FINANCIAL HIGHLIGHTS

- Operating profit [1] up 9.8% to £136.8m.

SOUTH WEST WATER – up 3.9% to £101.8m.

Viridor – up 22.1% to £33.1m.

- Profit before tax [2] up 3.2% to £86.8m.
- Earnings per share [3] up 2.7% to 18.7p.
- Dividend
  - Interim dividend per share up 8.0% to 6.75p.
  - continued dividend policy of 3% per annum real increases to 2009/10.
- Group well funded with cash balances of £306m at 30 September.
- £100m additional facility from the EIB for SWW secured in November.
- Group businesses well positioned in the current economic slow-down.

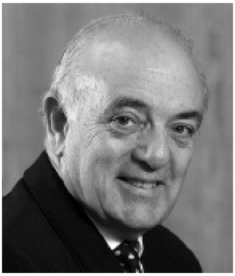
	H1 2008/09 £m	H1 2007/08 £m	Growth %
Operating profit			
Statutory operating profit	132.8	122.8	8.1
Non-underlying costs :			
- Restructuring – South West Water	3.4	1.0	
- Intangibles amortisation – Viridor	0.6	0.8	
(1) Underlying operating profit	136.8	124.6	9.8
Profit before tax			
Statutory profit before tax	82.8	82.3	0.6
Non-underlying costs :			
- Restructuring – South West Water	3.4	1.0	
- Intangibles amortisation – Viridor	0.6	0.8	
(2) Underlying profit before tax	86.8	84.1	3.2
Earnings per share			
Statutory earnings per share	9.3p	22.9p	-59.4
Non-underlying costs :			
- Restructuring (after tax) – South West Water	0.7p	0.2p	
- Intangibles amortisation – Viridor	0.2p	0.2p	
Deferred tax	8.5p	(5.1p)	
(3) Underlying earnings per share	18.7p	18.2p	2.7

SOUTH WEST WATER

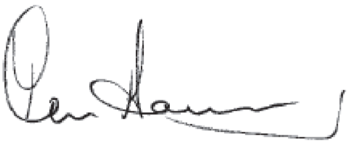
- On target to deliver 2005 – 2010 Regulatory Contract.
- Strong growth in Regulatory Capital Value 2005 – 2010, due to reach £2.7bn by end of K4.
- Ofwat K4 operating cost efficiency target achieved 18 months early.
- Leakage performance maintained in 2007/08 – amongst the very best in the industry.
- Capital investment of £67.4m.
- Draft Business Plan submitted to Ofwat for period 2010-15.

Viridor

- Continued strong growth in PBITA.
- 14 year, 450,000 tonnes pa recycling, anaerobic digestion and disposal contracts secured with South London Waste Partnership.
- Renewables Obligation power generation output sold forward to March 2010 in May at favourable rates.
- Business mix and profits well diversified.



"I am again pleased to announce further profitable growth in the Group. Our focus remains our two key businesses, South West Water and Viridor, and we are delivering the benefits of that strategy. South West Water remains on target to deliver the current regulatory contract to 2010 and has submitted its Draft Business Plan for the next regulatory period (2010 – 2015). Viridor continues to deliver a strong performance based on both organic growth and sound acquisitions. The Group businesses are both well positioned in the current economic slow-down."



Ken Harvey, Chairman

GROUP OVERVIEW

Throughout this report, unless otherwise stated, all figures are underlying results excluding restructuring costs, intangibles amortisation and deferred tax.

- Revenue rose by 15.5% to £503.3m.
- Operating profit rose by 9.8% to £136.8m.
- Profit before tax increased 3.2% to £86.8m.
- Earnings per share increased by 2.7% to 18.7p. Statutory earnings per share fell from 22.9p to 9.3p.
- Group capital expenditure was £107.9m (H1 2007 – £109.0m).
- Net borrowings were £1,810m, an increase of £46m since 31 March 2008. Gearing, being net borrowings to shareholders' funds plus net borrowings, was 76% (2007 – 73%).
- The Group has substantial cash resources and committed facilities - well placed in current financial market conditions.
- South West Water net debt to RCV was 58% (31 March 2008 – 60%).
- Net interest cover was 2.9 times for the half year to 30 September 2008 (H1 2007 – 3.2 times).
- The interim dividend of 6.75p per share represents an increase of 8.0% over the equivalent figure for the half year to 30 September 2007. It will be paid on 8 April 2009 to shareholders on the register on 23 January 2009. The Company will once again be offering a DRIP (Dividend Re-Investment Plan).

SOUTH WEST WATER

South West Water's revenues rose 3.8% to £223.1m as a result of tariff increases and new connections, offset by customer switching and lower demand. Approved tariff increases, including the 1.7% K factor, amounted to £14.1m. Customers switching from unmeasured to metered charging caused a reduction of £4.4m in turnover. 64% of South West Water's domestic customers are now metered. 4,200 new customer connections contributed £2.0m of additional turnover. A decrease in measured demand, largely due to the wet summer, reduced turnover by £5.2m.

South West Water's operating profit rose 3.9% to £101.8m. Operating costs, excluding depreciation, increased by 2.7% to £77.3m. Additional costs from new capital schemes of £0.4m and inflation of £3.8m, were partially offset by £2.0m of efficiency savings. 2008/09 power prices have been fixed below the headline inflation rate. Depreciation increased by £2.3m to £44.0m principally as a result of new capital schemes.

