PENNON GROUP PLC **28 November 2014**

HALF YEAR REPORT ON THE SIX MONTHS ENDED 30 SEPTEMBER 2014

Pennon Group announces its unaudited results for the half year ended 30 September 2014.

A presentation for City audiences will be held today, Friday, 28 November 2014, at 09:00am at Haberdashers' Hall, 18 West Smithfield, London, EC1. 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 2014, please contact :

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

Highlights

- Pennon
  - results in line with management expectations and previous guidance
  - H1 revenue up 3.8% to £692.3m; H1 PBT[(1)] down 9.8% to £100.0m
  - dividend up 6.3%, reflecting the continued underlying strength of the business and management's expectations for long term growth

- South West Water
  - performing strongly against 2010-2015 regulatory contract and well placed to outperform assumptions
  - robust operational performance improving standards of service
  - maintained broadly stable operating profit despite tariff freeze, due to continued cost efficiency
  - early receipt of Ofwat's Draft Determination allowing accelerated delivery of key projects

- Viridor
  - reached point of inflexion in the strategic re-orientation of the business around 'Energy' and 'Recycling & Resources' divisions
  - strong progress in the development of ERF[(2)] asset base; five ERFs coming on stream in 2014/15
  - full year EBITDA[(3)] expected to exceed 2013/14 figure

(1) Before exceptional credit of £14.9m (post tax £11.9m). Statutory profit before tax £114.9m.

(2) Energy Recovery Facility. Previously referred to as Energy from Waste (EfW) facility

(3) Earnings before interest, tax, depreciation, amortisation and exceptional credit

Ken Harvey, Chairman said:

"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 efficiencies, and improving standards of customer service. Half Year 2014/15 profits reflect the 2014/15 tariff freeze already announced. However, operating profits remain broadly stable and the revenues foregone are included in the Draft Determination for K6 (2015-2020) on an NPV neutral basis. Early receipt of Ofwat's Draft Determination is allowing the accelerated delivery of key projects identified in the company's business plan for K6. With South West Water's track record of efficiency and outperformance, the company is well placed to deliver its business plan and will have an opportunity to outperform the assumed returns on equity.

"Financial performance at Viridor has been in line with management expectations. The company flagged at the last Preliminary Results that EBITDA in the first half of 2014/15 would be materially lower than in the first half of 2013/14. However, the ERFs coming on stream this year are expected to boost EBITDA in the second half of 2014/15 and result in 2014/15 full year EBITDA for Viridor exceeding 2013/14. The company has made excellent progress in establishing its ERF business – two plants have come on stream already this year. They contribute to Viridor's bottom line, reflecting the realisation of a strategy which is expected to contribute circa £100m to Viridor's EBITDA in 2016/17."

FINANCIAL HIGHLIGHTS

- Revenue up by 3.8% to £692.3m

- EBITDA[(1)] down £15.4m (7.1%) to £200.0m
  - South West Water down £1.6m to £172.2m
    - Impact of 2014/15 tariff freeze: revenues foregone included in Draft Determination on NPV neutral basis
  - Viridor statutory EBITDA down £13.3m to £28.1m
    - Significant reduction as expected in H1 and flagged at the last preliminary results
    - Share of joint venture EBITDA up £2.0m to £21.4m
    - IFRIC 12 interest up £1.6m to £5.8m
    - Underlying EBITDA down £9.7m to £55.3m

- Profit before tax[(1)] down £10.9m (9.8%) to £100.0m
  - South West Water down £1.1m to £86.2m
  - Viridor down £10.6m to £4.7m
  - Viridor PBIT plus joint ventures down £15.2m to £8.2m

- Exceptional credit of £14.9m relating to reduced retirement benefit obligations following pension scheme benefit change

- Adjusted earnings per share[(2)] down 7.1% to 22.1p

- Dividend
  - Interim dividend per share up 6.3% to 9.98p

- Strong liquidity and funding position - £650m of new facilities secured since 31 March 2014 including
  - Schuldschein issue of £130m

- The £125m Convertible Bonds due 2014 have all converted resulting in the issuance of 20.9m Pennon shares

- Group businesses well positioned for the future

Reconciliation of Viridor statutory EBITDA to underlying EBITDA:

