-type: none"> Debt retirement of c.£900m from Viridor proceeds Ongoing strategic review on use of proceeds 	£1,122m ³³	▼
Current tax rate	<ul style="list-style-type: none"> Underlying Continuing Group's effective current tax rate lower than UK headline rate of 19% reflecting capital allowances and relief on pension contributions 	15.6% ³⁴	▼
South West Water – transition to new regulatory period		2019/20	Change
Operating costs	<ul style="list-style-type: none"> Increased costs reflecting inflation, expansion into the Isles of Scilly, net of continued efficiency 	£206.1m	▲
Net interest	<ul style="list-style-type: none"> Efficient financing reflecting lower interest rate swaps – effective rate reduction 	£71.4m	▼
Capex	<ul style="list-style-type: none"> Capital expenditure reflects K7 profile of investment – 2019/20 included advancement of investment from 2020/21 	£161.0m	▼
RORE	<ul style="list-style-type: none"> Ofwat's view of assumed potential outperformance 	8.5%	–
RCV	<ul style="list-style-type: none"> Reduction due to impact of K7 Final Determination reflecting midnight adjustments of c.£200m driven by the significant totex outperformance in K6 	£3,573m	▼
Pennon Water Services		2019/20	Change
Operating costs	<ul style="list-style-type: none"> Reduction in operating costs due to lower wholesale charges due to COVID-19 (c.£10m impact from customers outside of the South West Water region) 	£171.6m	▼
EBITDA	<ul style="list-style-type: none"> Impact of reduced non-household demand on margins Focus on continued cost efficiency with strong collections offsetting potential bad debt impact of COVID-19 	£1.9m	▼

COVID-19 assumptions are based on current year to date impact of initial lockdown and expected recovery of economic activity over the remaining part of the financial year. The impact of the second lockdown is expected to be less marked on non-household and business activity.

³¹ c.£38 million wholesale cost of capital K7 reset offset by wholesale revenue forecasting incentive mechanism and other regulatory true up mechanisms

³² 2019/20 revenue for the Continuing Group

³³ £822 million net debt as at 31 March 2020 plus £300 million in perpetual securities, repaid May 2020

³⁴ 2019/20 effective current tax rate rebased to reflect the Continuing Group

Board Matters

In July this year following the completion of the sale of Viridor and in light of the significantly changed structure of the Group, the Board made the decision to enact its internal succession plan to position Pennon favourably for the next phase of its growth strategy.

Pennon's Chairman at the time, Sir John Parker, and its Chief Executive, Chris Loughlin, did not stand for re-election at the Pennon AGM, and were succeeded by Gill Rider as Chair and Susan Davy as Chief Executive Officer.

Sir John had been Chairman for five years, during which time he oversaw the strategy to deliver value for our shareholders and to place our customers at the heart of our business. Chris Loughlin joined the Board in 2006 as Chief Executive of South West Water and became Group Chief Executive in January 2016, transforming the organisation under his leadership. Both Sir John and Chris rendered exemplary commitment to the Group and deserve our heartfelt thanks.

Gill Rider brings to the role of Chair significant experience of the business following her tenure most latterly as Pennon's Senior Independent Director and Chair of the Remuneration Committee. Gill joined the Board in 2012 with extensive boardroom service and a wealth of experience across several companies. She was formerly Head of the Civil Service Capability Group in the Cabinet Office, and prior to that held a number of senior positions with Accenture LLP, culminating in the post of Chief Leadership Officer for the global firm. Gill has considerable experience in leadership and governance across a broad range of sectors including professional services, education and government.

Susan Davy was appointed as Chief Executive Officer from her role as Chief Financial Officer, a role she held for the past five years. Susan initially joined the Group as Finance Director of South West Water in 2007. Her knowledge of the industry, coupled with her financial and regulatory expertise has underpinned the development of Pennon's strategy, which has included the value-creating acquisition of Bournemouth Water in 2015 and the successful Viridor disposal process, both of which she led.

We also welcomed Paul Boote to the Board as Group Finance Director. Paul joined Pennon in 2010 and has held a range of senior finance positions within the Group, most recently responsible for Pennon's Group finance functions of treasury, tax, accounting and pensions. In his 20 years in finance, Paul has accumulated a wealth of experience having worked across a range of sectors including sport, construction and environmental infrastructure.

Jon Butterworth MBE was also appointed to the Board as a Non-Executive Director and as Chair of Pennon's Health & Safety Committee. Jon joined the Board of South West Water in 2017 and has a distinguished track record within the utility industry that spans over 40 years. Jon is currently Chief

Executive Officer of National Grid Ventures and a member of the National Grid Plc Executive Committee.

Neil Cooper has been appointed as Senior Independent Director. Neil was appointed to the Board in 2014 and remains Chair of the Audit Committee, bringing extensive experience in a wide variety of corporate and financial matters. As Chair of the Audit Committee, Neil has been influential in focusing Pennon's approach on a number of significant matters including internal control, governance and financial reporting.

Claire Ighodaro CBE has replaced Gill Rider as Chair of the Remuneration Committee. Claire has held a number of senior roles and directorships of UK and international organisations and has extensive Board experience of service on audit and governance committees. As Chair of the Remuneration Committee, Claire will continue to steer Pennon's approach on executive remuneration ensuring that it is aligned with and supports the Group's strategy.

Susan Davy

Group Chief Executive

23 November 2020

Financial Timetable

28 January 2021	Ordinary shares quoted ex-dividend
29 January 2021	Record date for interim cash dividend
8 March 2021	Final date for receipt of DRIP applications
30 March 2021	Trading Statement
1 April 2021	Interim cash dividend payment date
3 June 2021	Full Year Results 2020/21
June 2021	Annual Report & Accounts 2020/21 published
22 July 2021	Annual General Meeting
22 July 2021*	Ordinary shares quoted ex-dividend
23 July 2021*	Record date for final dividend
10 August 2021*	Final Date for receipt of DRIP applications
2 September 2021*	Final dividend payment date
28 September 2021	Trading Statement
30 November 2021	Half Year Results 2021/22

* Subject to obtaining shareholder approval at the 2021 Annual General Meeting.

PRINCIPAL RISKS AND UNCERTAINTIES

In accordance with DTR 4.2.3 and 4.2.7 of the Disclosure and Transparency Rules, the principal risks for the remaining six months of the financial year have been reviewed by the Directors. These principal risks have been reassessed and, where appropriate, updated to reflect the focus of the Group on its water and wastewater businesses following the sale of Viridor. As such a small number of amendments have been made to the Group's principal risks reported within the Risk Report of the Annual Report and Accounts 2020.

The Group has rapidly adapted to the operational and financial challenges arising from COVID-19 and continues to deliver essential services for the communities that the Group serves whilst maintaining robust arrangements to ensure the health and safety of our customers, communities and employees.

Negotiations on a future trading agreement between Britain and the European Union (EU) are ongoing and continues to be closely monitored. In the event that no agreement is reached, and trade arrangements revert to World Trade Organization (WTO) rules, existing contingency plans will ensure that the Group is well prepared to mitigate against any short-term impact that is likely to arise from this scenario.

The Group continues to reflect the impact of macro-level events, including COVID-19 and trade negotiations between the UK and EU, within the individual principal risks of the Group. A summary of Pennon Group's principal risks is detailed below.

Principal Risks

The Board considers the principal risks to be:

Law, Regulation and Finance

1. Changes in Government policy
2. Regulatory reform
3. Non-compliance with laws and regulations
4. Inability to secure sufficient finance and funding to meet ongoing commitments
5. Non-compliance or occurrence of an avoidable health and safety incident
6. Failure to pay all pension obligations as they fall due and increased costs to the Group should the defined benefit pension scheme deficit increase

Market and Economic Conditions

7. Non-recovery of customer debt
8. Macro-economic risks impacting inflation, interest rates and power prices

Operating Performance

9. Poor operating performance, including pollution incidents, and an inability to meet future resource demand and supply due to climate change
10. Failure to maintain excellent service or effective engagement with our customers and wider stakeholders
11. Business interruption, including the inability to provide clean drinking water or remove wastewater, due to significant operational incidents or failure
12. Insufficient skills and resources to meet current and future business needs and deliver the Group's strategic priorities
13. Non-delivery of regulatory outcomes and performance commitments

Business Systems and Capital Investment

14. Inefficient or ineffective delivery of significant capital projects
15. Inadequate technological security results in a breach of the Group's assets, systems and data
16. Inefficient use of capital arising from the disposal of Viridor.