The cost of bad debts rose more slowly than the tariff increase in the first half of the year. South West Water is progressing a number of customer debt management initiatives and has commenced an incentivised debt and collections contract with Accenture. Performance has benefited from new operational systems and processes.

There are as yet no signs that the economic slow-down is impacting adversely on collecting from those customers from whom we would expect to collect. Further debt collection initiatives include segmented recovery strategies and a proactive approach to debtor management through the Watercare and Restart programmes and the use of debt collection agencies.

Capital expenditure in the half year was £67.4m (H1 2007 - £76.6m). £48.5m was invested in water supply improvements including water mains renovation and water treatment works enhancement. Continued high levels of investment in the £240m water mains renovation programme to replace or reline 3,200kms of water mains is a key element during the current K4 period. A further 180kms of water mains were laid, replaced or refurbished during the half year, in line with the Drinking Water Inspectorate's (DWI) agreed programme for completion by 2010. Drinking water quality was sustained at very high levels.

South West Water has put in place a comprehensive strategy to help ensure a continued secure supply of water for the region. 2008 was the twelfth consecutive summer with no water restrictions and it is most unlikely the company will need to use its pumped storage schemes this winter. In June South West Water further increased its storage capacity by the purchase of Stannon Lake (formerly a disused china clay pit) to complement the recently acquired Park Lake. This represents a significant addition to water resources in Cornwall and further increases the robustness of our water supply system. An abstraction licence has been granted by the Environment Agency (EA). Work will now be carried out to build the appropriate infrastructure and it is anticipated that the water from this new source will become available in 2009/10. Stannon and Park Lakes will form the region's fourth and fifth largest reservoirs respectively (behind Roadford, Wimbleball and Colliford).

Ofwat's latest report on leakage confirms that South West Water remains one of the leading companies in managing water leakage and continues to achieve Ofwat's leakage target of 84 ML/day. South West Water has achieved Ofwat's leakage targets every year since their inception. In 2007/08 South West Water maintained its low level of leakage and continues to have one of the very lowest levels in the industry.

2007/08 waste water treatment works performance was at an all time high. The region features the highest proportion of high quality rivers in England. Investment expenditure predominantly on small maintenance and improvement projects, totalled £18.9m for the half year.

The target of £13m per annum of efficiency savings by the end of the K4 period has already been achieved 18 months early. The company is implementing detailed plans targeting outperformance of the operating cost efficiency targets set by Ofwat for the period up to 2010. Efficiency projects are under way to create a platform to enable further improvements to operational and customer service performance. South West Water is continuing to drive and deliver efficiencies through investment in infrastructure to move the organisation towards a more centralised operational structure employing increased levels of automation and remote working. The company has also implemented a significant ongoing programme of organisational restructuring across the business which has cost £7.4m so far. £3.4m was spent in H1 and it is expected that a further £1.6m will be provided in the second half of 2008/09. To support operational and service improvements, a number of employee development programmes are under way.

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

Regulatory Capital Value (RCV) is expected to grow by 39% over the K4 period to £2.7bn by March 2010 – the highest forecast percentage increase of any quoted UK water company. After adjusting for the effect of the 2006 capital return, the company expects its growth in RCV to outstrip significantly the anticipated growth in net borrowings up to 2010.

The company's Draft Business Plan, which forms part of the 2009 Periodic Review process, was submitted to Ofwat in August. A cost of capital of 4.6% post tax real was assumed but will be further reviewed as market conditions develop, and updated for the Final Business Plan submission in April 2009. The Draft Plan sets out in detail all of the company's plans for the period to 2015 and now goes forward for a period of consultation. A Final Business Plan is due for submission to Ofwat in April 2009. Following a Draft Determination in July 2009, Ofwat will make a Final Determination in November 2009 of the price limits for the 5 years from 1 April 2010. A summary of the Draft Business Plan is available on the Group's website **www.pennon-group.co.uk**

Given the nature of its business, South West Water has only limited exposure to the current economic slow-down. There has been some reduction in measured volumes as a result of both the economic conditions and exceptionally wet summers in 2007 and 2008. However, the impact of the slow-down is expected to be less for South West Water than for many other water companies because it has a lower than average proportion of industrial activity in its area. As noted above, there are as yet no signs that customer debt has increased as a result of current conditions.

VIRIDOR

Viridor traded strongly in the six months ended 30 September 2008, building further on the growth achieved over the past seven years. Revenue was up 27.0% to £281.1m. This increase included landfill tax of £79.3m, up £14.6m on H1 2007.

Viridor's earnings before interest, tax, depreciation and amortisation of intangibles (EBITDA) for the half year rose 13.0% from £49.1m to £55.5m. Profit before interest, tax and amortisation of intangibles (PBITA) rose by 22.1% to £33.1m, compared to £27.1m in 2007/08. Viridor's business mix has been successfully diversified, as evidenced by the breakdown of the company's profits : landfill accounted for 43% of profit contribution, power generation 19% and recycling 23% (H1 2007 : 52%, 19% and 8% respectively). The increase reflected 7% organic growth (9% excluding one-offs in the first half of 2007/08) plus a full six months' contribution from Grosvenor Waste Management (acquired December 2007) and Shore Recycling (acquired March 2008). Within the existing business, power generation and recycling performed particularly strongly. Recyclate prices were high in the first half but are now low which will impact the segment's second half performance.

