PENNON GROUP PLC **28 November 2013**

HALF YEAR REPORT ON THE SIX MONTHS ENDED 30 SEPTEMBER 2013

Pennon Group announces its unaudited results for the half year ended 30 September 2013.

A presentation for City audiences will be held today, Thursday 28 November 2013, at 09:00am at the Auditorium, Bank of America Merrill Lynch Financial Centre, 2 King Edward Street, London, EC1A 1HQ. A live audio webcast of the results presentation will be available at pennon-group.co.uk/investor/presentations and a recording of the presentation will be available thereafter.

For further information today, 28 November 2013, please contact :

David Dupont	Group Director of Finance - Pennon	}	0207 251 3801
Jo Finely	Investor Relations Manager - Pennon	}	
Sarah Heald	RLM Finsbury	}	

H1 2013/14 FINANCIAL AND CORPORATE HIGHLIGHTS

- Profit before tax[(1)] up 3.5% to £110.9m
  - South West Water up 7.6% to £87.3m
  - Viridor down 28.8% to £15.3m

- Viridor PBIT plus joint ventures down 15.8% to £23.4m
  - Viridor PBIT plus joint ventures up 31% compared with H2 2012/13

- Adjusted earnings per share up 2.6% to 23.8p[(1) (2) (3)]

- Dividend
  - Interim dividend per share up 7.2% to 9.39p

- Capital investment[(4)] up 9.0% to £205m

- Strong liquidity and funding position
  - £210m facilities secured/renewed since 31 March 2013
  - Total of £1,132m cash/committed facilities at 30 September 2013

- Pennon Group achieved top 10% position in FTSE350 Carbon Disclosure Project participants for quality of disclosure

(1) Comparatives restated for IAS 19 (Revised)

(2) Earnings per share before deferred tax and adjusted proportionately to reflect the half year impact of the annual hybrid capital periodic return

(3) Basic earnings per share (statutory basis) were 29.4p

(4) Including construction spend on service concession arrangements and on Peterborough EfW

H1 2013/14 OPERATIONAL HIGHLIGHTS

- **South West Water :**
  - Continued strong performance against the 2010-2015 regulatory contract
  - Robust operational performance and improving standards of customer service
    - Strong performance against bathing water compliance
    - Further improvement in
      - SIM[(1)] performance at the half year
      - first time resolution of written complaints
  - PBT up due to
    - Higher revenues and rigorous cost control
    - Efficiency delivery ahead of expectations

  - PR14 – Business Plan for 2015 – 2020 submission to Ofwat 2 December
    - a balanced, well evidenced and supported plan
    - Tariff freeze in 2014/15
      - no impact on shareholder value due to 6 year revenue NPV neutral smoothing supported by Ofwat
    - Followed by average bills below RPI through to 2020

(1) Service Incentive Mechanism

- **Viridor:**
  - Financial performance in line with management expectations
    - PBIT plus joint ventures in 2013/14 expected to be broadly similar to 2012/13
  - Improvement in recycling margins
  - Landfill energy focus
    - Maximising value of landfill gas generation
    - Managing decline in landfill inputs by concentrating on strategic sites and alternative uses
  - Key long term Energy from Waste (EfW) developments
    - Runcorn I commissioning under way
    - Significant progress in construction at Oxford, Cardiff and Exeter

- Glasgow and Peterborough construction commenced
- Beddington EfW planning permission approved May 2013. The Secretary of State and Mayor of London have elected not to exercise their right to call the approval in to appeal
- South East Wales residual waste project (Prosiect Gwyrdd) expected to sign shortly
- Down to last two bidders for Edinburgh and Midlothian, Central Bedfordshire and Wigan waste contracts

Ken Harvey, Chairman said:

“I am pleased to report further progress in the Group in the half year.

“South West Water is continuing its strong performance against the 2010-2015 regulatory contract and is well placed to outperform its assumptions. The company continues to deliver robust operational performance and improving standards of customer service, notwithstanding the extreme flooding and then the dry summer experienced during the first half of this year. South West Water is well prepared for PR14 and will publish its Business Plan on 2 December.

“I am also pleased to report that financial performance at Viridor in the first half of this year has been in line with management expectations. As previously stated this will be a transitional year for Viridor and the company expects PBIT plus joint ventures in 2013/14 to be broadly similar to 2012/13. Cost reductions are delivering an improvement in recycling margins per tonne compared with the second half of 2012/13, offsetting the trend decline in landfill. Viridor has continued to make strong progress on building its EfW business and securing base-load contracts. These projects are expected to drive the company’s long term profit growth.”

GROUP OVERVIEW[1]

- Revenue up by 5.3% to £667.0m

- Operating profit up by 2.6% to £139.7m

- Net interest payable reduced by 5% to £29.6m

- Profit before tax up 3.5% to £110.9m

- Adjusted earnings per share up by 2.6% to 23.8p[2]. Basic earnings per share increased from 25.4p to 29.4p

- Capital investment[3] up 9.0% to £205.1m

- Net borrowings £2,098m, an increase of £89m since 31 March 2013. Gearing, being net borrowings to (shareholders' funds plus net borrowings) was 65% (2012/13 – 65%). Net debt includes £549m for EfW plants under construction (Runcorn II, Exeter, Oxford, Cardiff and Glasgow)

- Substantial cash resources and committed facilities of £1,132m[4] to fund future investment - well placed in current financial market conditions

- South West Water net debt to RCV was 56.1% (31 March 2013 – 54.9%)

- Net interest cover (excluding pensions net interest, IFRIC 12 contract interest receivable and discount unwind on provisions) was 5.2 times (H1 2012/13 – 4.6 times)

- Average debt maturity 22 years

- Fair value of debt £261m less than book value

(1) Comparatives restated for IAS 19 (Revised)

(2) Earnings per share before deferred tax and adjusted proportionately to reflect the half year impact of the annual hybrid capital periodic return

(3) Including construction spend on service concession arrangements and on Peterborough EfW

(4) Including £146m deposits with Letter of Credit providers and lessors

DIVIDEND

The interim dividend of 9.39p per share represents an increase of 7.2%, in line with the previously announced policy to grow the Group dividend by 4% per annum above inflation up to the end of 2014/15.

The dividend will be paid on 3 April 2014 to shareholders on the register on 31 January 2014. The Company is also offering a scrip dividend alternative. The final date for receipt of forms of election/mandate in respect of the scrip dividend alternative for the interim dividend will be 10 March 2014.

SOUTH WEST WATER

South West Water is continuing its strong performance against the 2010-2015 regulatory contract with further advances in customer service. The company's profit before tax has increased benefiting from good cost control and continued efficiency delivery.

Financial Highlights

South West Water's operating profit for the half year increased by £6.5m (5.7%) to £121.3m.

Revenues rose 4.9% to £269.1m as a result of tariff increases, higher other sales and new connections, slightly offset by the effects of customers switching to a metered tariff. Approved tariff increases, including the 1.3% K factor, amounted to £12.7m and 3,100 new customer connections contributed £1.2m of additional revenue. Other sales increased by £1.2m predominantly as a result of higher developer services activity. Customers switching from unmeasured to metered charging reduced revenue by £2.5m. 78% of South West Water's domestic customers are now metered. Customer demand is in line with the same period last year, with lower demand at the start of the year from cold weather offset by higher demand over the summer period due to the drier weather.

Operating costs for the half year, including depreciation, increased from £141.7m to £147.8m.

Cost increases (including power, business rates and pensions) for H1 2013/14 were £4.8m. Cumulative cost increases over K5 continue to be lower than RPI for the same period. £1.7m of efficiencies have been delivered in this half year bringing the cumulative K5 delivery to £20.3m. Other cost increases were:

- costs from capital schemes of £1.8m (depreciation and asset maintenance costs relating to the increased emphasis on maintenance in the investment programme)
- £1.2m increased cost of sales from developer services income

South West Water's programme of organisational restructuring was weighted towards the beginning of K5. Costs this half year in relation to ongoing operational and organisational changes of £0.2m are in line with the same period last year.

The net interest charge of £34.0m was broadly in line with the first half of 2012/13, with higher RPI on indexed linked facilities and the costs of new borrowings being offset by lower LIBOR rates on other borrowings.

Profit before tax increased by 7.6% to £87.3m.

Capital expenditure in the first half of 2013/14 was £58.5m compared with £42.7m in the first half of 2012/13. Regulatory net capital expenditure(1) was £64.7m. The focus for the capital programme remains weighted towards asset maintenance schemes and increasing the resilience of the company's infrastructure.

Major investments for the half year include:

- A focus on improving water quality; upgrades at biggest water treatment works
- Safeguarding water supply and reducing interruptions; upgrades to strategic reservoir
- Targeting compliance; investment in 113 sites in past 2 years
- Investment in assets to improve shellfish and bathing water quality

The robustness of South West Water's networks and assets is illustrated by achieving Ofwat's 'stable serviceability' status in all areas.