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 which may constitute "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are identified in this Report by words such as "anticipate", "aim", "believe", "continue", "could", "due", "estimate", "expect", "forecast", "goal", "intend", "may", "outlook", "plan", "probably", "project", "remain", "seek", "should", "target", "will", "would" and related and similar expressions, as well as statements in the future tense. All statements other than of historical fact may be forward-looking statements and represent the Group's belief regarding future events, many of which, by their nature, are inherently uncertain and outside the Group's control. 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. Important risks, uncertainties and other factors that could cause actual results, performance or achievements of Pennon Group to differ materially from any outcomes or results expressed or implied by such forward-looking statements include, among other things, changes in Government policy; regulatory and legal reform; compliance with laws and regulations; maintaining sufficient finance and funding to meet ongoing commitments; non-compliance or occurrence of avoidable health and safety incidents; tax compliance and contribution; failure to pay all pension obligations as they fall due and increased costs to the Group should the defined benefit pension scheme deficit increase; non-recovery of customer debt; poor operating performance due to extreme weather or climate change; macro-economic risks impacting commodity and power prices and other matters; poor customer service and/or increased competition leading to loss of customer base; business interruption or significant operational failure/incidents; difficulty in recruitment, retention and development of skills; non-delivery of regulatory outcomes and performance commitments; failure or increased cost of capital projects/exposure to contract failures; failure of information technology systems, management and protection, including cyber risks; and all other risks in the Pennon Group Annual Report published in July 2020. Such forward looking statements should therefore be construed in light of all risks, uncertainties and other factors, including without limitation those identified above, and undue reliance should not be placed on them. Nothing in this report should be construed as a profit forecast.

Any forward-looking statements are made only as of the date of this document and no representation, assurance, guarantee or warranty is given in relation to them including as to their accuracy, completeness, or the basis on which they are made. The Group accepts no obligation to revise or update publicly these forward-looking statements or adjust them as a result of new information or for future events or developments, except to the extent legally required.

UNSOLICITED COMMUNICATIONS WITH SHAREHOLDERS

A number of companies, including Pennon Group plc, continue to be aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters which imply a connection to the company concerned. If shareholders have any concerns about any contact they have received then please refer to the Financial Conduct Authority's website www.fca.org.uk/scamsmart. Details of any share dealing facilities that the Company endorses will be included in Company mailings.

PENNON GROUP PLC
Consolidated income statement for the half year ended 30 September 2020

		Unaudited					
	Notes	Before non- underlying items half year ended 30 September 2020 £m	Non- underlying items (note 5) half year ended 30 September 2020 £m	Total half year ended 30 September 2020 £m	Before non- underlying items half year ended 30 September (restated) 2019* £m	Non- underlying items (note 5) half year ended 30 September (restated) 2019* £m	Total half year ended 30 September (restated) 2019* £m
Continuing operations							
Revenue	4	319.7	(20.5)	299.2	325.8	-	325.8
Operating costs							
Employment costs		(37.6)	-	(37.6)	(35.4)	-	(35.4)
Raw materials and consumables used		(8.7)	-	(8.7)	(8.1)	-	(8.1)
Other operating expenses		(98.9)	(4.3)	(103.2)	(90.8)	-	(90.8)
Earnings before interest, tax, depreciation and amortisation	4	174.5	(24.8)	149.7	191.5	-	191.5
Depreciation and amortisation		(59.7)	-	(59.7)	(59.5)	-	(59.5)
Operating Profit	4	114.8	(24.8)	90.0	132.0	-	132.0
Finance income	6	2.3	-	2.3	1.9	18.0	19.9
Finance costs	6	(30.4)	-	(30.4)	(32.5)	-	(32.5)
Net finance costs	6	(28.1)	-	(28.1)	(30.6)	18.0	(12.6)
Profit before tax	4	86.7	(24.8)	61.9	101.4	18.0	119.4
Taxation	7	(16.3)	4.8	(11.5)	(20.7)	(4.8)	(25.5)
Profit for the period from continuing operations		70.4	(20.0)	50.4	80.7	13.2	93.9
Discontinued operations							
Profit for the period from discontinued operations	21	39.2	1,680.8	1,720.0	37.8	1.8	39.6
Profit for the period		109.6	1,660.8	1,770.4	118.5	15.0	133.5
Attributable to:							
Ordinary shareholders of the parent		109.8	1,660.8	1,770.6	111.6	15.0	126.6
Non-controlling interests		(0.2)	-	(0.2)	(0.1)	-	(0.1)
Perpetual capital security holders		-	-	-	7.0	-	7.0
Earnings per ordinary share (pence per share)	8						
From continuing operations							
- Basic					12.0		
- Diluted					12.0		
From continuing and discontinued operations							
- Basic					420.9		
- Diluted					418.8		

* The prior year income statement has been restated to reflect the impact of classifying the waste management activities provided by Viridor as a discontinued operation (see note 21)
The notes on pages 45 to 62 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of comprehensive income for the half year ended 30 September 2020

	Unaudited					
	Before non- underlying items half year ended 30 September 2020 £m	Non- underlying items (note 5) half year ended 30 September 2020 £m	Total half year ended 30 September 2020 £m	Before non- underlying items half year ended 30 September 2019 £m	Non- underlying items (note 5) half year ended 30 September 2019 £m	Total half year ended 30 September 2019 £m
Profit for the period	109.6	1,660.8	1,770.4	118.5	15.0	133.5
Other comprehensive income						
<i>Items that will not be reclassified to profit or loss</i>						
Remeasurement of defined benefit obligations (note 16)	(87.8)	-	(87.8)	(20.5)	12.2	(8.3)
Income tax on items that will not be reclassified	16.7	-	16.7	3.8	(2.3)	1.5
Total items that will not be reclassified to profit or loss	(71.1)	-	(71.1)	(16.7)	9.9	(6.8)
<i>Items that may be reclassified subsequently to profit or loss</i>						
Share of other comprehensive income from joint ventures	-	-	-	(0.2)	-	(0.2)
Cash flow hedges	(6.4)	-	(6.4)	(16.0)	-	(16.0)
Income tax on items that may be reclassified	1.5	-	1.5	2.7	-	2.7
Total items that may be reclassified subsequently to profit or loss	(4.9)	-	(4.9)	(13.5)	-	(13.5)
Other comprehensive income for the period net of tax	(76.0)	-	(76.0)	(30.2)	9.9	(20.3)
Total comprehensive income for the period	33.6	1,660.8	1,694.4	88.3	24.9	113.2
Total comprehensive income attributable to:						
Ordinary shareholders of the parent	33.8	1,660.8	1,694.6	81.4	24.9	106.3
Non-controlling interests	(0.2)	-	(0.2)	(0.1)	-	(0.1)
Perpetual capital security holders	-	-	-	7.0	-	7.0

The notes on pages 45 to 62 form part of this condensed half year financial information.