Profit before tax at £18.9m was up 12.5%. Capital expenditure for the half year was £40.5m (H1 2007 - £32.3m).

Total landfill disposal volumes decreased by 0.2m tonnes (6.2%) to 2.5m tonnes in the half year. The decrease was primarily due to the absence of non-recurring items present in H1 2007, as flagged last year end, and a reduction in third party industrial and commercial volumes. Volumes from domestic customers and Viridor's own inputs increased over the period. Average revenue per tonne increased by 9% (to £20.77 per tonne) more than offsetting increased fuel and leachate removal costs. Margins per tonne increased by circa 20p per tonne. Consented landfill void fell from 84m cubic metres at 31 March 2008 to 83.6m cubic metres at 30 September 2008, reflecting usage during the period offset by planning gains totalling 2.7m cubic metres.

Viridor's landfill gas power generation output increased a further 6.6% to 245 GWH in the six months to 30 September 2008. Viridor's average revenues per Megawatt hour (MWh) grew by 18% to £66 reflecting the growth in ROC-able energy contract prices highlighted last year. Taking advantage of favourable market conditions in May 2008, Viridor sold forward its ROC-able electricity to March 2010. At 30 September 2008, Viridor's landfill gas power generation capacity was 85MW compared with 84MW at the previous year end (both figures exclude a small amount of sub-contract capacity). As reported previously, Viridor now collects around 90% of the estimated total methane generated by its landfill and uses the majority of this for energy generation. This has the double environmental benefit of reducing emissions of methane to the atmosphere (methane is 21 times as harmful as CO^2 as a greenhouse gas) and generating renewable energy. At the same time Viridor earns significant profits from this aspect of its business. At 30 September 2008 57% of Viridor's power generating capacity was eligible for Renewable Obligation Certificates (ROCs) and 43% for Non Fossil Fuel Obligation (NFFO).

The UK is required under the EU Landfill Directive to reduce the amount of biodegradable municipal waste going to landfill sites. Municipal waste accounts for around one third of Viridor's landfill market. The alternatives to landfill sites for final waste disposal in the UK are currently limited. In order to meet the requirements of the Landfill Directive, local authorities have been set statutory targets by the Government for the recycling of household waste and must also implement strategies for the diversion of biodegradable municipal waste away from landfill. In addition, Landfill Tax is now rising by £8 per tonne per annum, which increases the competitiveness of recycling in pure cost terms. There is also a worldwide long term requirement for raw materials, especially in Asia and elsewhere in the Far East, and half of the UK's waste paper is now reprocessed overseas. Viridor is capitalising on both of these situations by recycling/recovering materials in the UK and then selling direct to mills and other users in the UK and worldwide. Viridor now recycles and composts around 1.5m tonnes per annum of a broad range of product through its network of 18 Materials Reclamation Facilities (comprising two each dedicated to glass and waste electrical and electronic equipment, and 14 handling general municipal recyclables), 72 Household Waste Recycling Centres and 10 composting sites throughout the UK.

In the short term recyclate prices are volatile, being high in the first half of the year and currently low reflecting general world economic conditions which will inevitably impact the segment's financial performance in the second half year. However Viridor's recycling operations are well diversified: they cover a broad range of products and grades; 40% of revenues come from gate fees and 60% from recyclate sales; of the latter some 50% is exported through an established international distribution network; and, given that international recyclate prices are denominated in dollars, Viridor benefits from the reduction in the value of sterling. Total contribution from recycling in the half year grew by 233% (67% excluding acquisitions); full year growth will be less than this.

Within the contracts business, the Somerset PPP and West Sussex PFI continue to perform well. Profits from the collection business were down slightly reflecting high fuel costs and the volume impact of UK economic conditions.

As part of its overall strategy, Viridor is pursuing a number of further energy from waste opportunities. The Lakeside joint venture with Grundon Waste Management comprises a 400k tonnes and up to 37MW energy from waste (EfW) plant at Colnbrook near Heathrow. As previously reported, it involves £160m capex financed by 86% non-recourse debt with the balance split equally between the two equity providers. Construction is advanced and a profit contribution is expected in 2009/10.

In 2007 Viridor achieved planning permission for a 60k tonnes and 3MW electricity plus heat EfW plant in Exeter. It is also pursuing other possible long term EfW opportunities in Cardiff and Dunbar. Planning permission was achieved for the EfW plant at Runcorn in September (part of the Greater Manchester PFI contract). The company has also received planning permission for 2 anaerobic digestion plants, at Beddington and Walpole, and proposes 5 further plants for Greater Manchester (4 of which already have planning permission).

Public Private Partnership (PPP) and Private Finance Initiative (PFI) contracts are also a key part of Viridor's strategy and Viridor will continue to bid selectively for further such contracts. The Institute of Civil Engineers estimates that up to £30bn needs to be invested in municipal waste facilities in the UK by 2020. Viridor is already operating PFI or PPP contracts at West Sussex, Somerset and Poole. In addition, in September 2008 it won a 450k tonnes, 14 year contract for recycling, anaerobic digestion and disposal for the South London Waste Partnership (a consortium of four South London boroughs).