(1) Capital expenditure including infrastructure renewals expenditure, less grants and contributions

Efficiency

South West Water remains ahead of target in delivering the required operating cost efficiency over K5.

The company has front end loaded delivery of the required 2.8%(1) p.a. average operating cost efficiencies with an average 3.8% p.a. delivered in the K period to date. This is being achieved through ongoing improvement programmes including:

- operational ways of working – integration of customer services management and asset improvements through the PUROS(2) programme
- energy procurement and usage – energy efficiency schemes alongside additional power generation through renewable sources
- rationalising administration and support services
- right-sourcing and innovative contracting – continued tenders to achieve the 'right price'

South West Water continues to deliver capital projects in line with Ofwat, Drinking Water Inspectorate and Environment Agency expectations. Expenditure for the K5 period to date continues to be favourable compared with the Capital Incentive Scheme baseline(3) and is targeted to achieve 5% outperformance of the Final Determination(4) K5 capital programme.

(1) average over K5 (2010-2015)

(2) PUROS – Phased Utilisation of Remote Operating Systems

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

(4) using 2009 Final Determination estimates of COPI

Operational Highlights

The 'Pure Water, Pure Service, Pure Environment' strategy is the cornerstone of South West Water's operations, targeting robust operational K5 performance and high standards of customer service underpinned by strong financial results.

Pure Water

A significant proportion of the company's capital programme in 2013/14 is focused on maintaining drinking water quality. South West Water aims to deliver a high level of water quality compliance as measured against the Drinking Water Inspectorate's tough quality standards.

South West Water is continuing to deliver industry-leading performance in reducing leakage levels and leakage targets have been met every year since their introduction.

Despite the drier weather over the summer South West Water successfully managed its water resources to enable a continued secure supply of water for the region, resulting in the 17th consecutive summer without hosepipe bans or drought orders.

Work continues on South West Water's innovative catchment management programme known as 'Upstream Thinking'. Designed to improve raw water quality and natural water storage in the landscape through improvements to agricultural land and moorland areas, the project remains on track to deliver the required activities for K5.

The project has been recognised for leading the way in business sustainability and for its positive environmental impact. This year it won the 'Living Wetlands Award' from the Chartered Institution of Water and Environmental Management (CIWEM).

Pure Service

South West Water's emphasis on service is delivering tangible improvements for customers and is reflected in reducing levels of customer complaints and an increase in the number of customer contacts resolved first time. South West Water is improving levels of customer satisfaction with continued improvements reflected in Ofwat's Service Improvement Mechanism (SIM) score which is increasing during 2013/14. In addition more customers feel they are receiving value for money, written complaints continue to fall for the fifth successive year and the company was recently ranked as a leading performer for resolving complaints first time.

South West Water continues to build on strategic investment made during the K5 period, such as using its customer relationship system to manage customer contacts through to first time resolution and providing online offerings such as 'My Account' account management and smartphone apps. In addition South West Water is working with the Institute of Customer Service (ICS) to invest in external benchmarked training for staff.

The cost of bad debts is comparable with the first half of the prior year. The charge, as a proportion of revenue at 1.8%, is consistent with the full year 2012/13, reflecting general economic conditions. Collection initiatives to further improve the bad debt position include using tracing tools to target former occupiers of newly vacated properties. The 'Restart' programme continues to incentivise customers to enter into regular payment plans. A number of schemes are in place to assist vulnerable customers in the region, including the successful introduction this year of a new social tariff 'WaterCare' which aims to assist customers by reducing their bills to an amount they can better afford to pay.

Pure Environment

The 2013 bathing season ended with the best bathing water quality results for seven years, with 132 (91%) of the region's beaches achieving the EU guideline standard (excellent status) and 144 (99%) of beaches achieving the mandatory standard (good status). This is a significant improvement on last year's results when 91 (62%) achieved the guideline and 133 (91%) the mandatory standards.

South West Water is committed to working with other organisations and local communities so that residents and visitors alike can continue to enjoy the region's beautiful beaches:

- the award winning 'Beach Live' service continues to provide beach users with real-time information about bathing water quality with new feeds and features implemented this year.

- South West Water has committed to spend up to £20m on a range of schemes to improve bathing water quality ahead of the European Union's Revised Bathing Water Directive coming into force in 2015.

Following an increase last year in the number of operational incidents giving rise to internal sewer floodings due to extreme wet weather, so far this year the company has achieved a major improvement in these results and incidents have fallen.

South West Water has maintained its investment in renewable energy, bringing the total expenditure for K5 to over £4m. Solar energy represents a significant proportion of this expenditure, with over one million kilowatt hours of solar energy generated last year.

The company continued its good performance against Ofwat's Key Performance Indicators (KPIs). Customer service, reliability and availability of supply, and key environmental impact measures all achieved 'green' status in 2012/13.

In addition South West Water delivered sector leading performance for current serviceability, security of supply and sludge disposal satisfaction.

Further improvements and investments are targeted at reducing waste water pollution incidents and improving treatment compliance at waste water treatment works.

Political and Regulatory Developments

Water Bill

The Government published the Water Bill on 27 June 2013 setting out a range of reforms for the water sector in England and to a lesser extent in Scotland and Wales. The Bill proposes to introduce both retail and wholesale competition and is expected to be enacted through Parliament next year. Preparations for market reform are under way with the retail market opening expected from April 2017.

South West Water is fully engaged in the 'Open Water' programme, governed by the Department for Environment, Food and Rural Affairs & Ofwat, which will shape market reform in the sector.

Building on the success of the 'Source for Business' range of specialist advice and support measures, the company has also applied for a retail water supply licence which will allow it to retail water to customers outside the region currently served.

PR14 Business Plan

On 2 December 2013 South West Water will be submitting its PR14 Business Plan to Ofwat. A City conference call will be held at 9.00am on 3 December.

The Plan reflects the most extensive customer/stakeholder engagement and research ever undertaken by the company and feedback indicates it has achieved 84% acceptability from customers.

The company said during this customer engagement process that it expected its prices would rise by less than inflation between 2015/16 and 2019/20, driven by efficiencies and a lower industry cost of capital. However under current plans customers would face an increase in bills in 2014/15. Research indicated that a price increase followed by reductions would not match customer preferences.

To reflect customer preferences South West Water is therefore announcing a tariff freeze for 2014/15, which will be achieved without loss of shareholder value. This is due to Ofwat's support for the company's proposal that the revenue foregone in 2014/15 will be taken into account in the forthcoming price review.

In addition to the 2014/15 tariff freeze the company is proposing that there will be no average bill increase in 2015/16 followed by below forecast inflation increases to 2019/20.

A summary of the Business Plan and other related documents, including an investor summary, will be available from 2 December 2013 on South West Water's website at www.southwestwater.co.uk/waterfuture

South West Water Outlook

South West Water continues to focus on efficient service delivery, improvements in service to customers, and the satisfaction of its regulatory and legislative obligations. It is on track to outperform the K5 regulatory contract.

South West Water has prepared a balanced Business Plan for the 2015-20 period, is engaged in the development of Ofwat's regulatory reform agenda and is well positioned for Government legislative changes.

VIRIDOR

Viridor's strategy is focussed on ***"transforming waste"***, adding substantial value through recycling and renewable energy generation. The focus for recycling activities is on the production of high quality materials, and management of the cost base to improve margins. The focus for the Landfill energy business is to maximise the value of landfill gas generation and to manage the expected decline in landfill inputs by concentrating on strategic sites and alternative uses. Viridor has made strong progress on the construction of its growing PPP/EfW asset base. EfW is central to the UK's waste and renewable energy strategies as the long term low cost alternative to landfill for disposal of residual waste. Viridor expects to have 15% market share by 2020 with a network of strategic facilities which will underpin the company's long term profit growth.

Financial Highlights

Revenue was up 5.3% to £398.2m. Recycling revenue decreased £5.5m due to lower prices, landfill was up £5.5m due to higher landfill tax and construction revenues were up, reflecting growth in assets under construction.

Viridor's earnings before interest, tax, depreciation and amortisation (EBITDA) for the half year decreased by £3.5m (7.8%) to £41.4m. PBIT fell £3.0m (14.3%) to £18.0m. PBIT plus joint ventures decreased by £4.4m (15.8%) to £23.4m, but was 30.7% higher than H2 2012/13.

Profit before tax decreased £6.2m (28.8%) to £15.3m reflecting lower PBIT plus joint ventures and the increased interest charge from higher provisions.

Capital expenditure including spend on service concession arrangements and on Peterborough EfW for the half year was £146.6m (H1 2012/13 - £145.4m) of which circa £131m was for Viridor growth projects (largely EfW) with the balance being maintenance of existing assets.