PENNON GROUP PLC
Consolidated balance sheet at 30 September 2020

		Unaudited	
		30 September	31 March
		2020	2020
	Notes	£m	£m
ASSETS			
Non-current assets			
Goodwill		42.3	42.3
Other intangible assets		1.2	1.2
Property, plant and equipment		3,187.4	3,171.8
Derivative financial instruments		4.2	4.1
Retirement benefit obligations		-	6.6
		3,235.1	3,226.0
Current assets			
Inventories		5.3	4.9
Trade and other receivables		189.4	185.8
Current tax receivable		14.3	1.9
Derivative financial instruments		1.1	2.7
Other current financial assets	21	54.0	-
Other short-term deposits	14	650.5	-
Cash and cash deposits	14	2,420.1	665.9
		3,334.7	861.2
Assets held for sale		-	2,675.3
		3,334.7	3,536.5
LIABILITIES			
Current liabilities			
Borrowings	14	(67.0)	(59.9)
Financial liabilities at fair value through profit		(3.0)	(1.5)
Derivative financial instruments		(9.4)	(7.1)
Trade and other payables	18	(100.0)	(115.3)
Provisions		(0.6)	(0.6)
		(180.0)	(184.4)
Liabilities associated with assets classified as held for sale		-	(756.3)
Net current assets		3,154.7	2,595.8
Non-current liabilities			
Borrowings	14	(2,965.7)	(3,654.9)
Other non-current liabilities	18	(126.5)	(122.9)
Financial liabilities at fair value through profit		(40.9)	(43.1)
Derivative financial instruments		(32.5)	(27.2)
Retirement benefit obligations	16	(51.8)	-
Deferred tax liabilities		(245.5)	(261.6)
		(3,462.9)	(4,109.7)
Net assets		2,926.9	1,712.1
Shareholder's equity			
Share capital		171.7	171.3
Share premium account		230.4	227.0
Capital redemption reserve		144.2	144.2
Retained earnings and other reserves		2,380.7	872.8
Total shareholders' equity		2,927.0	1,415.3
Non-controlling interests		(0.1)	0.1
Perpetual capital securities		-	296.7
Total equity		2,926.9	1,712.1

The notes on pages 45 to 62 form part of this condensed half year financial information.

PENNON GROUP PLC
Consolidated statement of changes in equity for the half year ended 30 September 2020

	Unaudited						Total equity £m
	Share capital (note 10) £m	Share premium account (note 11) £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Non- controlling interests £m	Perpetual capital securities (note 12) £m	
At 1 April 2019	171.1	223.6	144.2	843.0	1.2	296.7	1,679.8
Opening adjustment on adoption of IFRS 16	-	-	-	(8.0)	-	-	(8.0)
At 1 April 2019 (adjusted for IFRS 16)	171.1	223.6	144.2	835.0	1.2	296.7	1,671.8
Profit for the period	-	-	-	126.6	(0.1)	7.0	133.5
Other comprehensive income for the period	-	-	-	(20.3)	-	-	(20.3)
Total comprehensive income for the period	-	-	-	106.3	(0.1)	7.0	113.2
<i>Transactions with equity shareholders:</i>							
Dividends paid	-	-	-	(172.6)	-	-	(172.6)
Adjustments in respect of share-based payments (net of tax)	-	-	-	2.4	-	-	2.4
Distributions due to perpetual capital security holders	-	-	-	-	-	(8.6)	(8.6)
Current tax relief on distributions to perpetual capital security holders	-	-	-	-	-	1.6	1.6
Own shares acquired by the Pennon Employee Share Trust in respect of Share options	-	-	-	(1.6)	-	-	(1.6)
Proceeds from shares issues under the Sharesave Scheme	0.2	2.4	-	-	-	-	2.6
Total transactions with equity shareholders	0.2	2.4	-	(171.8)	-	(7.0)	(176.2)
At 30 September 2019	171.3	226.0	144.2	769.5	1.1	296.7	1,608.8
	Unaudited						
	Share capital (note 10) £m	Share premium account (note 11) £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Non- controlling interests £m	Perpetual capital securities (note 12) £m	Total equity £m
At 1 April 2020	171.3	227.0	144.2	872.8	0.1	296.7	1,712.1
Profit for the period	-	-	-	1,770.6	(0.2)	-	1,770.4
Other comprehensive income for the period	-	-	-	(75.9)	-	-	(75.9)
Total comprehensive income for the period	-	-	-	1,694.7	(0.2)	-	1,694.5
<i>Transactions with equity shareholders:</i>							
Dividends paid	-	-	-	(184.3)	-	-	(184.3)
Adjustments in respect of share-based payments (net of tax)	-	-	-	2.1	-	-	2.1
Redemption of perpetual capital securities	-	-	-	(3.3)	-	(296.7)	(300.0)
Own shares acquired by the Pennon Employee Share Trust in respect of Share options	-	-	-	(1.3)	-	-	(1.3)
Proceeds from shares issues under the Sharesave Scheme	0.4	3.4	-	-	-	-	3.8
Total transactions with equity shareholders	0.4	3.4	-	(186.8)	-	(296.7)	(479.7)
At 30 September 2020	171.7	230.4	144.2	2,380.7	(0.1)	-	2,926.9

The notes on pages 45 to 62 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of cash flows for the half year ended 30 September 2020

		Unaudited	
		Half year ended 30 September 2020	Half year ended 30 September 2019
	Notes	£m	£m
Cash flows from operating activities			
Cash generated from operations	13	126.6	244.2
Interest paid		(45.4)	(38.0)
Tax paid		(11.5)	(26.8)
Net cash generated from operating activities		69.7	179.4
Cash flows from investing activities			
Interest received		2.5	2.7
Loan repayments received from joint ventures		4.0	3.7
Purchase of property, plant and equipment		(113.1)	(194.7)
Purchase of intangible assets		(0.1)	-
Proceeds on disposal of subsidiaries, net of cash disposed and transaction costs	21	3,652.2	-
Proceeds from sale of property, plant and equipment		0.1	10.6
Investment in short-term deposits		(650.5)	-
Deposit of restricted cash		(3.8)	(5.0)
Net cash (used in)/received from investing activities		2,891.3	(182.7)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		3.8	2.6
Proceeds from derivatives early settlement		-	87.2
Purchase of ordinary shares by the Pennon Employee Share Trust		(1.3)	(1.6)
Proceeds from new borrowing		200.0	50.0
Repayment of borrowings		(941.6)	(67.2)
Cash inflows from lease financing arrangements	14	5.0	85.0
Lease principal repayments		(16.9)	(18.1)
Dividends paid	9	(184.3)	(172.6)
Redemption of perpetual capital security		(300.0)	-
Perpetual capital securities periodic return		(8.6)	(8.6)
Net cash used in financing activities		(1,243.9)	(43.3)
Net increase/(decrease) in cash and cash equivalents		1,717.1	(46.6)
Cash and cash equivalents at beginning of period	14	472.0	365.7
Cash and cash equivalents at end of period	14	2,189.1	319.1

The cash flow statement above includes the entire Group, including cashflows relating to discontinued operations. Disaggregated information relating to the Viridor business is provided in note 21. The notes on pages 45 to 62 form part of this condensed half year financial information.

PENNON GROUP PLC

Notes to 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 62. Pennon Group's continuing business is operated through two principal subsidiaries. South West Water Limited includes the integrated water companies of South West Water and Bournemouth Water, providing water and wastewater services in Devon, Cornwall and parts of Dorset and Somerset and water only services in parts of Dorset, Hampshire and Wiltshire. Pennon Group is also the majority shareholder of Pennon Water Services Limited, a company providing water and wastewater retail services to non-household customer accounts across Great Britain. On 8 July 2020 Pennon completed the sale of Viridor Limited, a recycling, energy recovery and waste management business. In accordance with IFRS 5 'Non-current assets held for sale and discontinued operations', the net results for Viridor are presented within discontinued operations in the Group income statement (for which the comparatives and related notes have been restated). The balance sheet as at 30 September 2020 shows the financial position of the Continuing Group only, with comparatives being for the full Group as it was at 31 March 2020. The effect of the disposal on the financial position of the Group is detailed in note 21.

This condensed half year financial information was approved by the Board of Directors on 23 November 2020.