It was reported last year that the Viridor/Laing consortium had achieved preferred bidder status on the Greater Manchester PFI, the UK's largest waste contract. The main commercial aspects of the contract have been agreed. Preliminary works are underway. As noted above, planning permissions have been secured for a majority of the facilities, including in September 2008 for a strategic waste combined heat and power plant at Runcorn (up to 750k tonnes per annum, 70MW electricity plus heat). Financial close on the contract is being delayed by the impact of the current debt markets, but substantial progress has been made.

Viridor also continues to bid selectively for other contracts and is one of the last two bidding for the Oxfordshire PPP, one of the last four for the Cheshire PFI and one of the last four for Medway PPP, as well as being in the bidding for other contracts.

Overall Viridor is well positioned in the face of the economic uncertainties in the UK and abroad on account of its diversified business mix. Although it is by no means immune to current unfavourable economic conditions, the impact is likely to be limited compared to other companies. Viridor has sold its ROC-able power generation forward to 31 March 2010 at the favourable prices seen in the summer of 2008. 60% of volume landfilled by the Company is either domestic waste or from Viridor's own collection fleet, both of which are less affected by general economic conditions. In its recycling segment we have noted the significant volatility in recyclate prices which are now appreciably lower than in the first half and will impact second half performance in this segment, but even here there are mitigating factors as noted above: Viridor handles a broad range of products and grades;

it receives gate fees (currently 40%) as well as revenue from sale of recyclate (60%); its established UK and international distribution network (exports 50% of recyclate sales) enables it to seek out the best revenue opportunities across a range of countries; and as international prices for recyclate are denominated in dollars the recent decline in international recyclate prices is partly offset by the decline in the value of sterling.

GROUP FINANCIAL POSITION

The Group has substantial cash resources and committed facilities, and is well placed in current financial market conditions. Cash balances of £306m were held at 30 September 2008, of which £252m related to South West Water. The cash held by South West Water has resulted from prudent pre-funding of the capital programme. The Group currently has committed undrawn facilities of £318m. Committed funding is in place to cover South West Water's requirements well beyond March 2010.

The total net interest charge (excluding pensions net interest and discount unwind on provisions) increased by £7.2m to £46.7m. The average interest rate on net debt for the Group was 5.2% (31 March 2008 – 5.2%) and for South West Water was 5.0% (31 March 2008 – 4.7%). This is believed to be amongst the lowest in the sector.

The Group funding strategy utilises a mix of fixed, floating and index-linked rate borrowings. To reduce the risk of adverse interest rate movements, South West Water has swap arrangements in place to fix the interest rate on circa 60% of its net debt up to March 2010. In addition, circa £350m or circa 25% of South West Water current net debt is index-linked to 2041 – 2057, at an average real rate of 1.66%. A substantial portion of debt is finance leasing which gives a long maturity profile.

Group debt repayments of circa £31m are due to be made by 31 March 2009 and a further £236m by March 2010 (including £43m due by December 2009). Since 30 September the Group has secured £100m additional committed funds from the European Investment Bank (EIB).

The following financing initiatives have been implemented since 31 March 2008:

- Group :
  – successful renewal of £55m committed Revolving Credit Facilities.
- South West Water :
  – £100m 15 year additional committed funding secured from the EIB to be drawn over the next 12 months.
- Viridor :
  – £25m 5 year to 10 year machinery and plant finance lease facility.

The fair value benefit (ie the difference between the book value and fair value of Group debt) has increased from £170m to £188m at 30 September 2008. The Group's average debt maturity is now 23 years.

PENSIONS

The Group's pension schemes had a deficit (net of deferred tax) under IAS 19 at 30 September 2008 of circa £42m, representing less than 3% of current market capitalisation.

The increase in the net deficit of £23m from 31 March 2008 results primarily from reduced equity values impacting fund assets.

TAXATION

The mainstream corporation tax charge for the half year to September 2008 was £20.9m (H1 2007 - £19.7m) giving a mainstream effective tax rate of 25% (H1 2007 – 24%).

Deferred tax for the half year to 30 September 2008 was a £29.5m charge (H1 2007 - £17.9m credit), of which £29.2m related to the abolition of industrial buildings allowances as contained in the 2008 Finance Act (2007 – change of tax rate).

RISKS AND UNCERTAINTIES

Whilst the current UK and worldwide economic situation is uncertain, as noted above, both businesses are well positioned in the current economic climate and have limited exposure to unfavourable conditions from the economic slow-down. The other principal risks and uncertainties facing the Group are set out on pages 14, 24-27 and 35 of the Group's 2008 Annual Report and Accounts which can be viewed on or downloaded from the Group's website, **www.pennon-group.co.uk** or obtained from the Company Secretary at the Company's registered office. In accordance with DTR 4.2.7 the principal risks and uncertainties for the remaining six months of the financial year of the Group are :

- reduced revenue from decreasing demand;
- reductions in volumes of waste disposed of to landfill arising from the impact of the UK Government's waste strategy and market conditions generally;
- changing recyclate prices driven by global supply/demand trends as outlined above;
- as noted above, progress on the finalisation of the Greater Manchester PFI contract is being held back by the current debt market position; and
- increased pension net liabilities due to market forces affecting liabilities and fund value.