	For the half year ended 30 September			Full year
	2014[3]	2013	Change	2013/14[1]
	£m	£m	£m	£m
Viridor statutory EBITDA	28.1	41.4	(13.3)	76.3
Share of joint venture EBITDA	21.4	19.4	2.0	41.1
IFRIC 12 interest	5.8	4.2	1.6	8.5
Viridor underlying EBITDA	55.3	65.0	(9.7)	125.9

(1) Before exceptional credit of £14.9m

(2) Before exceptional credit, deferred tax and adjusted proportionately to reflect the half year impact of the annual hybrid periodic return. Basic earnings per share (statutory basis) 19.4p

(3) Before exceptional items

OPERATIONAL HIGHLIGHTS

- **South West Water:**
  - Strong performance against 2010 – 2015 (K5) regulatory contract
    - Well placed to deliver outcomes and outperform
    - Robust operating performance base supporting delivery into the next K6 regulatory period
    - Strong bathing water compliance performance
    - Improved environmental performance
    - Highest ever scores for customer service
  - Operating profit and EBITDA broadly stable
    - Revenue impacted by 2014/15 tariff freeze (recovered in K6 on NPV neutral basis)
    - Good cost control and continued efficiency delivery
  - Enhanced business plan for 2015-20 (K6)
    - Fast track Draft Determination enabling early K6 implementation
    - 'Do no harm' certainty to the Final Determination
    - Highest potential Return on Regulated Equity across the sector
- **Viridor:**
  - Excellent continuing progress in the strategic re-orientation of Viridor's business model from landfill to ERFs – has now reached point of inflexion
  - As flagged, H1 2014/15 EBITDA materially lower than H1 2013/14
    - but full year 2014/15 EBITDA expected to exceed 2013/14
  - Further successful ERF developments
    - Exeter handed over in July and Oxford in November. Runcorn I, Runcorn II and Cardiff either in or approaching handover testing
    - Lakeside operating consistently ahead of design parameters. Exeter and Oxford following similar pattern
    - All plants(1) are full at opening with more than 60% of feedstock coming from long term contracts and the balance from shorter term Industrial and Commercial (I&C) contracts. Average gate fees are at modelled rates
    - ERFs to make a significant financial contribution in H2 2014/15
    - Dunbar go-ahead approved, construction to start Q1 2015
  - Landfill energy remains strongly cash generative

GROUP OVERVIEW

- Revenue up by 3.8% to £692.3m
- EBITDA[(1)] down 7.1% to £200.0m
- Operating profit[(1)] down 14.7% to £119.2m
- Net interest payable reduced 27.0% to £21.6m
- Profit before tax[(1)] down 9.8% to £100.0m
- Exceptional credit before tax of £14.9m relating to reduced retirement benefit obligations following pension scheme benefit change
- Adjusted earnings per share down by 7.1% to 22.1p[(2)]. Basic earnings per share (statutory basis) decreased from 29.4p to 19.4p
- Capital investment[(3)] down 6.4% to £192.0m
- Net borrowings £2,106m, a decrease of £88m since 31 March 2014. Gearing, being net borrowings to (shareholders' funds plus net borrowings), was 62% (2013/14 – 65%). Net debt includes £742m for ERFs operational or under construction (Runcorn II, Exeter, Oxford, Cardiff and Glasgow)
- Substantial cash resources and committed facilities of £1,785m[(4)] to fund future investment - well placed in current financial market conditions
- South West Water net debt to Regulatory Capital Value (RCV) was 56.9% (31 March 2014 – 55.6%)
- Net interest cover was 5.9 times (H1 2013/14 – 5.2 times)[(5)]
- Average debt maturity 21 years

- Fair value of debt £190m less than book value

(1) Before exceptional credit of £14.9m (post tax £11.9m)

(2) Earnings per share before exceptional credit, 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

(4) Including £174m deposits with Letter of Credit providers and lessors

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

DIVIDEND

The interim dividend of 9.98p per share represents an increase of 6.3%, 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 2 April 2015 to shareholders on the register on 30 January 2015. 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 9 March 2015.

As announced at our Preliminary Results last June, the Board will review the dividend policy for the K6 period following the Final Determination for South West Water and will make an announcement at the 2014/15 Preliminary Results.