Operational Highlights

UK context

The UK is required under the EU Landfill Directive to reduce the amount of biodegradable municipal waste going to landfill sites. This is being achieved by a major increase in recycling, with residual waste increasingly being used for energy recovery. The latter is a form of biomass and is a significant source of renewable energy, already accounting for approaching 2% of total UK electricity production. Viridor believes that up to 6% of electricity could come from waste sources by 2015. This is particularly significant given recent issues in the energy sector.

The Government's main mechanism for diverting waste from landfill and incentivising recycling and EfW facilities remains landfill tax. The Government has reconfirmed the continuation of the increase in landfill tax of £8 a year from £72 per tonne from 1 April 2013 to £80 per tonne from 1 April 2014. This ongoing increase continues to enhance the long term economics of both recycling and energy recovery. In addition recyclate costs are typically significantly lower than the cost of using virgin materials for manufacturers.

Viridor is clearly focussed on recycling and waste based renewable energy. Investment in technology and operational practices has been successfully made to enhance recyclate quality to differentiate Viridor from its competitors. Significant progress has also been made in the development of the EfW business, with a substantial asset base being constructed in conjunction with the development of the associated business capability process across the whole "source to supply" EfW production.

Recycling

During the half year recycling volumes traded increased by 38k tonnes (4.0%) to 974k tonnes, of which 14k tonnes were from prior year acquisitions. Recyclate prices have stabilised to some degree for most commodities but remain under pressure, reflecting world economic conditions and competitive markets. Overall average revenues per tonne from recyclate sales and gate fees for the half year fell to £93, 9.4% lower than for H1 2012/13 and 6.1% lower than for H2 2012/13.

Action has been, and continues to be, taken to reduce the cost base with average cost per tonne reduced to £82 from last year's total of £93, including the impact of circa £3 per tonne from the 2012/13 impairment charge. Allied to an emphasis on production of high quality recyclate, the business is now benefitting from modest increases in volumes with continuing improvement in margins. The company remains cautious on the prospects for recyclate prices and therefore continues to focus on revenue optimisation and facilities rationalisation/cost reduction. Investment is also being made in technology, e.g. a new plastic/polymer separation plant at Rochester, to enhance product quality and continue to differentiate Viridor in the sector costing circa £15m. Viridor now has the most extensive Materials Recycling Facility (MRF) capacity in the UK with accreditations for export to China and is established as a quality brand in other far eastern markets.

Contracts and collection

Profits in “Contracts & Other” were up overall across the 15 municipal contracts around the UK (the more significant ones include Lancashire, Glasgow, Lakeside, Manchester, Somerset, West Sussex PFI and Bedfordshire (last full year)) and the Thames Water contract. Profits in the collection business were also up, reflecting increased management action. Viridor’s collection fleet continues to play an increasing role in feeding the company’s recycling and EfW plants.

Renewable Energy

Energy recovery from waste currently accounts for approaching 30% of total UK renewable energy (20% from landfill gas and the balance from combustion). Energy can be recovered in two ways, either via gas (notably landfill gas and anaerobic digestion) or combustion in EfW plants and similar facilities, some of which may be a part of Combined Heat and Power (CHP) schemes.

(a) Landfill gas power generation

Profit from gas generation was £14.3m, an increase of 36.1% on H1 2012/13.

Viridor’s landfill gas power generation output remained unchanged at its peak of 303 Gigawatt hours (GWh) reflecting a successful output optimisation programme.

Average revenue per Megawatt hour (MWh) increased reflecting the switch from legacy Non Fossil Fuel Obligation (NFFO) contracts to Renewables Obligation Certificates (ROCs) and average prices increased by 14.4% to £88.88 per MWh. Total landfill gas power generation operational capacity remained at 107MW (excluding 3MW capacity at sub-contract sites in Suffolk). The proportion of operational capacity eligible for ROCs increased to 80%, with the remaining 20% being on (lower priced) NFFO contracts. Further NFFOs migrate to ROCs during 2013/14 with the balance moving across by 2016/17.

Average costs were reduced by 3.2% to £41.55 per MWh.

(b) Energy from Waste (EfW) and Anaerobic (AD)

As well as the 107MW of landfill gas capacity, Viridor has a further 31MW of renewable energy capacity across its share of the Lakeside EfW, the Bolton EfW facility and the Greater Manchester Anaerobic Digestion (AD) operations.

In addition to the above operational projects, Viridor is pursuing a number of other renewable energy opportunities. Most notably, the company has been successfully implementing its strategic plan to develop the EfW business which underpins long term profit momentum. This includes establishing a significant asset base of EfW plants. A total capacity of at least 2.0m tonnes is expected to be constructed and operational by the end of 2015/16.

Five plants, being Runcorn I and II, Exeter, Ardley (Oxfordshire) and Cardiff, have reached advanced stages of build with all expected to burn waste and come on-stream in financial year 2014/15. Two others, Glasgow and Peterborough, commenced construction in the period.

Planning consent for the Beddington EfW was approved in May 2013. The Mayor of London and the Secretary of State both elected to waive their right to call the approval in for appeal and 'Notice to Proceed' is expected in spring 2014.

As part of continuing to secure waste for the EfW plants, the South East Wales residual waste project (Prosiect Gwyrrd) contract signing is expected shortly. Viridor has also reached the final bid stage as one of two bidders on the Central Bedfordshire, Wigan, and Edinburgh and Midlothian residual waste contracts, all of which are expected to be determined in H2 2013/14.

The Walpole AD plant, which has a 1MW export capacity, is now producing power. A further "closed loop" opportunity to use digestate as a biofertiliser is being assessed with the Environment Agency.

EfW contracts and projects already contribute to the bottom line and reflect the realisation of a strategy which is expected to add more than £100m to Viridor's EBITDA within the next three years.

Joint Ventures

Total joint ventures' contribution (comprising Lakeside, VLGM and TPSCo), which consists of interest on shareholder loans and share of profit after tax, fell 21% to £5.4m (H1 2012/13 - £6.8m).

(a) Lakeside

Lakeside, the first of Viridor's EfW pipeline projects, continues to perform well and has outperformed power generation and waste processing targets. H1 2013/14 contribution was £1.8m (H1 2012/13 £3.0m): interest receivable on shareholder loans was £0.7m, down £0.1m; and share of profit after tax from Lakeside was £1.1m (down £1.1m on the previous half year reflecting the expiry of the NFFO contract and higher maintenance costs). A further £1.3m contribution came from the sub-contract profit (included in the contracts segment above).

(b) Viridor Laing (Greater Manchester) (VLGM)

The 25 year Greater Manchester Waste PFI contract (being delivered through VLGM) is the UK's largest ever combined waste and renewable energy project. The company is a joint venture between Viridor and John Laing Infrastructure. Operation of the associated facilities (both existing facilities and those which are to be developed) is being carried out on a sub-contract basis by Viridor.

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

As part of the VLGM contract, a separate contractor was mandated to construct 43 facilities. As at 30 September 2013, 41 of these facilities had been formally taken over by Viridor. Since the half year end one further facility has been taken over. The 43 facilities include 4 mechanical biological treatment (MBT) plants. Three of these MBTs have been taken over and the remaining one is substantially complete, but has not yet been taken over due to isolated process elements not performing satisfactorily. The delay in takeover of the remaining plant is being addressed and is not expected to affect the financing of the project or have a material impact on the performance of the PFI.

Interest receivable on shareholder loans from the VLGM joint venture was £2.4m, down £0.1m (H1 2012/13 - £2.5m). Share of results after tax from VLGM on an IFRIC 12 basis was a loss of £0.3m, down £0.3m.

(c) Runcorn I (TPSCo)

Interest receivable on shareholder loans from the Runcorn I EfW joint venture was £1.5m, up £0.2m on H1 2012/13. Share of profit after tax was nil, in line with H1 2012/13.

The Runcorn EfW Phase I project is running around fifteen months behind schedule and in October reached the contractual longstop date which impacts both the TPSCo and VLGM credit agreements. Extensive discussions have been held between all involved parties, including lenders, and agreement in principle has been reached to allow the contractor to complete the project and bear further delay costs. The contractor has also committed significant additional manpower resources and the project has subsequently moved positively toward completion. Cold commissioning has now commenced on site and first burn of waste is scheduled for early 2014. Phase II has been only slightly affected by the Phase I issues and is on budget and at an advanced state of completion. At this point in time Viridor does not expect this delay to have a material impact on the completion and operation of the Greater Manchester PFI or TPSCo.

Landfill

The business continues to be strongly cash generative and contributed £13.2m to EBITDA in the first half of the year. Volumes were stable.

Average gate fees decreased by 11.8% to £23.28 per tonne. Consented landfill capacity reduced from 61.5 million cubic metres (mcm) at 31 March 2013 to 60.0mcm at 30 September 2013, reflecting usage during the period. As previously stated and provided for last year, 39mcm is not expected to be used.

The business plan now being implemented for the landfill business will see operations reduced to a few strategic landfill sites, reflecting the fact that there will still be demand for landfilling of certain materials for the foreseeable future. Other sites are being run to closure with an emphasis on maximising the value of electricity generation from landfill gas. Operations and management are being streamlined across the combined landfill and gas generation facilities.