STRATEGY AND PROSPECTS

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

South West Water is successfully delivering the current five year regulatory contract and is expected to grow significantly its Regulatory Capital Value to circa £2.7 billion by 2010. As part of the 2009 Periodic Review process, a Draft Business Plan for the next five year period (2010 – 2015) has been submitted to the regulator, Ofwat.

Viridor's successful strategy to create long term sustainable profit growth is expected to continue through capitalising on its strong position in landfill waste disposal, maximising its landfill gas renewable energy generation and energy from waste and pursuing profitable opportunities in line with the Government's landfill, recycling and renewable energy targets.

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

Ken Harvey, Chairman
28 November 2008

DISCLAIMER IN RESPECT OF FORWARD-LOOKING STATEMENTS

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

CONSOLIDATED INCOME STATEMENT
for the half year ended 30 September 2008

	Note	Half year ended 30 September 2008 (Unaudited) £m	Half year ended 30 September 2007 (Unaudited) £m	Year ended 31 March 2008 £m
Revenue	5	**503.3**	435.9	875.0
Operating costs				
Manpower costs (excluding restructuring costs)		**(54.9)**	(50.6)	(100.4)
Raw materials and consumables used		**(31.7)**	(25.7)	(54.8)
Other operating expenses		**(213.6)**	(171.2)	(349.8)
Depreciation		**(66.3)**	(63.8)	(127.9)
Restructuring costs		**(3.4)**	(1.0)	(4.0)
Amortisation of intangibles		**(0.6)**	(0.8)	(1.3)
Operating profit	5	**132.8**	122.8	236.8
Finance income		**24.7**	19.2	42.0
Finance costs		**(74.7)**	(59.7)	(129.4)
Share of post-tax profit from joint ventures		**–**	–	0.2
Profit before tax	5	**82.8**	82.3	149.6
Taxation	6	**(50.4)**	(1.8)	(16.0)
Profit for the period		**32.4**	80.5	133.6
Profit attributable to equity shareholders		**32.4**	80.5	133.6
Earnings per share (pence per share)	7			
- Basic		**9.3**	22.9	38.2
- Diluted		**9.2**	22.7	37.9
Dividend per share (pence per share)	8	**6.75**	6.25	19.81
Dividend proposed for the period (£m)	8	**23.6**	21.8	69.1

All operating activities are continuing operations.

The notes on pages 17 to 27 form part of these condensed half year financial statements.

	Unaudited		
	Half year ended 30 September 2008 £m	Half year ended 30 September 2007 £m	Year ended 31 March 2008 £m
Profit for the period	**32.4**	80.5	133.6
Actuarial (losses)/gains on defined benefit schemes	**(37.6)**	8.2	5.1
Cash flow hedges			
Net fair value gains/(losses)	**0.4**	(3.1)	(12.7)
Tax on items taken directly to or transferred from equity	**10.5**	(3.3)	(1.4)
Net (losses)/gains taken directly to equity	**(26.7)**	1.8	(9.0)
Total recognised income for the period	**5.7**	82.3	124.6
Attributable to equity shareholders	**5.7**	82.3	124.6

The notes on pages 17 to 27 form part of these condensed half year financial statements.

	Note	Unaudited 30 September 2008 £m	Unaudited 30 September 2007 £m	31 March 2008 £m
Assets				
Non-current assets				
Goodwill		**234.6**	134.3	234.6
Other intangible assets		**8.6**	7.0	9.2
Property, plant and equipment		**2,705.6**	2,601.6	2,663.0
Other non-current assets		**10.6**	8.5	10.4
Derivative financial instruments		**3.9**	12.9	4.0
Investments accounted for using equity method		**1.4**	1.4	1.4
		2,964.7	2,765.7	2,922.6
Current assets				
Inventories		**6.4**	5.3	6.6
Trade and other receivables		**203.6**	160.6	164.7
Derivative financial instruments		**–**	–	11.9
Cash and cash desposit	12	**306.0**	340.3	357.4
		516.0	506.2	540.6
Liabilities				
Current liabilities				
Borrowings	12	**(82.7)**	(86.2)	(89.2)
Derivative financial instruments		**–**	–	(17.0)
Trade and other payables		**(247.7)**	(227.2)	(204.2)
Current tax liabilities		**(52.3)**	(53.1)	(43.1)
Provisions for other liabilities and charges		**(17.0)**	(12.7)	(18.1)
		(399.7)	(379.2)	(371.6)
Net current assets		**116.3**	127.0	169.0
Non-current liabilities				
Borrowings	12	**(2,033.4)**	(1,868.1)	(2,032.0)
Other non-current liabilities		**(3.8)**	(1.9)	(4.0)
Derivative financial instruments		**–**	–	(0.5)
Retirement benefit obligations		**(58.4)**	(37.0)	(26.3)
Deferred tax liabilities		**(326.2)**	(299.1)	(307.2)
Provisions for other liabilities and charges		**(80.0)**	(87.0)	(81.3)
		(2,501.8)	(2,293.1)	(2,451.3)
Net assets		**579.2**	599.6	640.3
Shareholders' equity				
Share capital	9	**144.5**	144.5	144.5
Share premium account	10	**11.7**	11.7	11.7
Capital redemption reserve	10	**144.2**	144.2	144.2
Retained earnings and other reserves	10	**278.8**	299.2	339.9
Total shareholders' equity		**579.2**	599.6	640.3

The notes on pages 17 to 27 form part of these condensed half year financial statements.