OUTLOOK

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 and high standards of customer service and financial performance. Early receipt of Ofwat's Draft Determination is allowing the accelerated delivery of key projects identified in the company's business plan for K6 (2015-2020). With South West Water's track record of efficiency and outperformance, the company is well placed to deliver its business plan and will have an opportunity to outperform the assumed returns on equity.

Viridor's financial performance in the first half of this year has been in line with management expectations. The ERFs coming on stream this year are expected to boost EBITDA in the second half of 2014/15 and result in 2014/15 full year EBITDA for Viridor exceeding 2013/14. The company has made excellent progress in establishing its ERF business – two plants came on stream this half year. These projects and contracts already contribute to Viridor's bottom line and reflect the realisation of a strategy which is expected to contribute circa £100m to Viridor's EBITDA in 2016/17.

The Group is well positioned for the future, with efficient long term financing.

SOUTH WEST WATER

South West Water has continued to deliver good operational performance in the last year of the K5 (2010-2015) regulatory period alongside further improvements to customer service. This is supported by strong financial results – arising from good cost control and continued efficiency delivery.

South West Water's business plan for K6 (2015-20) was assessed as 'enhanced' by Ofwat on 4 April 2014, the only water and sewerage company to achieve the top assessment, following which the Draft Determination was received on 30 April 2014.

This early Draft Determination has given South West Water greater certainty over the plans and expectations for the next five years and has allowed delivery of key projects to be accelerated and advanced into 2014/15. This provides a strong platform for implementation and targeting enhanced equity returns.

Financial Highlights

As anticipated South West Water's revenues reflect the 2014/15 tariff freeze announced last year. However, good cost control and the continued delivery of cost efficiency has ensured that profit before tax and exceptional items at the half year has remained broadly stable.

Revenue decreased by 0.3% to £268.3m as a result of the 2014/15 tariff freeze and the effects of customers switching to a metered tariff net of new connections and higher other sales. Customers switching from unmeasured to metered charging and assessed charges reduced revenue by £2.8m. 79% of South West Water's domestic customers are metered. 3,700 new customer connections contributed £1.6m of additional revenue and other sales increased by £0.4m as a result of greater developer activity. Customer demand is in line with the same period last year reflective of the relatively dry weather over the summer.

Good operational cost control has ensured £2.5m of efficiencies fully offset cost increases (including power and business rates) of £2.4m. Cumulative cost increases over K5 continue to be lower than average RPI for the same period. Other cost drivers were:

- £1.0m increased other costs including increased cost of sales from other sales activity

- £0.4m increased depreciation and costs of new capital schemes

EBITDA[(1)] decreased by £1.6m to £172.2m and operating profit[(1)] decreased by £2.1m to £119.2m.

The net interest charge for the half year of £33.0m is lower than the same period last year (£34.0m) as a result of lower RPI on index-linked facilities and lower net pension interest net of new funding costs.

Profit before tax and exceptional items decreased by £1.1m to £86.2m.

During the year Pennon Group reviewed the long term sustainability of its defined pension benefits, of which South West Water represents 80%, and changes in benefits were agreed following extensive employee engagement. As a result an exceptional credit of £11.8m for South West Water arose from the capping of future pension increases and was recognised at the date that benefit changes were implemented (July 2014).

Capital expenditure in the first half year of 2014/15 was £64.6m compared to £58.5m in the first half of 2013/14. Regulatory net capital expenditure[(2)] was £68.9m, compared to £64.7m in the first half of 2013/14. The focus for the programme remains weighted towards the maintenance of existing assets, increasing infrastructure resilience and delivering environmental improvements. Investments during the half year include:

- continued improvements to safeguard water quality with treatment upgrades at two key sites
- upgrades at wastewater treatment sites to improve compliance
- innovative investments to reduce the number of customers' properties previously highlighted as at risk from flooding.

Expenditure has been accelerated into 2014/15 from K6 to deliver early benefits to customers and the environment. This includes asset enhancements to deliver bathing water quality improvements, preparatory expenditure for the innovative new water treatment works at North Plymouth and asset interventions focused on delivering compliance benefits.

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

Regulatory capital value at 31 March 2014 was £2,959m and with an increase in net debt this has led to gearing of 57% (31 March 2014: 56%) - within Ofwat's optimum range for K5. Increased projected RCV growth of 19% by 2020[(3)] in K6 reflects the Draft Determination inclusive of enhanced assessment benefits. South West Water's dividend to Pennon is ahead of the Final Determination 2009 (FD09) assumptions reflecting outperformance delivered during K5.