The financial information for the period ended 30 September 2020 does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The statutory accounts for 31 March 2020 were approved by the Board of Directors on 3 June 2020 and have been delivered to the Registrar of Companies. The independent auditor's report on these financial statements was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

2. Basis of preparation

This condensed half year financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority, and with IAS 34 'Interim financial reporting', as adopted by the European Union (EU). This condensed half year financial information should be read in conjunction with the Pennon Group plc Annual Report and Accounts for the year ended 31 March 2020, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The going concern basis has been adopted in preparing the condensed half year financial information (interim accounts). At 30 September 2020, the Group has access to undrawn committed funds and cash and other short-term deposits totalling £3,486 million, including cash and other short-term deposits of £3,071 million and £415 million of undrawn facilities. Cash and other short-term deposits includes £651 million of cash on short-term deposit with maturity of greater than three months at the date of deposit and £231 million of restricted funds deposited with lessors which are available for access, subject to being replaced by an equivalent valued security. Having considered the Group's strong funding position and prudent financial projections prepared to 31 March 2022, which take into account a range of possible impacts from the COVID-19 pandemic, the Directors have a reasonable expectation that the Group has adequate resource to continue in operational existence for the period to at least the end of the detailed forecasting period of 31 March 2022, and that there are no material uncertainties to disclose. For this reason, they continue to adopt the going concern basis in preparing the interim accounts.

This condensed half year financial information has been reviewed, but not audited, by the independent auditor pursuant to the Auditing Practices Board guidance on the 'Review of Interim Financial Information'.

The preparation of the half year financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty relating to the Continuing Group are consistent with those that applied to the consolidated financial statements for the year ended 31 March 2020, with the exception of determining the fair value of deferred consideration on the sale of Viridor.

Under the Sale Agreement, deferred consideration may be receivable in future. The Company considers that the amount of deferred consideration could be up to £0.2 billion, dependent upon future actions and the outcome of underlying events. As required under IFRS and the Company's accounting policies, the latest available information is used to determine a range of possible outcomes and a probability weighting for each of those outcomes, to determine the fair value. This approach is in accordance with the Level 3 valuation technique for determining the fair value of financial instruments. The Company has estimated the fair value of this amount to be £54.0 million which has been recognised in other financial assets.

Judgements and estimates in respect of discontinued operations as disclosed in the consolidated financial statements for the year ended 31 March 2020 were consistently applied up the date of disposal.

PENNON GROUP PLC

Notes to condensed half year financial information (continued)

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 2020 and are in accordance with all IFRS and interpretations of the IFRS Interpretations Committee expected to be applicable for the year ending 31 March 2021 in issue which have been adopted by the EU.

New standards or interpretations which were mandatory for the first time in the year beginning 1 April 2020 did not have a material impact on the net assets or results of the Group.

New standards or interpretations due to be adopted from 1 April 2021 are not expected to have a material impact on the Group's net assets or results.

4. Segmental information

Operating segments are reported in a manner consistent with internal reporting provided to the Chief Operating Decision-Maker (CODM), which has been identified as the Pennon Group plc Board ('the Board'). The earnings measures below are used by the Board in making decisions.

Following the disposal of Viridor, the Continuing Group is organised into two operating segments. The water business comprises the regulated water and wastewater services undertaken by South West Water. The non-household retail business reflects the services provided by Pennon Water Services. The comparative period segmental information has been restated to remove Viridor. Information about the income, expenses, cash flows, net assets and profit recognised on disposal of the Viridor business is provided in note 21.

	Unaudited	
	Half year ended 30 September 2020	Half year ended 30 September 2019 (restated)
	£m	£m
Revenue from continuing operations		
Water	282.9	292.9
Non-household retail	75.3	86.6
Other	3.7	5.7
Less intra-segment trading	(42.2)	(59.4)
Total underlying revenue	319.7	325.8
Water non-underlying revenue	(20.5)	-
	299.2	325.8
Segment result		
Operating profit before depreciation, amortisation and non-underlying items (EBITDA)		
Water	176.1	190.6
Non-household retail	0.3	0.9
Other	(1.9)	-
	174.5	191.5
Operating profit before non-underlying items		
Water	116.8	131.5
Non-household retail	(0.1)	0.6
Other	(1.9)	(0.1)
	114.8	132.0
Profit before tax before non-underlying items		
Water	88.5	96.2
Non-household retail	(0.9)	(0.3)
Other	(0.9)	5.5
	86.7	101.4
Profit before tax		
Water	64.5	114.2
Non-household retail	(0.9)	(0.3)
Other	(1.7)	5.5
	61.9	119.4

PENNON GROUP PLC

Notes to condensed half year financial information (continued)

4. Segmental information (continued)

Intra-segment trading between different segments is under normal market based commercial terms and conditions. Intra-segment revenue of the other segment is reflected as a cost.

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

The grouping of revenue streams by how they are affected by economic factors, as required by IFRS 15, is as follows:

Six months ended 30 September 2019 (restated)	Unaudited				
	Water	UK total		Other	Total
		Non-household retail			
	£m	£m	£m	£m	
Segment revenue	292.9	86.6	5.7	385.2	
Inter-segment revenue	(53.5)	(0.4)	(5.5)	(59.4)	
Revenue from external customers	239.4	86.2	0.2	325.8	
Significant service lines					
Water	239.4	-	-	239.4	
Non-household retail	-	86.2	-	86.2	
Other	-	-	0.2	0.2	
	239.4	86.2	0.2	325.8	
Six months ended 30 September 2020	Unaudited				
	Water	UK total		Other	Total
		Non-household retail			
	£m	£m	£m	£m	
Segment revenue (underlying)	282.9	75.3	3.7	361.9	
Inter-segment revenue (underlying)	(38.8)	-	(3.4)	(42.2)	
Underlying revenue from external customers	244.1	75.3	0.3	319.7	
Non-underlying revenue	(20.5)	-	-	(20.5)	
	223.6	75.3	0.3	299.2	
Significant service lines					
Water	223.6	-	-	223.6	
Non-household retail	-	75.3	-	75.3	
Other	-	-	0.3	0.3	
	223.6	75.3	0.3	299.2	

PENNON GROUP PLC

Notes to condensed half year financial information (continued)

5. Non-underlying items

Non-underlying items are those that in the Directors' view are required to be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance in the period and business trends over time.

	Unaudited	
	Half year ended 30 September 2020	Half year ended 30 September 2019 (restated)
	£m	£m
Revenue		
WaterShare+ (1)	(20.5)	-
Operating Costs		
Pension curtailment charge (2)	(4.3)	-
Net finance costs		
Remeasurement of fair value movement in derivatives (3)	-	18.0
Tax credit / (charge) arising on non-underlying items	4.8	(4.8)
Net non-underlying (charge) / credit related to the Continuing Group	(20.0)	13.2

- (1) In September 2020, the Group offered its WaterShare+ scheme to its customers whereby customers can choose to accept a credit on their bill or take shares in Pennon Group plc. The value of the rebate equates to £20 per customer and the total value of £20.5 million has been recognised in full as a non-underlying reduction to revenue. This item is non-underlying in nature given its individual size and its non-recurring nature.
- (2) The Group completed its employee consultation to modernise its ongoing pension arrangements. The outcome of the consultation resulted in a decision to close the Pennon's principal defined benefit pension scheme to future accrual with effect from 30 June 2021. This resulted in a curtailment charge of £4.3 million.
- (3) In the half year ended 30 September 2019, a gain of £18.0 million was recognised relating to derivative fair value movements associated with derivatives that are not designated as being party to an accounting hedge relationship. In the period, these instruments were early settled as the instruments no longer met the Group's accounting hedging requirements, and this locked in the mark to market gain.

PENNON GROUP PLC

Notes to the condensed half year financial information (continued)

6. Net finance costs

	Unaudited					
	Half year ended 30 September 2020			Half year ended 30 September 2019 (restated)		
	Finance costs £m	Finance income £m	Total £m	Finance costs £m	Finance income £m	Total £m
Cost of servicing debt						
Bank borrowings and overdrafts	(15.2)	-	(15.2)	(11.8)	-	(11.8)
Interest element of lease payments	(13.6)	-	(13.6)	(19.0)	-	(19.0)
Other finance costs	(1.0)	-	(1.0)	(1.2)	-	(1.2)
Interest receivable	-	2.3	2.3	-	1.9	1.9
	(29.8)	2.3	(27.5)	(32.0)	1.9	(30.1)
Notional interest						
Retirement benefit obligations	(0.6)	-	(0.6)	(0.5)	-	(0.5)
	(30.4)	2.3	(28.1)	(32.5)	1.9	(30.6)
Non-underlying items (note 5)						
Fair value remeasurement of non-designated derivative financial instruments, providing commercial hedges	-	-	-	-	18.0	18.0
	(30.4)	2.3	(28.1)	(32.5)	19.9	(12.6)

In addition to the above, finance costs of £0.6 million have been capitalised on qualifying assets included in property, plant and equipment (H1 2019/20 restated £1.6 million).