Provisioning has been increased by circa £2.5m to meet end of life obligations which now cover a longer period.

Future alternative uses for sites are now also being assessed in detail. Early success has been achieved at Westbury with planning permission granted for a 2.75MW photovoltaic installation.

Landfill tax, which is passed directly to the customer, has increased to £72 per tonne and will rise further to £80 per tonne in April 2014.

Outlook for Viridor

Viridor has successfully transformed itself over the last decade from predominantly a landfill operator to being one of the country's leading recycling, renewable energy and waste management companies.

While there are some signs of improving economic trends, the company remains prudently cautious about the future prospects for recyclate prices. Viridor remains strongly focused on a stringent programme to optimise revenues and achieve efficiencies through facilities rationalisation/cost reduction to sustain margin improvement.

However, strong progress has been achieved in the development of the EfW business this half year with a number of major facilities nearing construction completion and two others being started. These assets represent a strategic EfW portfolio which is already making a significant contribution to Viridor's bottom line. The developing EfW business is expected to underpin the company's long term profit growth.

GROUP FINANCIAL POSITION

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

The Group has fixed or put in place swaps to fix the interest rate on at least 50% of South West Water's net debt for the remainder of the entire K5 period. The average rate achieved on the fixed rate debt is circa 3.4%. In addition £382m of South West Water's debt is index-linked at an overall real rate of 1.7%. Pennon Group's average interest rate for the half year to 30 September 2013 was 3.6% and South West Water's was 4.0%.

The Group had substantial cash resources and committed funding as at 30 September 2013 and is well placed in current financial market conditions:

- cash balances of £527m (SWW £288m), including £146m restricted cash
- undrawn facilities of £605m

During the six months to 30 September 2013 £210m of new and renewed facilities were secured. A further £30m has been renewed/secured since 30 September.

The Group's average debt maturity is 22 years.

The fair value of the Group's debt is £261m less than its book value.

PENSIONS

The Group's defined benefit pension schemes had a deficit (net of deferred tax) under IAS 19 at 30 September 2013 of circa £77m (£95m gross), a reduction of £3m on the 31 March 2013 balance (as restated for IAS 19R).

The net deficit represents circa 3% of current market capitalisation.

Schemes' assets increased from £580m at 31 March 2013 to £583m at 30 September 2013 and schemes' liabilities reduced from £680m to £678m over the same period.

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

The March 2013 actuarial valuation is under way.

TAXATION

Pennon takes seriously its responsibility for paying its fair share of tax.

The mainstream corporation tax charge for the half year (before prior year adjustment) was £27.0m (2012/13 – £32.9m) giving an effective current tax rate of 24% (2012/13 – 31%) which is above the current UK statutory corporation tax rate of 23%. The reduced rate reflects the increase in capitalised interest, increased capital allowances and the 1% reduction in the corporation tax rate.

Deferred tax for the half year was a credit of £28.2m (2012/13 credit – £8.0m) which included a credit of £40.1m from the impact of the reduction in the rate of corporation tax from April 2014.

CARBON DISCLOSURE PROJECT

For the first time Pennon Group has been commended for the quality of its disclosure of climate change information by the Carbon Disclosure Project (CDP) and is ranked in the top 10% of FTSE350 CDP respondents. As one of the largest environmental and resource management groups in the UK, Pennon is committed to leading the way in good environmental practice, both in how the Company operates in reducing its carbon emissions and in transparently recording and reporting its energy use.

The Group is featured in the CDP's "Climate Disclosure Leadership Index", a key component of the CDP's annual FTSE350 report which highlights the constituent companies within the FTSE350 Index which have displayed a strong approach to information disclosure regarding climate change. Companies are scored on their climate change disclosure and high scores indicate good internal data management and understanding of climate change-related issues affecting the company.

PRINCIPAL RISKS AND UNCERTAINTIES

In accordance with DTR 4.2.3 and 4.2.7 of the Disclosure and Transparency Rules the principal risks and uncertainties for the remaining six months of the financial year of the Group remain as set out on pages 36 to 47 inclusive of the Group's 2013 Annual Report and Accounts, namely:

South West Water

- changes in law, regulation or decisions by governmental bodies or regulators could have a material adverse effect on South West Water's financial results or operations;
- economic conditions could materially affect the company's revenues and profitability;
- poor operating performance or a failure or interruption of operating systems or the inability to carry out network operations or damage to infrastructure may have a material adverse impact on both the company's financial position and reputation;
- the failure or increased costs of capital projects or acquisitions or joint ventures not achieving predicted revenues or performance could have a material adverse effect on both the company's financial position and reputation;
- major failure of information technology systems could have a material adverse impact on South West Water's operations;
- uncertainty arising from market reforms could reduce the company's revenues; and
- loss of key stakeholder support and prolonged negative media campaign could materially affect the company's revenues and reputation.

Viridor

- changes in law, regulation or decisions by governmental bodies or regulators could have a material adverse effect on Viridor's financial results or operations;
- economic conditions could materially affect the company's revenues and profitability;
- poor operating performance or a failure or interruption of Viridor's operations may have a material adverse impact on both its financial position and reputation;
- landfill aftercare and restoration liabilities are long term in nature and could increase which may have a material adverse impact on the company's financial position;
- the failure or increased costs of capital projects and acquisitions or joint ventures not achieving predicted revenues or performance could have a material adverse effect on both the company's financial position and reputation;
- a reduced customer base, increased competition affecting prices or reduced demand for services could have a material adverse impact on the company's financial position; and

- information technology and business continuity systems and processes may fail which may cause material disruption to Viridor's business and could have a material adverse impact on both its financial position and reputation.

Group

- an inability to raise sufficient funds to finance its activities or such funds only being available at higher cost;
- pension costs may increase due to higher costs for future service and growing deficits in relation to past service in the defined benefit schemes; and
- Pennon's employees are the cornerstone to its success and further development. High quality, well motivated, trained and competent people at all levels must be in place to ensure sustained business development.

Further details of these principal risks and uncertainties and the mitigating actions of the Group can be viewed on or downloaded from the Group's website,
http://www.pennonannualreport.co.uk/2013/group/principal-risks-and-uncertainties.php
or obtained from the Group Company Secretary at the Company's registered office.

BOARD MATTERS

Colin Drummond retired as an Executive Director of Pennon Group Plc and Chief Executive of Viridor in September 2013 whereupon he became non-executive Chairman of Viridor. Ian McAulay joined the Pennon Board on 9 September 2013 as an Executive Director of Pennon Group Plc and Chief Executive of Viridor. Dinah Nicholls retired as a Non-executive Director on 1 August 2013.

STRATEGY AND PROSPECTS

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

South West Water is continuing its strong performance with robust operational delivery, high standards of financial performance and improving standards of customer service. The company's Business Plan for 2015 – 2020 will be submitted to Ofwat on 2 December.

Viridor's financial performance in the first half of this year has been in line with management expectations. This will be a transitional year for Viridor and the company's PBIT plus joint ventures in 2013/14 is expected to be broadly similar to 2012/13. The company has continued to make strong progress on building its EfW business and securing base-load contracts. These projects are expected to drive Viridor's long term profit growth.

The Group is well funded with efficient financing structures.

Ken Harvey
Chairman
28 November 2013

FINANCIAL TIMETABLE FOR THE YEAR ENDED 31 MARCH 2014

29 January 2014	Ordinary shares quoted ex-dividend
31 January 2014	Record date for interim cash dividend
Mid-February 2014	Interim Management Statement
17 February 2014	Posting of Scrip dividend offer
10 March 2014	Final date for receipt of Forms of Election/Mandate
3 April 2014	Interim cash dividend payment date
21 May 2014	2012/13 Preliminary Results
Late June 2014	Annual Report & Accounts published
31 July 2014	Annual General Meeting
August 2014	Interim Management Statement
August 2014 *	Ordinary shares quoted ex-dividend
August 2014 *	Record date for final cash dividend
September 2014 *	Final date for receipt of Forms of Election/Mandate
October 2014 *	Final cash dividend payment date

* These dates are provisional and, in the case of the final dividend, subject to obtaining shareholder approval at the 2014 Annual General Meeting.

CAUTIONARY STATEMENT IN RESPECT OF FORWARD-LOOKING STATEMENTS

This Results Statement 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. Forward-looking statements are identified by words such as "anticipate", "aim", “believe", “continue”, "could", "due", "estimate“, "expect", “forecast”, "goal", “intend", "may", “plan", “project”, “remain”, “seek”, "should", "target", “will” and related and similar expressions, as well as statements in the future tense. 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 including but not limited to those set out on page 22 and 23 of this Statement. Undue reliance should not be placed on forward-looking statements which are made only as of the date of this Statement. 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 and nothing in this Statement should be construed as a profit forecast.