(1) before exceptional credit
(2) capital expenditure including infrastructure renewals expenditure less grants and contributions
(3) nominal prices, RPI 3.2% assumed over K6

Efficiencies

South West Water remains ahead of target in delivering the required operating cost efficiencies for K5. Cumulatively, the efficiency delivered over K5 is ahead of target reflecting the benefit of front end loading delivery during the K5 period.

Annual operating costs are £24.7m lower as a consequence, with £2.5m cost savings delivered in the first half of 2014/15 (compared with £1.7m in the first half of 2013/14). This reflects an annual equivalent of 3.2% compared to the required 2.8%[(1)]pa average operating cost efficiencies included within FD09.This is being achieved through South West Water's ongoing improvement programmes with specific initiatives this year in the areas of:

- operational ways of working – finalised asset improvements through the PUROS[(2)] programme
- energy procurement and usage – continuing energy efficiency schemes alongside additional power generation through renewable sources
- right-sourcing and innovative contracting – tendering to achieve the 'right price', including in-sourcing of key strategic contracts.

South West Water continues to deliver capital projects in line with Ofwat, Drinking Water Inspectorate and Environment Agency expectations. Expenditure for the K5 period to date is lower than the Capital Incentive Scheme baseline and is set to achieve a 6% efficiency outperformance on the Final Determination. Performance cumulatively to date is in line with expectations and has been reflected in the Draft Determination for K6.

South West Water will continue to target further efficient ways of working and the robust base gives a solid platform into the K6 regulatory period.

(1) average over K5 (2010-2015)
(2) PUROS – Phased Utilisation of Remote Operating Systems

Operational Highlights

Driven by its strategic vision for delivering 'Pure Water, Pure Service and Pure Environment', South West Water targets the provision of high quality water and wastewater services in the most efficient and sustainable way possible.

Pure Water

The focus on delivering a water supply to a high level of water quality compliance in accordance with the tough standards set by the Drinking Water Inspectorate remains a key aim of South West Water. As a result, a significant proportion of the company's capital programme is focused on this outcome, including an upgrade to its largest water treatment works – Restormel – which provides water to 50% of customers in Cornwall. South West Water is on track to deliver outstanding water quality again this year.

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

Whilst the region experienced drier weather over the summer period, as predicted South West Water successfully managed its water resources to enable a continued secure supply of water for the region, resulting in the 18th consecutive year without a hosepipe ban or drought order.
In June 2014 the company published its Water Resources Management Plan. This highlighted the company's strong water resources position and confidence in a forecast net surplus of water until at least 2040.

Pure Service

Throughout this regulatory period South West Water has sought to improve the service delivered to customers. The improving trend has seen South West Water's customer service score (as measured by the Service Improvement Mechanism (SIM)) continue to improve with the current year forecast to be the highest yet. Written complaints for the first half of the year are 16% lower than the same period last year.

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 continuing to focus on increasing customer satisfaction and a number of improvement initiatives have been expanded to support this including web improvements and outbound SMS messaging notifying customers of any events or incidents within their area.

The cost of bad debts as a proportion of revenue at 1.8% is comparable with the prior half year. South West Water continues to target collection initiatives to improve the bad debt position including reducing the debt impacts of newly vacated properties and the use of tracing tools to identify the location of former occupiers. South West Water continues to fund and promote ways to help customers who struggle to pay their debt through initiatives such as the Restart programme which incentivises customers into regular payment plans. Almost 38,000 customers have been assisted through the company's industry leading approach to debt support schemes. South West Water has the highest number of customers on the Watersure tariff and is one of the only companies to have introduced a regional social tariff.

Pure Environment

The 2014 bathing season ended again with strong bathing water quality results, with 125 (86%) of the region's beaches achieving the EU guideline standard (excellent status) and 144 (99%) of beaches achieving the mandatory standard (good status).

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. Investment to further protect and improve the region's bathing water quality will be made during 2015-20. Ahead of the European Union's Revised Bathing Water Directive coming into force in 2015 work has already begun on a range of targeted improvements in seven locations under the company's £20m 'Even Cleaner Seas' programme. This includes additional storm water storage capacity, improved monitoring and treatment facilities.