Excluded from the amounts above are net finance costs relating to discontinued operations of £11.2 million (H1 2019/20 £14.5 million), consisting of finance income of £6.0m million (H1 2019/20 £10.8 million) and finance costs of £17.2 million (H1 2019/20 £25.3 million). In addition, non-underlying finance costs of £56.8 million are included within discontinued operations (note 21) in respect of the retirement of debt relating to the discontinued operations, including early settlement payments of £55.2 million.

PENNON GROUP PLC

Notes to the condensed half year financial information (continued)

7. Taxation

	Unaudited					
	Before non- underlying items half year ended 30 September 2020 £m	Non- underlying items (note 5) half year ended 30 September 2020 £m	Total half year ended 30 September 2020 £m	Before non- underlying items half year ended 30 September (restated) 2019 £m	Non- underlying items (note 5) half year ended 30 September (restated) 2019 £m	Total half year ended 30 September (restated) 2019 £m
Analysis of charge						
Current tax charge	11.6	(3.9)	7.7	13.4	16.5	29.9
Deferred tax charge / (credit)	4.7	(0.9)	3.8	7.3	(11.7)	(4.4)
Tax charge / (credit) for the period	16.3	(4.8)	11.5	20.7	4.8	25.5

UK corporation tax is calculated at 19% (H1 2019/20 19%) of the estimated assessable profit for the year. The tax charge for September 2020 and September 2019 has been derived by applying the anticipated effective annual tax rate to the first half year profit before tax.

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

The effective tax rate for the period for the Continuing Group, including prior year adjustments but before the impact of non-underlying items was 19% (H1 2019/20 20%).

The effective tax rate for the period for the Continuing Group including prior year adjustments and the impact of non-underlying items was 19% (H1 2019/20 21%).

8. Earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, excluding those held in the employee share trust which are treated as cancelled. For diluted earnings per share, the weighted average number of ordinary shares in issue 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 2020	Half year ended 30 September 2019
Number of shares (millions)		
For basic earnings per share	420.7	420.0
Effect of dilutive potential ordinary shares from share options	2.1	1.5
For diluted earnings per share	422.8	421.5

PENNON GROUP PLC
Notes to the condensed half year financial information (continued)
8. Earnings per share (continued)
Adjusted basic and diluted earnings per ordinary share

Adjusted earnings per share are presented to provide a more useful comparison on business trends and performance. Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance (as described in note 5). Perpetual capital returns are proportionately adjusted to allow a more useful comparison in the period. Earnings per share have been calculated as follows:

Continuing and discontinued operations	Unaudited					
	Half year ended 30 September 2020			Half year ended 30 September 2019		
	Profit after tax £m	Earnings per share		Profit after tax £m	Earnings per share	
	Basic p	Diluted p		Basic p	Diluted p	
Statutory earnings	1,770.6	420.9	418.8	126.6	30.1	30.0
Deferred tax before non-underlying items	12.3	2.9	2.9	15.6	3.8	3.8
Non-underlying items (net of tax)	(1,660.8)	(394.8)	(392.8)	(15.0)	(3.6)	(3.6)
Proportionate impact of perpetual capital returns (note 12)	-	-	-	3.5	0.8	0.8
Earnings before non-underlying items And deferred tax	122.1	29.0	28.9	130.7	31.1	31.0

Continuing operations	Unaudited					
	Half year ended 30 September 2020			Half year ended 30 September 2019		
	Profit after tax £m	Earnings per share		Profit after tax £m	Earnings per share	
	Basic p	Diluted p		Basic p	Diluted p	
Statutory earnings	50.6	12.0	12.0	87.0	20.7	20.6
Deferred tax before non-underlying items	4.7	1.1	1.1	7.3	1.7	1.7
Non-underlying items (net of tax)	20.0	4.8	4.7	(13.2)	(3.1)	(3.1)
Proportionate impact of perpetual capital returns (note 12)	-	-	-	3.5	0.8	0.8
Earnings before non-underlying items And deferred tax	75.3	17.9	17.8	84.6	20.1	20.0

9. Dividends

Amounts recognised as distributions to ordinary equity holders in the period:

	Unaudited	
	Half year ended 30 September 2020 £m	Half year ended 30 September 2019 £m
Interim dividend paid for the year ended 31 March 2020: 13.66p (2019 12.84p) per share	57.5	54.0
Final dividend paid for the year ended 31 March 2020: 30.11p (2019 28.22p) per share	126.8	118.6
For diluted earnings per share	184.3	172.6

In the six months to 30 September 2020 the 2019/20 interim and final dividends were paid resulting in a cash outflow of £184.3m.

PENNON GROUP PLC

Notes to the condensed half year financial information (continued)

9. Dividends (continued)

	Unaudited	
	Half year ended 30 September 2020 £m	Half year ended 30 September 2019 £m
Proposed interim dividend for the year ended 31 March 2021: 6.77p (2019 13.66p) per share	28.6	57.4

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

The proposed interim dividend for the year ending 31 March 2021 will be paid on 1 April 2021 to shareholders on the register on 29 January 2021.

10. Share capital

Allotted, called up and fully paid

1 April 2019 to 30 September 2019

	Unaudited		
	Number of shares		£m
	Treasury shares	Ordinary shares	
At 1 April 2019 ordinary shares of 40.7p each	8,443	420,520,598	171.1
For consideration of £2.6m, shares issued in respect of the Company's Sharesave Scheme	-	353,265	0.2
At 30 September 2019 ordinary shares of 40.7p each	8,443	420,873,863	171.3

1 April 2020 to 30 September 2020

	Unaudited		
	Number of shares		£m
	Treasury shares	Ordinary shares	
At 1 April 2020 ordinary shares of 40.7p each	8,443	421,036,557	171.3
For consideration of £3.8m, shares issued in respect of the Company's Sharesave Scheme	-	811,400	0.4
At 30 September 2020 ordinary shares of 40.7p each	8,443	421,847,957	171.7

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 share scheme options during the year was 1,051p (H1 2019/20 760p).

PENNON GROUP PLC

Notes to the condensed half year financial information (continued)

11. Share premium account

	<u>Unaudited</u>
	£m
1 April 2019 to 30 September 2019	
At 1 April 2019	223.6
Shares issued under the Sharesave Scheme	2.4
	<hr/>
At 30 September 2019	226.0
	<hr/>
1 April 2020 to 30 September 2020	
At 1 April 2020	227.0
Shares issued under the Sharesave Scheme	3.4
	<hr/>
At 30 September 2020	230.4
	<hr/>

12. Perpetual capital securities

	<u>Unaudited</u>	
	Half year ended 30	Half year ended 30
	September 2020	September 2019
	£m	£m
GBP 300m 2.875% perpetual subordinated capital securities	-	296.7
	<hr/>	<hr/>
	-	296.7
	<hr/>	<hr/>

On 6 May 2020, the Company exercised its sole discretionary right to redeem all of the £300 million perpetual capital securities at their principal amount on 22 May 2020, this being the first available date to exercise this right.