	Note	Unaudited Half year ended 30 September 2008 £m	Unaudited Half year ended 30 September 2007 £m	Year ended 31 March 2008 £m
Cash flows from operating activities				
Cash generated from operations	11	**164.5**	165.1	337.1
Interest paid		**(48.8)**	(37.6)	(96.7)
Tax paid		**(11.7)**	(3.1)	(21.0)
Net cash generated from operating activities		**104.0**	124.4	219.4
Cash flows from investing activities				
Interest received		**16.3**	6.2	17.0
Acquisition of subsidiary undertakings (net of cash acquired)		**(3.4)**	–	(89.0)
Return of loan from joint venture		**–**	–	0.1
Purchase of property, plant and equipment		**(121.1)**	(111.9)	(219.2)
Proceeds from sale of property, plant and equipment		**0.5**	0.2	1.1
Net cash used in investing activities		**(107.7)**	(105.5)	(290.0)
Cash flows from financing activities				
Purchase of ordinary shares subsequently cancelled		**–**	(5.9)	(5.9)
Purchase of ordinary shares held as treasury shares		**–**	(40.8)	(43.4)
Proceeds from treasury shares re-issued		**1.3**	1.4	1.6
Ordinary shares acquired by the Pennon Employee Share Trust		**–**	(0.3)	(0.3)
Release/(deposit) of restricted funds		**97.8**	(2.1)	(106.7)
Net proceeds from new borrowing		**–**	308.7	473.5
Repayment of borrowings		**(11.9)**	(54.4)	(157.5)
Finance lease drawdowns		**–**	10.1	110.4
Finance lease principal repayments		**(4.6)**	(5.1)	(20.4)
Dividends paid		**(21.8)**	(20.8)	(65.6)
Net cash received from financing activities		**60.8**	190.8	185.7
Net increase in cash and cash equivalents		**57.1**	209.7	115.1
Cash and cash equivalents at beginning of period	12	**227.4**	112.3	112.3
Cash and cash equivalents at end of period	12	**284.5**	322.0	227.4

The notes on pages 17 to 27 form part of these condensed half year financial statements.

1. GENERAL INFORMATION

Pennon Group Plc is a company incorporated in the United Kingdom under the Companies Act 1985.

The address of the registered office is given on page 29. Pennon Group's business is operated through two main subsidiaries: South West Water Limited holds the water and sewerage appointments for Devon, Cornwall and parts of Dorset and Somerset, Viridor Limited's business is waste treatment and disposal.

These condensed half year financial statements were approved by the Board of Directors on 26 November 2008.

The financial information for the year ended 31 March 2008 does not constitute full financial statements within the meaning of section 240 of the Companies Act 1985. The full financial statements for that year were approved by the Board of Directors on 26 June 2008 and have been delivered to the Registrar of Companies. The independent auditors' report on those financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

2. BASIS OF PREPARATION

These condensed half year financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS34 "Interim financial reporting" as adopted by the European Union (EU). These condensed half year financial statements should be read in conjunction with the Pennon Group Plc Annual Report and Accounts for the year ended 31 March 2008, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

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

3. ACCOUNTING POLICIES

The accounting policies adopted in these condensed half year financial statements are consistent with those applied and set out in the Pennon Group Plc Annual Report and Accounts for the year ended 31 March 2008 and are also in accordance with all IFRS and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) expected to be applicable for the year ended 31 March 2009 in issue which have been endorsed by the European Union and effective at 31 March 2009.

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

IFRS2	"Share-based payment" (revised)
IFRS3	"Business combinations" and consequential amendments to IAS27 "Consolidated and separate financial statements" (revised)
IFRS8	"Operating segments"
IAS1	"Presentation of financial statements" (revised)
IAS23	"Borrowing costs" (revised)
IAS32	"Financial instruments : presentation" (revised) and consequential amendments to IAS1 "Presentation of financial statements"
IAS39	"Financial instruments : recognition and measurement" (amendment)
IFRIC12	"Service concession arrangements"
IFRIC13	" Customer loyalty programmes"

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

4. ACQUISITIONS

The accounting for the acquisition in the year ended 31 March 2008 of Grosvenor Waste Management Limited (renamed Viridor Resource Management Limited) and Ledge 806 Limited (renamed Viridor Electrical Recycling (Holdings) Limited), the holding company of Shore Recycling Limited, remains provisional at 30 September 2008.