The Group accepts no obligation publicly to revise or update these forward-looking statements or adjust them as a result of new information or for future events or developments, except to the extent legally required.

UNSOLICITED COMMUNICATIONS WITH SHAREHOLDERS

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

PENNON GROUP PLC

Consolidated income statement for the half year ended 30 September 2013

	Note	**Unaudited** Half year ended 30 September 2013 £m	Unaudited Half year ended 30 September 2012 (Restated note 4) £m	Before exceptional items Year ended 31 March 2013 (Restated note 4) £m	Exceptional items Year ended 31 March 2013 £m	Total Year ended 31 March 2013 (Restated note 4) £m
Revenue	5	**667.0**	633.7	1,201.1	-	1,201.1
Operating costs						
Manpower costs		**(80.0)**	(80.0)	(159.3)	-	(159.3)
Raw materials and consumables used		**(57.4)**	(60.3)	(125.2)	-	(125.2)
Other operating expenses		**(314.2)**	(282.9)	(521.8)	(104.9)	(626.7)
Depreciation, amortisation and impairment		**(75.7)**	(74.4)	(149.2)	(84.0)	(233.2)
Operating profit	5	**139.7**	136.1	245.6	(188.9)	56.7
Finance income	6	**27.3**	75.9	95.3	15.4	110.7
Finance costs	6	**(56.9)**	(107.1)	(156.7)	(2.9)	(159.6)
Net finance costs	6	**(29.6)**	(31.2)	(61.4)	12.5	(48.9)
Share of post-tax profit from joint ventures		**0.8**	2.2	5.8	-	5.8
Profit before tax	5	**110.9**	107.1	190.0	(176.4)	13.6
Taxation	7	**11.9**	(15.2)	(29.2)	36.2	7.0
Profit for the period		**122.8**	91.9	160.8	(140.2)	20.6
Attributable to:						
Ordinary shareholders of the parent		**107.2**	91.9	160.8	(140.2)	20.6
Other equity holders		**15.6**	-	-	-	-
Earnings per ordinary share (pence per share)	8					
- Basic		**29.4**	25.4			5.7
- Diluted		**29.3**	25.2			5.7

The notes on pages 32 to 46 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of comprehensive income for the half year ended 30 September 2013

	Unaudited		Before exceptional items		
	Half year ended 30 September 2013 £m	Half year ended 30 September 2012 (Restated note 4) £m	Year ended 31 March 2013 (Restated note 4) £m	Exceptional items Year ended 31 March 2013 £m	Total Year ended 31 March 2013 (Restated note 4) £m
Profit for the period	**122.8**	91.9	160.8	(140.2)	20.6
Other comprehensive income/(loss):					
Items that will not be reclassified to profit or loss					
Actuarial gains/(losses) relating to retirement benefit obligations	**5.9**	(2.6)	(6.0)	-	(6.0)
Income tax on items that will not be reclassified	**(5.8)**	(0.8)	-	-	-
Total items that will not be reclassified to profit or loss	**0.1**	(3.4)	(6.0)	-	(6.0)
Items that may be reclassified subsequently to profit or loss					
Share of other comprehensive income from joint ventures	**2.7**	1.8	2.7	-	2.7
Cash flow hedges	**24.4**	(10.8)	(0.9)	2.9	2.0
Income tax on items that may be reclassified	**1.1**	0.9	0.7	(0.7)	-
Total items that may be reclassified subsequently to profit or loss	**28.2**	(8.1)	2.5	2.2	4.7
Other comprehensive income/(loss) for the period net of tax	**28.3**	(11.5)	(3.5)	2.2	(1.3)
Total comprehensive income for the period	**151.1**	80.4	157.3	(138.0)	19.3
Total comprehensive income attributable to:					
Ordinary shareholders of the parent	**135.5**	80.4	157.3	(138.0)	19.3
Other equity holders	**15.6**	-	-	-	-

The notes on pages 32 to 46 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated balance sheet at 30 September 2013

	Note	Unaudited 30 September 2013 £m	Unaudited 30 September 2012 (Restated note 4) £m	31 March 2013 (Restated note 4) £m
ASSETS				
Non-current assets				
Goodwill		**339.3**	331.5	339.3
Other intangible assets		**12.3**	18.9	13.7
Property, plant and equipment	15	**3,375.0**	3,183.8	3,278.6
Other non-current assets		**213.6**	163.3	183.3
Derivative financial instruments		**26.0**	31.3	31.0
Investments in joint ventures		**0.1**	0.1	0.1
		3,966.3	3,728.9	3,846.0
Current assets				
Inventories		**11.6**	10.4	10.5
Trade and other receivables		**307.4**	277.7	267.6
Financial assets at fair value through profit		**0.5**	0.8	1.2
Derivative financial instruments		**3.4**	13.3	10.5
Cash and cash deposits	13	**526.9**	458.8	634.5
		849.8	761.0	924.3
LIABILITIES				
Current liabilities				
Borrowings	13	**(91.2)**	(383.0)	(138.6)
Derivative financial instruments		**(19.0)**	(24.9)	(21.7)
Trade and other payables		**(351.2)**	(333.3)	(276.7)
Current tax liabilities		**(45.5)**	(60.3)	(66.9)
Provisions		**(41.1)**	(28.0)	(41.9)
		(548.0)	(829.5)	(545.8)
Net current assets/(liabilities)		**301.8**	(68.5)	378.5
Non-current liabilities				
Borrowings	13	**(2,533.3)**	(2,248.8)	(2,504.6)
Other non-current liabilities		**(78.7)**	(77.7)	(77.9)
Financial liabilities at fair value through profit		**(13.5)**	(23.7)	(23.0)
Derivative financial instruments		**(12.7)**	(37.8)	(31.5)
Retirement benefit obligations		**(95.5)**	(94.2)	(99.6)
Deferred tax liabilities		**(221.6)**	(271.1)	(245.1)
Provisions		**(171.1)**	(70.7)	(170.7)
		(3,126.4)	(2,824.0)	(3,152.4)
Net assets		**1,141.7**	836.4	1,072.1
Shareholders' equity				
Share capital	10	**149.4**	148.9	149.2
Share premium account		**6.8**	7.3	7.0
Capital redemption reserve		**144.2**	144.2	144.2
Retained earnings and other reserves		**546.5**	536.0	476.9
Total shareholders' equity		**846.9**	836.4	777.3
Perpetual capital securities	11	**294.8**	-	294.8
Total equity		**1,141.7**	836.4	1,072.1

The notes on pages 32 to 46 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of changes in equity

Unaudited

	Share capital (note 10) £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves (Restated note 4) £m	Perpetual capital securities (note 11) £m	Total equity (Restated note 4) £m
At 1 April 2012	148.2	8.0	144.2	528.7	-	829.1
Profit for the period	-	-	-	91.9	-	91.9
Other comprehensive loss for the period	-	-	-	(11.5)	-	(11.5)
Total comprehensive income for the period	-	-	-	80.4	-	80.4
Transactions with equity shareholders						
Dividends paid or approved	-	-	-	(96.0)	-	(96.0)
Adjustment for shares issued or to be issued under the scrip dividend alternative	0.7	(0.7)	-	18.1	-	18.1
Adjustment in respect of share-based payments	-	-	-	1.4	-	1.4
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	-	(0.9)	-	(0.9)
Proceeds from treasury shares re-issued	-	-	-	4.3	-	4.3
	0.7	(0.7)	-	(73.1)	-	(73.1)
At 30 September 2012	148.9	7.3	144.2	536.0	-	836.4

Unaudited

	Share capital (note 10) £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves (Restated note 4) £m	Perpetual capital securities (note 11) £m	Total equity (Restated note 4) £m
At 1 April 2013	149.2	7.0	144.2	476.9	294.8	1,072.1
Profit for the period	-	-	-	107.2	15.6	122.8
Other comprehensive income for the period	-	-	-	28.3	-	28.3
Total comprehensive income for the period	-	-	-	135.5	15.6	151.1
Transactions with equity shareholders						
Dividends paid or approved	-	-	-	(103.9)	-	(103.9)
Adjustment for shares issued or to be issued under the scrip dividend alternative	0.2	(0.2)	-	34.6	-	34.6
Distributions due to perpetual capital security holders	-	-	-	-	(20.3)	(20.3)
Adjustment for tax on distributions to perpetual capital security holders	-	-	-	-	4.7	4.7
Adjustment in respect of share-based payments	-	-	-	1.7	-	1.7
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	-	(0.5)	-	(0.5)
Proceeds from treasury shares re-issued	-	-	-	2.2	-	2.2
	0.2	(0.2)	-	(65.9)	(15.6)	(81.5)
At 30 September 2013	149.4	6.8	144.2	546.5	294.8	1,141.7

The notes on pages 32 to 46 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of cash flows for the half year ended 30 September 2013