PENNON GROUP PLC

Notes to condensed half year financial information (continued)

14. Net borrowings

	Unaudited	Year ended 31
	Half year ended 30	March 2020
	September 2020	March 2020
	£m	£m
Cash and cash deposits	2,420.1	665.9
Other short-term deposits	650.5	-
<i>Borrowings – current</i>		
Bank and other loans	(7.7)	(13.7)
Other current borrowings	(29.7)	(27.0)
Leases	(29.6)	(19.2)
Total current borrowings	(67.0)	(59.9)
<i>Borrowings – non-current</i>		
Bank and other loans	(1,335.2)	(1,894.8)
Other current borrowings	(221.2)	(340.8)
Leases	(1,409.3)	(1,419.3)
Total non-current borrowings	(2,965.7)	(3,654.9)
Total net borrowings	37.9	(3,048.9)
Discontinued operations net borrowings	-	(215.1)
Total Group net borrowings	37.9	(3,264.0)

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

	Unaudited	Year ended 31
	Half year ended 30	March 2020
	September 2020	March 2020
	£m	£m
Cash and cash deposits as above	2,420.1	665.9
Cash and cash deposits held in Disposal Group	-	33.3
Less: deposits with a maturity of three months or more (restricted funds)	(231.0)	(227.2)
	2,189.1	472.0

Restricted funds of £231.0 million (31 March 2020 £227.2 million) are deposited with lessors which are available for access, subject to being replaced by an equivalent valued security.

Other short-term deposits of £650.5 million (31 March 2020 £nil) comprise cash on short-term deposit with maturity of greater than three months at the time of deposit.

PENNON GROUP PLC

Notes to condensed half year financial information (continued)

14. Net borrowings (continued)

The movements in net borrowings during the periods presented were as follows:

Unaudited						
	Net borrowing at 1 April 2019 £m	IFRS 16 transition adjustment £m	Cash flows £m	Foreign exchange adjustments £m	Other non-cash movements £m	Net borrowings at 30 September 2019 £m
Cash and cash deposits	569.6	-	(41.6)	-	-	528.0
Bank and other loans due within one year	(59.8)	-	53.6	-	(4.0)	(10.2)
Other current borrowings	(27.0)	-	13.5	-	(13.5)	(27.0)
Leases due within one year	(63.6)	(8.9)	18.1	-	(33.3)	(87.7)
Bank and other loans due after one year	(1,628.0)	-	(49.9)	(1.1)	4.3	(1,674.7)
Other non-current borrowings	(373.9)	-	-	-	16.5	(357.4)
Leases due after one year	(1,496.8)	(112.3)	(85.0)	-	27.1	(1,667.0)
Total	(3,079.5)	(121.2)	(91.3)	(1.1)	(2.9)	(3,296.0)

Unaudited						
	Net borrowing at 1 April 2020 £m	Cash flows £m	Transfer between non-current and current £m	Other non-cash movements £m	Viridor disposal £m	Net borrowings at 30 September 2020 £m
Cash and cash deposits	665.9	1,754.2	-	-	-	2,420.1
Other short-term deposits	-	650.5	-	-	-	650.5
Bank and other loans due within one year	(7.6)	4.0	(4.0)	(0.1)	-	(7.7)
Other current borrowings	(33.1)	19.6	(16.2)	-	-	(29.7)
Leases due within one year	(19.2)	7.3	(15.0)	(2.7)	-	(29.6)
Bank and other loans due after one year	(1,894.8)	559.4	4.0	(3.8)	-	(1,335.2)
Other non-current borrowings	(340.8)	103.4	16.2	-	-	(221.2)
Leases due after one year	(1,419.3)	(5.0)	15.0	-	-	(1,409.3)
Net (borrowings) / cash	(3,048.9)	3,093.4	-	(6.6)	-	37.9
Net borrowings in Disposal Group	(215.1)	15.3	-	(1.9)	201.7	-
Net (borrowings) / cash in Total Group	(3,264.0)	3,108.7	-	(8.5)	201.7	37.9

PENNON GROUP PLC

Notes to condensed half year financial information (continued)

15. Fair value disclosure for financial instruments

Fair value of financial instruments carried at amortised cost.

Financial assets and liabilities which are not carried at an amount which approximates to their fair value are:

	Unaudited		Year ended	
	Half year ended 30 September 2020	Fair value	31 March 2020	Fair value
	Book value	Fair value	Book value	Fair value
	£m	£m	£m	£m
Non-current borrowings:				
Bank and other loans	1,335.2	1,572.9	1,894.8	2,141.6
Other non-current borrowings	221.2	208.3	340.8	324.3
Non-current borrowings excluding leases	1,556.4	1,781.2	2,235.6	2,465.9

Valuation hierarchy of financial instruments carried at fair value

The Group uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments not traded in an active market (level 2, for example over-the-counter derivatives) is determined by using valuation techniques. A variety of methods and assumptions are used based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

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

	Unaudited	
	Half year ended 30 September 2020	Year ended 31 March 2020
	£m	£m
Level 2 inputs		
Assets		
Derivatives used for hedging	1.1	3.4
Derivatives deemed held for trading	4.2	3.4
Total assets	5.3	6.8
Liabilities		
Derivatives used for hedging	41.9	34.1
Derivatives deemed held for trading	-	0.2
Total liabilities	41.9	34.3

PENNON GROUP PLC
Notes to condensed half year financial information (continued)
16. Retirement benefit obligations
Defined benefit schemes

The principal actuarial assumptions were: the rate used to discount schemes' liabilities and expected return on scheme assets of 1.55% (March 2020 2.30%) and the inflation assumption of 2.95% (March 2020 2.65%).

	Unaudited			Year ended		
	Half year ended 30 September 2020			31 March 2020		
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Present value of obligation £m	Fair value of plan assets £m	Total £m
At beginning of period	(685.3)	691.9	6.6	(994.8)	934.0	(60.8)
Amounts recognised in the income statement	(11.2)	7.9	(3.3)	(29.2)	22.3	(6.9)
Remeasurements through other comprehensive income	(127.7)	56.6	(71.1)	42.8	(25.1)	17.7
Company contributions (including settlement accrual)	-	44.6	44.6	-	41.5	41.5
Benefits and expenses paid	17.6	(17.6)	-	38.4	(38.4)	-
Effect of settlements/curtailments	55.3	(53.6)	1.7	-	-	-
Transfer (from) / to liabilities directly associated with assets held for sale	(216.5)	186.2	(30.3)	257.5	(242.4)	15.1
At end of period	(967.8)	916.0	(51.8)	(685.3)	691.9	6.6

Prior to the completion of the Viridor sale, the responsibilities for certain pension schemes that Viridor participated in transferred to Pennon Group plc. The net liabilities of the transferred obligations were £30.3 million.

Certain schemes that transferred from Viridor to Pennon were in respect of Viridor's Greater Manchester contract which ceased in May 2019. In respect of these obligations an agreement was reached, in September 2020, to transfer the liabilities of the active employees of the Greater Manchester contract to the new operator's pension fund. This resulted in a gain on settlement of £6.0 million which has been recognised in non-underlying items within discontinued operations (see note 21). A settlement payment of £7.2 million has been recognised in connection with this settlement and this was made after the balance sheet date.

The Group completed its employee consultation to modernise its ongoing pension arrangements. The outcome of the consultation resulted in a decision to close the Pennon's principal defined benefit pension scheme to future accrual with effect from 30 June 2021. This resulted in a curtailment charge of £4.3 million, which has been included within non-underlying items for the Continuing Group (see note 5).

The net gain of £1.7 million in respect of the settlement in connection with Greater Manchester and the curtailment charge is shown in the effects of settlements and curtailments.

17. Capital expenditure

	Unaudited	Year ended 31 March 2020 ⁽¹⁾ £m
	Half year ended 30 September 2020 ⁽¹⁾ £m	
Property, plant and equipment		
Additions	110.1	326.9
Net book value of disposals	2.5	15.4
Capital commitments		
Contracted but not provided for the Continuing Group	86.2	72.0

(1) The additions and net book value of disposals in the half year to 30 September 2020 and the year ended 31 March 2020 reflect additions for the Full Group

PENNON GROUP PLC

Notes to condensed half year financial information (continued)

18. Trade and other payables & other non-current liabilities

	Unaudited	
	Half year ended 30	Year ended 31
	September 2020	March 2020
	£m	£m
Trade and other payables - current		
Trade payables	42.6	64.2
Contract liabilities	2.0	2.0
Other tax and social security	3.0	2.8
Accruals	31.3	15.5
Other payables	21.1	30.8
	100.0	115.3
Other non-current liabilities		
Contract liabilities	126.5	122.9

19. Contingencies

Contingent liabilities

	Unaudited	
	Half year ended 30	Year ended 31
	September 2020	March 2020
	£m	£m
Performance bonds	-	197.1

Guarantees in respect of performance bonds are entered into in the normal course of business. No liability is expected to arise in respect of the guarantees. All of the performance bonds related to the activities of the Disposal Group and have been transferred on completion of the sale.