5. SEGMENT INFORMATION

	Unaudited		
	Half year ended 30 September 2008 £m	Half year ended 30 September 2007 £m	Year ended 31 March 2008 £m
Revenue			
Water and sewerage	**223.1**	215.0	421.0
Waste management	**281.1**	221.3	455.1
Other	**4.3**	4.4	8.4
Less intra-segment trading *	**(5.2)**	(4.8)	(9.5)
	503.3	435.9	875.0
Segment result			
Underlying operating profit before interest, tax, depreciation, amortisation (EBITDA)			
Water and sewerage	**145.8**	139.7	270.0
Waste management	**55.5**	49.1	101.0
Other	**1.8**	(0.4)	(1.0)
	203.1	188.4	370.0
Underlying operating profit			
Water and sewerage	**101.8**	98.0	185.0
Waste management	**33.1**	27.1	58.1
Other	**1.9**	(0.5)	(1.0)
	136.8	124.6	242.1
Operating profit			
Water and sewerage	**98.4**	97.0	181.0
Waste management	**32.5**	26.3	56.8
Other	**1.9**	(0.5)	(1.0)
	132.8	122.8	236.8
Underlying profit before tax			
Water and sewerage	**64.9**	65.2	120.5
Waste management	**18.9**	16.8	35.5
Other	**3.0**	2.1	(1.1)
	86.8	84.1	154.9
Profit before tax			
Water and sewerage	**61.5**	64.2	116.5
Waste management	**18.3**	16.0	34.2
Other	**3.0**	2.1	(1.1)
	82.8	82.3	149.6

5. SEGMENT INFORMATION (continued)

All operating activities are continuing operations.

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

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

A reconciliation between underlying and reported measures is included in the financial highlights on page 1.

6. TAXATION

	Unaudited		
	Half year ended 30 September 2008 £m	Half year ended 30 September 2007 £m	Year ended 31 March 2008 £m
Analysis of charge :			
Current tax	**20.9**	19.7	25.0
Deferred tax	**0.3**	4.5	12.0
Deferred tax arising on abolition of industrial buildings allowances (2007 change of rate)	**29.2**	(22.4)	(21.0)
Total deferred tax	**29.5**	(17.9)	(9.0)
	50.4	1.8	16.0

UK corporation tax is calculated at 28% (2008 30%) of the estimated assessable profit for the year. The tax charge for September 2008 and September 2007 has been derived by applying the anticipated effective annual tax rate to the first half year profit before tax.

The deferred tax charge has been increased by a non-recurring charge of £29.2m reflecting the phasing out of industrial buildings allowances over three years commencing 1 April 2008. The deferred tax charge for the year ended 31 March 2008 was reduced by a non-recurring credit of £21.0m reflecting the reduction in the rate of UK corporation tax from 30% to 28% effective from 1 April 2008.

The effective tax rate for the period before the £29.2m charge in respect of the abolition of industrial buildings allowances was 26% and after the deferred tax charge 61%. For the six months to 30 September 2007 the effective tax rate for the period before the benefit of the £22.4m deferred tax credit was 29% and after the deferred tax credit 2%.

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

7. BASIC AND DILUTED EARNINGS PER SHARE

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

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

	Unaudited		
	Half year ended 30 September 2008	Half year ended 30 September 2007	Year ended 31 March 2008
Weighted average number of ordinary shares (millions)			
For basic earnings per share	**347.7**	351.8	349.7
Effect of dilutive potential ordinary shares from share options	**2.3**	3.1	2.7
For diluted earnings per share	**350.0**	354.9	352.4

Underlying basic and diluted earnings per share

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

	Unaudited								
	Half year ended 30 September 2008			Half year ended 30 September 2007			Year ended 31 March 2008		
	Profit after tax £m	**Earnings per share Basic p**	**Earnings per share Diluted p**	Profit after tax £m	Earnings per share Basic p	Earnings per share Diluted p	Profit after tax £m	Earnings per share Basic p	Earnings per share Diluted p
Earnings per share	**32.4**	**9.3**	**9.2**	80.5	22.9	22.7	133.6	38.2	37.9
Restructuring costs (net of tax)	**2.4**	**0.7**	**0.7**	0.7	0.2	0.2	3.3	0.9	0.9
Amortisation of intangibles	**0.6**	**0.2**	**0.2**	0.8	0.2	0.2	1.3	0.4	0.4
Deferred tax	**29.5**	**8.5**	**8.4**	(17.9)	(5.1)	(5.0)	(9.0)	(2.6)	(2.5)
Underlying earnings per share	**64.9**	**18.7**	**18.5**	64.1	18.2	18.1	129.2	36.9	36.7

All operating activities are continuing operations.

8. DIVIDENDS

Amounts recognised as distribution to equity holders in the period:	Unaudited **Half year ended 30 September 2008 £m**	Unaudited Half year ended 30 September 2007 £m	Year ended 31 March 2008 £m
Interim dividend paid for the year ended 31 March 2008 : 6.25p (2007 5.85p) per share	**21.8**	20.8	20.8
Final dividend approved for the year ended 31 March 2008 : 13.56p (2007 12.7p) per share	**47.3**	44.8	44.8
	69.1	65.6	65.6

Proposed interim dividend	Unaudited **Half year ended 30 September 2008 £m**	Unaudited Half year ended 30 September 2007 £m	Year ended 31 March 2008 £m
Proposed interim dividend for the year ended 31 March 2009 : 6.75p (2008 6.25p) per share	**23.6**	21.8	21.8

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

The interim dividend of 6.75p per share will be paid on 8 April 2009 to shareholders on the register on 23 January 2009.