	Note	**Unaudited**		
		Half year ended 30 September 2013 £m	Half year ended 30 September 2012 £m	Year ended 31 March 2013 £m
Cash flows from operating activities				
Cash generated from operations	12	**157.1**	166.5	341.1
Interest paid		**(39.2)**	(38.9)	(75.8)
Tax paid		**(31.3)**	(15.2)	(18.5)
Net cash generated from operating activities		**86.6**	112.4	246.8
Cash flows from investing activities				
Interest received		**19.2**	7.6	26.0
Acquisition of subsidiary undertakings (net of cash acquired)		**-**	(6.5)	(14.8)
Loan repayments received from joint ventures		**0.1**	0.1	0.3
Dividends received from joint venture		**3.5**	4.0	8.5
Purchase of property, plant and equipment		**(174.6)**	(169.7)	(397.2)
Proceeds from sale of property, plant and equipment		**1.7**	1.5	4.5
Net cash used in investing activities		**(150.1)**	(163.0)	(372.7)
Cash flows from financing activities				
Proceeds from treasury shares re-issued	10	**2.2**	3.9	4.6
Proceeds from issue of perpetual capital securities		**-**	-	294.8
Deposit of restricted funds		**(2.7)**	(3.5)	(21.0)
Purchase of ordinary shares by the Pennon Employee Share Trust		**(0.5)**	(0.9)	(0.9)
Proceeds from new borrowing		**90.0**	137.4	409.9
Repayment of borrowings		**(140.1)**	(22.6)	(267.2)
Finance lease sale and leaseback		**40.5**	-	85.0
Finance lease principal repayments		**(6.3)**	(4.8)	(103.1)
Dividends paid		**(29.5)**	(18.4)	(77.9)
Net cash (used in)/received from financing activities		**(46.4)**	91.1	324.2
Net (decrease)/increase in cash and cash equivalents		**(109.9)**	40.5	198.3
Cash and cash equivalents at beginning of period	13	**490.5**	292.2	292.2
Cash and cash equivalents at end of period	13	**380.6**	332.7	490.5

The notes on pages 32 to 46 form part of this condensed half year financial information.

PENNON GROUP PLC

Notes to the condensed half year financial information

1. **General information**

Pennon Group Plc is a company registered in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 46. Pennon Group's business is operated through two main subsidiaries. South West Water Limited holds the water and sewerage appointments for Devon, Cornwall and parts of Dorset and Somerset. Viridor Limited's business is recycling, renewable energy and waste management.

This condensed half year financial information was approved by the Board of Directors on 27 November 2013.

The financial information for the period ended 30 September 2013 does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The statutory accounts for 31 March 2013 were approved by the Board of Directors on 25 June 2013 and have been delivered to the Registrar of Companies. The independent auditors' report on these financial statements was unqualified, and did not contain a statement under section 498 of the Companies Act 2006.

2. **Basis of preparation**

This condensed half year financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 "Interim financial reporting" as adopted by the European Union (EU). This condensed half year financial information should be read in conjunction with the Pennon Group Plc Annual Report and Accounts for the year ended 31 March 2013, which were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Having made enquiries, the Directors consider that the Company and its subsidiary undertakings have adequate resources to continue in business for the foreseeable future, and that it is therefore appropriate to adopt the going concern basis in preparing the condensed half year financial information.

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

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 are consistent with those that applied to the consolidated financial statements for the year ended 31 March 2013, with the exception of changes in estimates that are required in determining the provision of income taxes.

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 2013, except as described below, and are also in accordance with all IFRSs and interpretations of the IFRS Interpretations Committee expected to be applicable for the year ended 31 March 2014 in issue which have been adopted by the EU.

The tax charge for September 2013 and September 2012 has been derived by applying the anticipated effective annual rate to the first half year profit before tax.

IAS 19 (revised) 'Employee Benefits' adopted by the Group with effect from 1 April 2013, has been applied retrospectively in accordance with the transition provision in the standard. The primary impacts of the revised standard are to increase net finance costs, operating costs and to reduce pension liabilities as disclosed in note 4.

PENNON GROUP PLC

Notes to the condensed half year financial information (continued)

3. **Accounting policies (continued)**

IFRS 13 'Fair Value Measurement' adopted by the Group with effect from 1 April 2013, requires additional disclosures on fair value measurement and categorisation. These condensed half year financial statements have been prepared under the revised disclosure requirements.

Other standards or interpretations which were mandatory for the first time in the year beginning 1 April 2013 did not have a material impact on the net assets or results of the Group.

4. **Restatements**

IAS 19 (revised) 'Employee Benefits' has been applied retrospectively in accordance with the transition provision in the standard; comparative information has been restated accordingly.

At 30 September 2012 and 31 March 2013 the accounting for the acquisition of JWT Holdings Limited (renamed Viridor Waste (Atherton) Limited) was provisional. In addition at 31 March 2013 the accounting for the acquisition of Pulp Friction Limited (renamed Viridor (Erith) Limited) and the trade and assets of SBS Paper LLP, a related business, was also provisional. The completion of the accounting for these acquisitions has resulted in changes to comparative amounts.

	Half year ended 30 September 2012 (Unaudited)			Year ended 31 March 2013 (Unaudited)		
	Previously reported £m	Application of IAS 19R £m	Restated now reported £m	Previously reported £m	Application of IAS 19R £m	Restated now reported £m
INCOME STATEMENT						
Manpower costs	(79.8)	(0.2)	(80.0)	(158.6)	(0.7)	(159.3)
Operating profit	**136.3**	**(0.2)**	**136.1**	**57.4**	**(0.7)**	**56.7**
Finance income	92.1	(16.2)	75.9	143.0	(32.3)	110.7
Finance costs	(119.5)	12.4	(107.1)	(184.4)	24.8	(159.6)
Profit before tax	**111.1**	**(4.0)**	**107.1**	**21.8**	**(8.2)**	**13.6**
Taxation – deferred tax	7.1	0.9	8.0	32.8	1.9	34.7
Profit for the period	**95.0**	**(3.1)**	**91.9**	**26.9**	**(6.3)**	**20.6**
Other comprehensive loss (net of tax)	(14.9)	3.4	(11.5)	(8.4)	7.1	(1.3)
Total comprehensive income	**80.1**	**0.3**	**80.4**	**18.5**	**0.8**	**19.3**

Notes to the condensed half year financial information (continued)

4. Restatements (continued)

	30 September 2012 (Unaudited)			
	Previously reported £m	Application of IAS 19R £m	Acquisitions restatements £m	Restated now reported £m
BALANCE SHEET				
Non-current assets				
Goodwill	330.6	-	0.9	331.5
Property, plant and equipment	3,184.3	-	(0.5)	3,183.8
Current assets				
Trade and other receivables	277.8	-	(0.1)	277.7
Current liabilities				
Trade and other payables	(333.5)	-	0.2	(333.3)
Current tax	(60.4)	-	0.1	(60.3)
Provisions	(27.2)	-	(0.8)	(28.0)
Non-current liabilities				
Retirement benefit obligations	(103.7)	9.5	-	(94.2)
Deferred tax	(269.1)	(2.2)	0.2	(271.1)
Equity				
Retained earnings and other reserves	528.7	7.3	-	536.0

	31 March 2013 (Unaudited)			
	Previously reported £m	Application of IAS 19R £m	Acquisitions restatements £m	Restated now reported £m
BALANCE SHEET				
Non-current assets				
Goodwill	339.0	-	0.3	339.3
Other intangible assets	12.5	-	1.2	13.7
Property, plant and equipment	3,279.6	-	(1.0)	3,278.6
Current assets				
Trade and other receivables	267.7	-	(0.1)	267.6
Current liabilities				
Trade and other payables	(277.2)	-	0.5	(276.7)
Current tax	(67.0)	-	0.1	(66.9)
Provisions	(40.6)	-	(1.3)	(41.9)
Non-current liabilities				
Retirement benefit obligations	(109.7)	10.1	-	(99.6)
Deferred tax	(243.1)	(2.3)	0.3	(245.1)
Equity				
Retained earnings and other reserves	469.1	7.8	-	476.9

Notes to the condensed half year financial information (continued)

5. **Segmental information**

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

The water and sewerage business comprises the regulated water and sewerage services undertaken by South West Water Limited. The waste management business is the recycling, renewable energy and waste management services provided by Viridor Limited.