Other contractual and litigation uncertainties

The Group establishes provisions in connection with contracts and litigation where it has a present legal or constructive obligation as a result of past events and where it is more likely than an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. In previous accounting periods, there were matters where it was uncertain that these conditions had been met in respect of discontinued operations. Following the disposal these uncertainties do not impact the Continuing Group.

20. Related party transactions

Up to the point of the sale of Viridor on 8 July 2020, the Group's significant related parties during the period were its joint venture in Lakeside Energy from Waste Holdings Limited and its joint venture in INEOS Runcorn (TPS) Holdings Limited, for which disclosures were made in the Pennon Group plc Annual Report and Accounts for the year ended 31 March 2020.

These joint venture interests formed part of Viridor's operations and following the disposal these are no longer related parties to the Continuing Group.

PENNON GROUP PLC
Notes to condensed half year financial information (continued)
21. Discontinued operations and non-current assets held for sale

On 18 March 2020, the Group entered into a formal sale agreement to dispose of Viridor Limited to Planets UK Bidco Limited (Bidco), a newly formed company established by funds advised by Kohlberg Kravis Roberts & Co. L.P. (KKR). The Viridor business which represented the entirety of the waste operating segment was classified as a discontinued operation at that date. Consequently, Viridor has not been presented as an operating segment in the segment note. The sale completed on 8 July 2020 and the results of the discontinued operation and the effect of the disposal on the financial position of the Group were as follows:

	Unaudited					
	Before non- underlying items half year ended 30 September 2020 £m	Non- underlying items ⁽¹⁾ half year ended 30 September 2020 £m	Total half year ended 30 September 2020 £m	Before non- underlying items half year ended 30 September 2019 £m	Non-underlying items ⁽²⁾ half year ended 30 September 2019 £m	Total half year ended 30 September 2019 £m
Discontinued operations						
Revenue	192.2	-	192.2	386.6	-	386.6
Operating costs						
Employment costs	(33.9)	1.1	(32.8)	(69.2)	2.2	(67.0)
Raw materials and consumables used	(22.4)	-	(22.4)	(49.1)	-	(49.1)
Other operating expenses	(81.6)	(1.7)	(83.3)	(175.9)	-	(175.9)
Earnings before interest, tax, depreciation and amortisation	54.3	(0.6)	53.7	92.4	2.2	94.6
Depreciation and amortisation	-	-	-	(43.7)	-	(43.7)
Operating profit	54.3	(0.6)	53.7	48.7	2.2	50.9
Finance income	6.0	-	6.0	10.8	-	10.8
Finance costs	(17.2)	(56.8)	(74.0)	(25.3)	-	(25.3)
Net finance costs	(11.2)	(56.8)	(68.0)	(14.5)	-	(14.5)
Share of post-tax profit from joint ventures	4.3	-	4.3	7.3	-	7.3
Profit before tax	47.4	(57.4)	(10.0)	41.5	2.2	43.7
Taxation (charge)/credit	(8.2)	8.9	0.7	(3.7)	(0.4)	(4.1)
Profit from operating activities, net of tax	39.2	(48.5)	(9.3)	37.8	1.8	39.6
Gain on sale of discontinued operation	-	1,729.3	1,729.3	-	-	-
Profit from discontinued operations, net of tax	39.2	1,680.8	1,720.0	37.8	1.8	39.6
Attributable to:						
Ordinary shareholders of the parent			<u>1,720.0</u>			<u>39.6</u>

- (1) In the half year ended 30 September 2020 the non-underlying items in discontinued operations reflect employments costs (restructuring, accelerated share scheme charges and a settlement gain on transfer of pension liabilities), other operating restructuring costs and finance costs relating to debt retirements.
- (2) In the half year ended 30 September 2019 the non-underlying items related to a curtailment gain on defined benefit pension commitments in respect of employees working on the Greater Manchester contract moving from active to deferred status.

PENNON GROUP PLC

Notes to condensed half year financial information (continued)

21. Discontinued operations and non-current assets held for sale (continued)

	Unaudited	
	Half year ended 30 September 2020	Half year ended 30 September 2020
	£m	£m
Cash flows from / (used in) discontinued operations		
Cash generated from operations	6.0	96.5
Interest paid	(13.8)	(26.0)
Tax (paid) / received	(4.4)	5.5
Cash flows from operating activities after interest and tax paid	(12.2)	76.0
Cash flows from investing activities	(24.0)	(82.0)
Cash flows from financing activities, net of intercompany	(65.1)	(15.0)
Net cash flows from discontinued operations, net of intercompany	(101.3)	(21.0)

Effect of disposal of the financial position of the Group

The net assets relating to the Disposal Group at the date of disposal and the gain on disposal are shown below

	Unaudited
	8 July 2020
	£m
Net assets disposed of and gain on disposal	
Goodwill	340.8
Other intangible assets	86.9
Property, plant and equipment	1,619.2
Other non-current assets	266.7
Investments in joint ventures	64.4
Inventories	33.4
Trade and other receivables	321.4
Current tax asset	0.6
Cash and cash deposits	39.0
Borrowings	(240.7)
Trade and other payables	(158.5)
Provisions	(236.8)
Other non-current liabilities	(12.7)
Retirement benefit obligations	1.5
Deferred tax liabilities	(109.4)
Net assets disposed of	2,015.8
Consideration received in cash, net of transaction costs	3,691.2
Deferred consideration	54.0
Gain on sale before income tax and reclassification of reserves	1,729.4
Items previously recognised in equity recycled to the income statement	(0.1)
Gain on sale of discontinued operation	1,729.3
Net cash inflow arising on disposal	
Consideration received in cash and cash equivalents, net of transaction costs	3,691.2
Less cash and cash deposits disposed of	(39.0)
	3,652.2

Notes to condensed half year financial information (continued)

21. Discontinued operations and non-current assets held for sale (continued)

Deferred consideration

Under the Sale Agreement deferred consideration may be receivable in future. The Company considers that the amount of deferred consideration could be up to £0.2 billion, dependent upon future actions and the outcome of underlying events. As required under IFRS and the Company's accounting policies, the latest available information is used to determine a range of possible outcomes and a probability weighting for each of those outcomes to determine the fair value. This approach is in accordance with the Level 3 valuation technique for determining the fair value of financial instruments. The Company has estimated the fair value of this amount to be £54.0 million which has been recognised in other financial assets.

Taxation on the discontinued operations

The gain on sale of discontinued operations qualified for the Substantial Shareholding Exemption and consequently was not subject to corporation tax.

Pennon Group plc

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www.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 4.2.4, DTR 4.2.7R and DTR 4.2.8R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the period and their impact on the unaudited condensed half year financial information; a description of the principal risks and uncertainties for the remaining six months of the current financial year; and the disclosure requirements in respect of material related party transactions.

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

The Directors of Pennon Group plc at the date of the signing of this announcement and statement are:

Gill Rider
Neil Cooper
Iain Evans
Claire Ighodaro
Jonathan Butterworth
Susan Davy
Paul Boote

For and on behalf of the Board of Directors who approved this half year report on 23 November 2020.

S J Davy
Group Chief Executive Officer

P M Boote
Group Finance Director

INDEPENDENT REVIEW REPORT TO PENNON GROUP PLC**Introduction**

We have been engaged by the Company to review the condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 30 September 2020 which comprises the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated statement of changes in equity, the Consolidated statement of cash flows and related notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRS as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and 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-yearly financial report for the six months ended 30 September 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
Leeds
23 November 2020

PENNON GROUP PLC

Alternative performance measures

Alternative performance measures (APMs) are financial measures used in this report that are not defined by International Financial Reporting Standards (IFRS). The Directors believe that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group as well as enhancing the comparability of information between reporting periods.