9. SHARE CAPITAL

Allotted, called up and fully paid

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

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

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

The weighted average price of the Company's shares at the date of exercise of Sharesave options during the half year was 612p (2007 602p).

10. RESERVES

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

1 April 2008 to 30 September 2008	Unaudited		
	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves £m
At 1 April 2008	11.7	144.2	339.9
Profit for the period	–	–	32.4
Other recognised income and expense for the period	–	–	(26.7)
Dividends paid or approved	–	–	(69.1)
Adjustment in respect of share-based payments	–	–	1.0
Proceeds from treasury shares re-issued	–	–	1.3
At 30 September 2008	**11.7**	**144.2**	**278.8**

NOTES

11. CASH FLOW FROM OPERATING ACTIVITIES

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

	Unaudited		
	Half year ended 30 September 2008	Half year ended 30 September 2007	Year ended 31 March 2008
Cash generated from operations	**£m**	£m	£m
Profit for the period	**32.4**	80.5	133.6
Adjustments for:			
Employee share schemes	**1.0**	1.3	1.9
(Profit)/loss on disposal of property, plant and equipment	**(0.3)**	0.1	–
Depreciation charge	**66.3**	63.8	127.9
Amortisation of intangible assets	**0.6**	0.8	1.3
Share of post-tax profit from joint ventures	**–**	–	(0.2)
Finance income	**(24.7)**	(19.2)	(42.0)
Finance costs	**74.7**	59.7	129.4
Taxation	**50.4**	1.8	16.0
Changes in working capital *(excluding the effect of acquisition of subsidiaries):*			
Decrease/(increase) in inventories	**0.2**	(0.2)	(0.6)
Increase in trade and other receivables	**(30.3)**	(37.8)	(29.9)
Increase in trade and other payables	**5.4**	11.1	12.5
(Decrease)/increase in retirement benefit obligations	**(6.5)**	5.2	(7.3)
Decrease in provisions for liabilities and charges	**(4.7)**	(2.0)	(5.5)
Net cash generated from operations	**164.5**	165.1	337.1

12. NET BORROWINGS

	Unaudited		
	30 September 2008 £m	30 September 2007 £m	31 March 2008 £m
Cash and cash deposits	**306.0**	340.3	357.4
Borrowings – current			
Bank overdrafts	**(7.9)**	(11.5)	(18.6)
Other current borrowings	**(15.2)**	(23.2)	(15.5)
Finance lease obligations	**(59.6)**	(51.5)	(55.1)
Total current borrowings	**(82.7)**	(86.2)	(89.2)
Borrowings – non-current			
Bank and other loans	**(706.4)**	(618.8)	(706.4)
Other non-current borrowings	**(190.2)**	(204.3)	(201.8)
Finance lease obligations	**(1,136.8)**	(1,045.0)	(1,123.8)
Total non-current borrowings	**(2,033.4)**	(1,868.1)	(2,032.0)
Total net borrowings	**(1,810.1)**	(1,614.0)	(1,763.8)

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

	Unaudited		
	30 September 2008 £m	30 September 2007 £m	31 March 2008 £m
Cash and cash deposits as above	**306.0**	340.3	357.4
Bank overdrafts as above	**(7.9)**	(11.5)	(18.6)
	298.1	328.8	338.8
Less : deposits with a maturity of three months or more	**(13.6)**	(6.8)	(111.4)
	284.5	322.0	227.4

NOTES

13. CAPITAL EXPENDITURE

	Unaudited		
	Half year ended 30 September 2008 £m	Half year ended 30 September 2007 £m	Year ended 31 March 2008 £m
Property, plant and equipment			
Additions	**107.9**	109.0	222.8
Net book value of disposals	**0.2**	0.3	1.1
Capital commitments			
Contracted but not provided	**79.9**	77.0	91.2
Share of commitment contracted but not provided by joint venture	**13.1**	39.0	13.3

14. CONTINGENT LIABILITIES

There have been no material changes to the Group's contingent liabilities since 31 March 2008.

15. RELATED PARTY TRANSACTIONS

The Group's significant related party remains its joint venture in Lakeside Energy from Waste Holdings Limited as disclosed in the Pennon Group Plc Annual Report and Accounts for the year ended 31 March 2008. There was no material change in transactions with this related party in the period. The joint venture in Echo South West Limited ceased operation on 31 March 2008.

DIRECTORS' RESPONSIBILITIES STATEMENT

TThe Directors named below confirm on behalf of the Board of Directors that these unaudited condensed half year financial statements have been prepared in accordance with IAS34 "Interim financial reporting" as adopted by the European Union and to the best of their knowledge the interim management report herein includes a fair review of the information required by DTR4.2.7 and DTR4.2.8 of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the period and their impact on the unaudited condensed half year financial statements;
a description of the principal risks and uncertainties for the remaining six months of the current financial year; and the disclosure requirements in respect of material related party transactions.

The Directors of Pennon Group Plc are listed in the Annual Report and Accounts for the year ended 31 March 2008 and there has been no change since that date with the exception of Ms K M H Mortimer who sadly died in July 2008.

For and on behalf of the Board of Directors

K G Harvey	D J Dupont
Chairman	Group Director of Finance

27 November 2008

Pennon Group Plc

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

Registered in England No. 2366640

www.pennon-group.co.uk