	Unaudited		
	Half year ended 30 September 2013 £m	Half year ended 30 September 2012 (Restated note 4) £m	Year ended 31 March 2013 (Restated note 4) £m
Revenue			
Water and sewerage	**269.1**	256.5	498.6
Waste management	**398.2**	378.1	703.8
Other	**5.6**	5.3	10.8
Less intra-segment trading *	**(5.9)**	(6.2)	(12.1)
	667.0	633.7	1,201.1
Segment result			
Operating profit before depreciation, amortisation and exceptional items (EBITDA)			
Water and sewerage	**173.8**	165.3	317.1
Waste management	**41.4**	44.9	77.7
Other	**0.2**	0.3	-
	215.4	210.5	394.8
Operating profit before exceptional items			
Water and sewerage	**121.3**	114.8	214.8
Waste management	**18.0**	21.0	30.6
Other	**0.4**	0.3	0.2
	139.7	136.1	245.6
Profit before tax and exceptional items			
Water and sewerage	**87.3**	81.1	146.7
Waste management	**15.3**	21.5	34.3
Other	**8.3**	4.5	9.0
	110.9	107.1	190.0
Profit before tax			
Water and sewerage	**87.3**	81.1	159.2
Waste management	**15.3**	21.5	(154.6)
Other	**8.3**	4.5	9.0
	110.9	107.1	13.6

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

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

Exceptional items were recognised in the second half of 2012/13, as disclosed in note 6 to the 2013 Annual Report and Accounts.

Notes to the condensed half year financial information (continued)

5. **Segmental information (continued)**

Geographic analysis of revenue based on location of customers

	Unaudited		
	Half year ended 30 September 2013 £m	Half year ended 30 September 2012 £m	Year ended 31 March 2013 £m
UK	**640.5**	601.5	1,142.1
Rest of European Union	**6.6**	5.6	11.2
China	**15.2**	21.0	39.7
Rest of World	**4.7**	5.6	8.1
	667.0	633.7	1,201.1

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

Notes to the condensed half year financial information (continued)

6. **Net finance costs**

	Unaudited								
	Half year ended 30 September 2013			Half year ended 30 September 2012 (Restated note 4)			Year ended 31 March 2013 (Restated note 4)		
	Finance cost £m	**Finance income £m**	**Total £m**	Finance cost £m	Finance income £m	Total £m	Finance cost £m	Finance income £m	Total £m
Cost of servicing debt									
Bank borrowings and overdrafts	**(19.0)**	**-**	**(19.0)**	(22.0)	-	(22.0)	(40.0)	-	(40.0)
Interest element of finance lease rentals	**(18.6)**	**-**	**(18.6)**	(20.5)	-	(20.5)	(39.8)	-	(39.8)
Other finance costs	**(1.9)**	**-**	**(1.9)**	(1.9)	-	(1.9)	(5.4)	-	(5.4)
Interest receivable	**-**	**2.4**	**2.4**	-	3.1	3.1	-	5.8	5.8
Interest receivable on shareholder loans to joint ventures	**-**	**4.6**	**4.6**	-	4.6	4.6	-	9.3	9.3
	(39.5)	**7.0**	**(32.5)**	(44.4)	7.7	(36.7)	(85.2)	15.1	(70.1)
Other finance income									
Investment income received	**-**	**11.3**	**11.3**	-	61.9	61.9	-	66.8	66.8
Fair value losses on derivative financial instruments providing commercial hedges	**(10.7)**	**-**	**(10.7)**	(58.8)	-	(58.8)	(63.4)	-	(63.4)
	(10.7)	**11.3**	**0.6**	(58.8)	61.9	3.1	(63.4)	66.8	3.4
Notional interest									
Interest receivable on service concession arrangements	**-**	**4.2**	**4.2**	-	2.6	2.6	-	6.0	6.0
Retirement benefit obligations	**(2.1)**	**-**	**(2.1)**	(1.9)	-	(1.9)	(3.8)	-	(3.8)
Unwinding of discounts on provisions	**(4.6)**	**-**	**(4.6)**	(2.0)	-	(2.0)	(4.3)	-	(4.3)
	(6.7)	**4.2**	**(2.5)**	(3.9)	2.6	(1.3)	(8.1)	6.0	(2.1)
Net gains on non-designated derivative financial instruments	**-**	**4.8**	**4.8**	-	3.7	3.7	-	7.4	7.4
	(56.9)	**27.3**	**(29.6)**	(107.1)	75.9	(31.2)	(156.7)	95.3	(61.4)
Exceptional items	**-**	**-**	**-**	-	-	-	(2.9)	15.4	12.5
	(56.9)	**27.3**	**(29.6)**	(107.1)	75.9	(31.2)	(159.6)	110.7	(48.9)

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

PENNON GROUP PLC

Notes to the condensed half year financial information (continued)

7. Taxation

	Unaudited		
	Half year ended 30 September 2013 £m	Half year ended 30 September 2012 (Restated note 4) £m	Year ended 31 March 2013 (Restated note 4) £m
Analysis of charge/(credit) :			
Current tax charge	**16.3**	23.2	43.3
Deferred tax – other	**11.9**	5.9	(0.5)
Deferred tax arising on change of rate of corporation tax	**(40.1)**	(13.9)	(13.6)
Total deferred tax credit	**(28.2)**	(8.0)	(14.1)
Tax (credit)/charge before exceptional items	**(11.9)**	15.2	29.2
Tax on exceptional items	**-**	-	(36.2)
	(11.9)	15.2	(7.0)

UK corporation tax is calculated at 23% (2012 24%) of the estimated assessable profit for the year. The tax charge for September 2013 and September 2012 has been derived by applying the anticipated effective annual tax rate to the first half year profit before tax.

Deferred tax includes a credit of £40.1m (2012 £13.9m) reflecting the reduction in the rate of UK corporation 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 before the impact of the change of rate was 25% (2012 27%).

PENNON GROUP PLC

Notes to the condensed half year financial information (continued)

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 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 2013	Half year ended 30 September 2012	Year ended 31 March 2013
Number of shares (millions)			
For basic earnings per share	**364.8**	362.1	363.6
Effect of dilutive potential ordinary shares from share options	**1.8**	2.2	2.2
For diluted earnings per share	**366.6**	364.3	365.8

Basic and diluted earnings per ordinary share

Adjusted earnings per share are presented to provide a more useful comparison on business trends and performance, since deferred tax reflects distortive effects of changes in corporation tax rates and the level of long term investment. Earnings per share have been calculated:

	Unaudited								
	Half year ended 30 September 2013			Half year ended 30 September 2012 (Restated note 4)			Year ended 31 March 2013 (Restated note 4)		
		Earnings per ordinary share			Earnings per ordinary share			Earnings per ordinary share	
	Profit after tax £m	**Basic p**	**Diluted p**	Profit after tax £m	Basic p	Diluted p	Profit after tax £m	Basic p	Diluted p
Statutory earnings	**107.2**	**29.4**	**29.3**	91.9	25.4	25.2	20.6	5.7	5.7
Deferred tax	**(28.2)**	**(7.7)**	**(7.7)**	(8.0)	(2.2)	(2.2)	(14.1)	(4.0)	(3.9)
Exceptional items (net of tax)	**-**	**-**	**-**	-	-	-	140.2	38.6	38.3
Proportionate impact of perpetual capital returns	**7.8**	**2.1**	**2.1**	-	-	-	-	-	-
Adjusted earnings	**86.8**	**23.8**	**23.7**	83.9	23.2	23.0	146.7	40.3	40.1

Notes to the condensed half year financial information (continued)

9. **Dividends to ordinary shareholders**

Amounts recognised as distributions to equity holders in the period :

	Unaudited		
	Half year ended 30 September 2013 £m	Half year ended 30 September 2012 £m	Year ended 31 March 2013 £m
Interim dividend paid for the year ended 31 March 2013 : 8.76p (2012 8.22p) per share	**31.9**	29.7	29.7
Final dividend approved for the year ended 31 March 2013 : 19.70p (2012 18.30p) per per share	**72.0**	66.3	66.3
	103.9	96.0	96.0

Proposed interim dividend

	Unaudited		
	Half year ended 30 September 2013 £m	Half year ended 30 September 2012 £m	Year ended 31 March 2013 £m
Proposed interim dividend for the year ended 31 March 2014 : 9.39p (2013 8.76p) per share	**34.8**	31.9	29.7

The proposed interim dividend of 9.39p per share will be paid on 3 April 2014 to shareholders on the register on 31 January 2014.

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

PENNON GROUP PLC

Notes to the condensed half year financial information (continued)

10. **Share capital**

Allotted, called up and fully paid

1 April 2012 to 30 September 2012		Number of shares	
	Treasury shares	Ordinary shares	£m
At 1 April 2012 Ordinary shares of 40.7p each	3,632,705	360,588,466	148.2
Shares issued under the scrip dividend alternative	-	1,621,221	0.7
Shares re-issued under the Company's Performance and Co-investment Plan	(493,217)	493,217	-
For consideration of £0.9m, shares re-issued to the Pennon Employee Share Trust	(113,957)	113,957	-
For consideration of £3.0m, shares re-issued under the Company's Sharesave Scheme	(764,012)	764,012	-
For consideration of £0.4m, shares re-issued under the Executive Share Option Scheme	(76,415)	76,415	-
At 30 September 2012 ordinary shares of 40.7p each	**2,185,104**	**363,657,288**	**148.9**

1 April 2013 to 30 September 2013		Number of shares	
	Treasury shares	Ordinary shares	£m
At 1 April 2013 Ordinary shares of 40.7p each	2,105,836	364,657,522	149.2
Shares issued under the scrip dividend alternative	-	356,637	0.2
Shares re-issued under the Company's Performance and Co-investment Plan	(276,114)	276,114	-
For consideration of £0.5m, shares re-issued to the Pennon Employee Share Trust	(97,596)	97,596	-
For consideration of £1.6m, shares re-issued under the Company's Sharesave Scheme	(368,207)	368,207	-
For consideration of £0.1m, shares re-issued under the Executive Share Option Scheme	(11,134)	11,134	-
At 30 September 2013 ordinary shares of 40.7p each	**1,352,785**	**365,767,210**	**149.4**

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

The weighted average market price of the Company's shares at the date of exercise of Sharesave Scheme options during the half year was 701p (2012 736p).