As the Group defines the APMs they might not be directly comparable to other companies' APMs. They are not intended to be a substitute for, or superior to, IFRS measurements. The following APMs have been amended from those presented previously to reflect the changing nature of the Group following the sale of Viridor:

- The APM for Adjusted EBITDA (adjusted earnings before interest, tax, depreciation and amortisation) has been removed as this measure was used to adjust for the impact of Viridor's share of EBITDA from its joint ventures and finance income on service concession arrangements. Following the disposal of Viridor these adjustments to properly assess performance are no longer required
- The Group return on capital employed measure has been removed. Due to Pennon Group holding a net cash position at 30 September 2020 this does not provide suitable comparability to previous measures to allow a meaningful assessment of performance
- The Total Group Effective interest rate has been replaced as this measure does not provide comparability as the Group is in a net cash position at 30 September 2020. The more relevant measure of the Group's management of interest rates is in respect of South West Water Limited, which is in a net borrowing position. The calculations have therefore been presented for this entity
- Group dividend cover is not presented in the half year APM disclosure. The ratio represents a measure of full year adjusted profit and dividend performance and cannot be calculated on a comparable basis using half year adjusted profits and the interim dividend
- Other measures have been updated to reflect continuing operations, rather than Total Group measures to ensure a meaningful comparison.

(i) Underlying earnings

Underlying earnings are presented alongside statutory results as the Directors believe they provide a more useful comparison on business trends and performance. Note 5 in the condensed half year financial information provides more detail on non-underlying items, and a reconciliation of underlying earnings for the current year and the prior year is as follows:

Underlying earnings reconciliation 30 September 2020	Total Group underlying (including discontinued operations) £m	Underlying discontinued operations £m	Non- underlying items from continuing operations £m	Statutory results £m	Earnings per share p
EBITDA	228.8	54.3	(24.8)	149.7	
Operating profit	169.1	54.3	(24.8)	90.0	
Profit before tax	134.1	47.4	(24.8)	61.9	
Taxation	(24.5)	(8.2)	4.8	(11.5)	
Profit after tax from continuing operations				50.4	
Profit after tax from discontinued operations				1,720.0	
Profit after tax (PAT)				1,770.4	
Non-controlling interests				0.2	
PAT attributable to shareholders				1,770.6	420.9
Deferred tax before non-underlying items				12.3	2.9
Non-underlying items post tax				(1,660.8)	(394.8)
Underlying earnings				122.1	29.0

PENNON GROUP PLC

Alternative performance measures (continued)

(i) Underlying earnings (continued)

**Underlying earnings reconciliation
30 September 2019**

	Total Group underlying (including discontinued operations) £m	Underlying discontinued operations £m	Non- underlying items from continuing operations £m	Statutory results £m	Earnings per share p
EBITDA	283.9	92.4	-	191.5	
Operating profit	180.7	48.7	-	132.0	
Profit before tax	142.9	41.5	18.0	119.4	
Taxation	(24.4)	(3.7)	(4.8)	(25.5)	
Profit after tax from continuing operations				93.9	
Profit after tax from discontinued operations				39.6	
Profit after tax (PAT)				133.5	
PAT attributable to perpetual capital holders				(7.0)	
Non-controlling interests				0.1	
PAT attributable to shareholders				126.6	30.1
Deferred tax before non-underlying items				15.6	3.8
Non-underlying items post tax				(15.0)	(3.6)
Proportional adjustment on perpetual capital securities				3.5	0.8
Underlying earnings				130.7	31.1

(ii) South West Water Limited effective interest rate

A measure of the mean average interest rate payable on South West Water Limited's net debt, which excludes interest costs not directly associated with South West Water Limited net debt. This measure is presented to assess and monitor the relative cost of financing for South West Water Limited.

	H1 2021 £m	H1 2020 £m
Net finance costs after non-underlying items	27.6	17.3
Non-underlying net finance costs	-	18.0
Net interest on retirement benefit obligations	-	(0.4)
Capitalised interest	0.6	1.6
Net finance costs for effective interest rate calculation	28.2	36.5
Opening net debt	2,307.2	2,062.5
Closing net debt	2,286.6	2,272.3
Average net debt (opening net debt + closing net debt divided by 2)	2,296.9	2,167.4
Effective interest rate (%)	2.5	3.4

(iii) Continuing operations interest cover

Underlying net finance costs (excluding pensions net interest cost) divided by operating profit before non-underlying items.

	H1 2021 £m	H1 2020 (restated) £m
Net finance costs after non-underlying items	28.1	12.6
Add back: non-underlying net finance credit	-	18.0
Net interest on retirement benefit obligations	(0.6)	(0.5)
Net finance costs for interest cover calculation	27.5	30.1
Operating profit before non-underlying items	114.8	132.0
Interest cover (times)	4.2	4.4

PENNON GROUP PLC

Alternative performance measures (continued)

(iv) Continuing operations capital investment

Property, plant and equipment additions. The measure is presented to assess and monitor the total capital investment by the Group.

	H1 2021	H1 2020 (restated)
	£m	£m
Property, plant and equipment additions to property, plant and equipment	73.4	77.6
Intangible additions to property, plant and equipment	0.1	-
Capital investment	73.5	77.6

(v) Continuing operations capital payments

Payments for property, plant and equipment (PPE) additions net of proceeds from sale of PPE. The measure is presented to assess and monitor the net cash spend on PPE.

	H1 2021	H1 2020 (restated)
	£m	£m
Cash flow statements: purchase of property, plant and equipment	113.1	194.7
Cash flow statements: purchase of intangible assets	0.1	-
Cash flow statements: proceeds from sale of property, plant and equipment	(0.1)	(10.6)
Capital payments relating to the Total Group	113.1	184.1
Capital payments relating to discontinued operations	(32.3)	(93.7)
Capital payments relating to continuing operations	80.8	90.4

(vi) Continuing operations operational cash inflows and other movements

Cash generated from operations before pension contributions and other movements.

	H1 2021	H1 2020 (restated)
	£m	£m
Cash generated from operations per cash flow statements	126.6	244.2
Remove: cash generated from discontinued operations	(6.0)	(96.5)
Cash generated from operations from the Continuing Group	120.6	147.7
Other movements (1)	(2.0)	(1.1)
Pension contributions	36.0	32.1
Operational cash inflows and other movements	154.6	178.7

- (1) Other movements reflect operational movements not related to operating cash flows, such as proceeds from share issues and share trust purchases for the employee share schemes.

Alternative performance measures (continued)

(vii) RORE

This is a key regulatory metric which represents the returns to shareholders expressed as a percentage of regulated equity.

Returns are made up of a base return (set by Ofwat, the water business regulator, at c.3.9% for 2021-25) plus totex outperformance, financing outperformance and ODI outperformance. Returns are calculated post tax and post sharing (only a proportion of returns are attributed to shareholders and shown within RORE). The three different types of return calculated and added to the base return are:

- Totex outperformance – totex is defined below and outperformance is the difference between actual reported results for the regulated business compared to the Final Determination (Ofwat published document at the start of a regulatory period), in a constant price base
- Financing outperformance – is based on the difference between a company's actual effective interest rate compared with Ofwat's allowed cost of debt
- ODI outperformance – the net reward or penalty a company earns based on a number of different key performance indicators, again set in the Final Determination

Regulated equity is a notional proportion of regulated capital value (RCV which is set by Ofwat at the start of every five-year regulatory period, adjusted for actual inflation). For 2021-25, the notional equity proportion is 40.0%.

Further information on this metric can be found in South West Water's annual performance report and regulatory reporting, published in July each year. The most recent can be found at: www.southwestwater.co.uk/about-us/how-are-we-performing.

(viii) Totex

Operating costs and capital expenditure of the regulated water and wastewater business (based on the Regulated Accounting Guidelines).

(ix) Outcome Delivery Incentive (ODI)

ODIs are designed to incentivise companies to deliver improvements to service and outcomes based on customers' priorities and preferences. If a company exceeds these targets a reward can be earned through future higher revenues. If a company fails to meet them, they can incur a penalty through lower future allowed revenues.