Notes to the condensed half year financial information (continued)

11. Perpetual capital securities

	Unaudited		
	Half year ended 30 September 2013 £m	Half year ended 30 September 2012 £m	Year ended 31 March 2013 £m
GBP 300m 6.75% perpetual subordinated capital securities	**294.8**	-	294.8

On 8 March 2013 the Company issued £300m perpetual capital securities. Costs directly associated with the issue of £5.2m are set off against the value of the issuance. They have no fixed redemption date but the Company may, at its sole discretion, redeem all, but not part, of these securities at their principal amount on 8 March 2018 or any subsequent periodic return payment date after this.

The Company has the option to defer periodic returns on any relevant payment date, as long as a dividend on the Ordinary Shares has not been paid or declared in the previous 12 months. Deferred periodic returns shall be satisfied only on redemption or payment of dividend on Ordinary Shares, all of which only occur at the sole discretion of the Company.

As the Company paid a dividend on April 2013 the periodic return of £20.3m scheduled 8 March 2014 is payable and consequently has been provided for at 30 September 2013.

PENNON GROUP PLC

Notes to the condensed half year financial information (continued)

12. Cash flow from operating activities

Reconciliation of profit to net cash inflow from operating activities:

	Unaudited		
	Half year ended 30 September 2013 £m	Half year ended 30 September 2012 (Restated note 4) £m	Year ended 31 March 2013 (Restated note 4) £m
Cash generated from operations			
Profit for the period	**122.8**	91.9	20.6
Adjustments for:			
Share-based payments	**1.8**	1.5	3.6
Profit on disposal of property, plant and equipment	**(1.4)**	(0.4)	(1.8)
Depreciation charge	**74.3**	72.7	145.5
Amortisation of intangible assets	**1.4**	1.7	3.7
Exceptional impairment of property, plant and equipment	**-**	-	69.8
Exceptional provision charge	**-**	-	111.5
Other non cash exceptional charges	**-**	-	7.6
Share of post-tax profit from joint ventures	**(0.8)**	(2.2)	(5.8)
Finance income	**(27.3)**	(75.9)	(110.7)
Finance costs	**56.9**	107.1	159.6
Taxation (credit)/charge	**(11.9)**	15.2	(7.0)
Changes in working capital *(excluding the effect of acquisition of subsidiaries) :*			
Increase in inventories	**(1.1)**	(1.4)	(1.5)
Increase in trade and other receivables	**(40.1)**	(38.9)	(27.7)
Increase in service concession arrangements receivable	**(26.5)**	(17.2)	(31.3)
Increase in trade and other payables	**14.3**	18.1	11.8
(Decrease)/increase in retirement benefit obligations	**(0.3)**	0.3	0.4
Decrease in provisions	**(5.0)**	(6.0)	(7.2)
Cash generated from operations	**157.1**	166.5	341.1

	Unaudited		
Total interest paid	**Half year ended 30 September 2013 £m**	Half year ended 30 September 2012 £m	Year ended 31 March 2013 £m
Interest paid in operating activities	**39.2**	38.9	75.8
Interest paid in investing activities (purchases of property, plant and equipment)	**9.9**	4.5	13.6
Total interest paid	**49.1**	43.4	89.4

Notes to the condensed half year financial information (continued)

13. Net borrowings

	Unaudited		
	Half year ended 30 September 2013 £m	Half year ended 30 September 2012 £m	Year ended 31 March 2013 £m
Cash and cash deposits	**526.9**	458.8	634.5
Borrowings – current			
Bank overdrafts	**-**	-	(0.4)
Other current borrowings	**(51.9)**	(341.8)	(97.0)
Finance lease obligations	**(39.3)**	(41.2)	(41.2)
Total current borrowings	**(91.2)**	(383.0)	(138.6)
Borrowings – non-current			
Bank and other loans	**(1,024.2)**	(793.6)	(1,072.5)
Other non-current borrowings	**(255.3)**	(216.4)	(210.4)
Finance lease obligations	**(1,253.8)**	(1,238.8)	(1,221.7)
Total non-current borrowings	**(2,533.3)**	(2,248.8)	(2,504.6)
Total net borrowings	**(2,097.6)**	(2,173.0)	(2,008.7)

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

	Unaudited		
	Half year ended 30 September 2013 £m	Half year ended 30 September 2012 £m	Year ended 31 March 2013 £m
Cash and cash deposits as above	**526.9**	458.8	634.5
Bank overdrafts as above	**-**	-	(0.4)
	526.9	458.8	634.1
Less : deposits with a maturity of three months or more (restricted funds)	**(146.3)**	(126.1)	(143.6)
	380.6	332.7	490.5

Notes to the condensed half year financial information (continued)

14. **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 Half year ended 30 September 2013 Book value £m	Unaudited Half year ended 30 September 2013 Fair value £m	Year ended 31 March 2013 Book value £m	Year ended 31 March 2013 Fair value £m
Non-current borrowings	**2,533.3**	**2,272.4**	2,504.6	2,297.0
Other non-current assets	**213.6**	**296.5**	183.3	265.0

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 2013 £m	Unaudited Half year ended 30 September 2012 £m	Year ended 31 March 2013 £m
Level 2 inputs			
Assets			
Derivatives used for hedging	**26.6**	38.6	31.8
Liabilities			
Derivatives used for hedging	**29.7**	62.7	50.3
Derivatives deemed held for trading	**2.0**	-	2.9
Total liabilities	**31.7**	62.7	53.2

Financial instruments valued using level 3 measures are valued by the counterparty using cash flows discounted at prevailing mid-market rates. The fair value of such financial instruments is not significantly sensitive to unobservable inputs.

Level 3 inputs			
Assets			
Derivatives deemed held for trading	**2.8**	6.0	9.7

Notes to the condensed half year financial information (continued)

14. **Fair value disclosure for financial instruments (continued)**

The table below shows the summary of changes in the fair value of the Group's level 3 financial instruments in the six months to 30 September 2013:

	Unaudited Half year ended 30 September 2013 £m
Opening balance	**9.7**
Unrealised gains included in finance income	**4.6**
Settlement of previously unrealised gains	**(11.5)**
Closing balance	**2.8**

15. **Capital expenditure**

	Unaudited		
	Half year ended 30 September 2013 £m	Half year ended 30 September 2012 £m	Year ended 31 March 2013 £m
Property, plant and equipment			
Additions	**171.5**	171.6	410.1
Net book value of disposals	**0.3**	1.1	2.7
Capital commitments			
Contracted but not provided	**419.3**	585.6	391.2

16. **Contingent liabilities**

	Unaudited		
	Half year ended 30 September 2013 £m	Half year ended 30 September 2012 £m	Year ended 31 March 2013 £m
Performance bonds	**155.4**	117.8	116.2
Other	**6.9**	6.9	6.9
	162.3	124.7	123.1

Performance bonds are entered into in the normal course of business. No liability is expected to arise in respect of the bonds.

17. **Related party transactions**

The Group's significant related parties are its joint ventures in Lakeside Energy from Waste Holdings Limited and Viridor Laing (Greater Manchester) Holdings Limited and its associate 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 2013. There was no material change during the half year to September 2013 in the nature of transactions with these related parties.

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

Registered in England No 2366640

PENNON GROUP PLC

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

The Directors of Pennon Group Plc are as listed on pages 62 and 63 of the Annual Report and Accounts of the Company for the year ended 31 March 2013 with the exception of Ms Dinah Nichols who retired as a Non-executive Director on 1 August 2013, Mr Colin Drummond who retired as an Executive Director on 30 September 2013 and Mr Ian McAulay who was appointed as an Executive Director on 9 September 2013.

For and on behalf of the Board of Directors who approved this half year report on 27 November 2013.

K G Harvey
Chairman

D J Dupont
Group Director of Finance

PENNON GROUP PLC

INDEPENDENT REVIEW REPORT TO PENNON GROUP PLC

Introduction

We have been engaged by the Company to review the condensed half year financial information in the half year report for the six months ended 30 September 2013, 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 year report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed half year financial information.

Directors' responsibilities

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed half year financial information in the half year report for the six months ended 30 September 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
27 November 2013
Bristol