A significant increase in the treatment compliance at wastewater works has been delivered with current compliance at over 97%, compared to 92.5% for the year to March 2014. In addition, the number of pollution incidents has fallen, with the number of Category 2 (significant) incidents falling to two in the first half of the year compared to eight over the same period last year. There have also been no Category 1 (serious) pollution incidents again this year. Tougher sentencing guidelines are now in place for pollutions and the company continues to invest in ways to minimise the risk of a pollution incident occurring.

South West Water recognises the impact that flooding has on its customers and is investing in ways to reduce the number of customers' properties at risk. In 2014 this has included the £2m scheme at Colebrook in Devon which has seen a range of sewer improvements carried out thanks to joint funding between South West Water, the Environment Agency, and Plymouth City Council.

As well as traditional engineering solutions, the company is also piloting a new approach to flood alleviation known as 'Downstream Thinking'. This involves the use of sustainable cost-effective measures to improve urban drainage. The first of a series of pilot schemes – known as 'WaterShed' - has been launched in Truro following consultation with local residents and in partnership with a range of local agencies and organisations.

The company has continued to strive for improved performance against a number of Ofwat's Key Performance Indicators (KPIs). In particular improvements have been made on key environmental measures including wastewater treatment compliance and sewerage pollution incidents. Customer service, leakage and greenhouse gas emissions all achieved 'green' status at March 2014 and are on track to remain stable for the final year of K5.

Regulatory and Political Developments

K6 (2015-2020) Business Plan

As the only water and sewerage company to have their K6 (2015-20) business plan assessed by Ofwat as 'enhanced' South West Water received an early Draft Determination on proposed pricing for K6 on 30 April 2014. As a result of this fast track determination, alongside the opportunities for early implementation, financial benefits received included an initial financial award of £11m reflected as an addition to the RCV with up to 50% reinvested and an enhanced total expenditure (Totex) menu with an extra 5% enhanced sharing rate.

The early certainty received enables South West Water to transition swiftly and smoothly into the next regulatory period. Delivery of key projects – including those which improve the regions bathing waters and water quality – has been advanced. Accelerating projects assists in delivering outcomes and cost efficiencies in a timely fashion.

The enhanced assessment of the business plan means South West Water also benefits from Ofwat's "Do No Harm" principle in respect of its Final Determination.

The key elements of the Draft Determination for K6 are:

- Equity returns up to 10% from outperformance of cost base, outcome delivery incentives (ODIs) and financing
- Appointee vanilla WACC[(1)] of 3.85%, (3.7% WACC for wholesale only)
- Retail margins of 1.0% and 2.5% for retail household and non-household respectively, equivalent to an RCV return of 0.15%
- £47m additional allowed totex plus £8m menu incentive award as a result of cost bases for both water and waste water being assessed as efficient and below Ofwat's calculated baseline
- RCV growth of 19%[(2)] and no adjustments to the planned K6 capital investment programme of £868m[(3)]

[(1)] pre tax debt and post-tax equity weighted average cost of capital
[(2)] nominal prices assuming 3.2% pa RPI
[(3)] 2012/13 price base

Water Act

The new Water Act became a statute on 14 May 2014. As well as setting out a range of reforms for the water sector in England, the Act enables retail competition for all non-household customers.

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

Preparations are under way for the planned non-household retail market opening in April 2017. South West Water's operational structure is already aligned with the K6 approach of recognising separate revenue controls, with the majority of non-household retail activities located within a separate operation. In addition the dedicated brand of 'Source for Business' established in 2011 offers a range of specialist advice and support measures to non-household customers and the company obtained supply licences covering Scotland and England, enabling customers to be served both within and outside the South West region.

South West Water Outlook

South West Water continues to focus on maintaining an efficient service delivery, improvements in service to customers and the satisfaction of its regulatory and legislative obligations for the remainder of 2014/15.

In addition to the immediate financial benefits of having an enhanced business plan for K6, projects have been advanced into 2014/15 enabling a swift and smooth transition into the K6 period.

South West Water is already considering the impacts of future legislative changes which include the potential for “Upstream Reform”. The company is engaging on key industry consultations on the development of Ofwat’s ongoing regulatory reform agenda in order to influence the direction of travel in this area.

VIRIDOR

Viridor's strategy remains focused on transforming waste, adding substantial value through renewable energy generation and recycling. The half year results come at a point of inflexion for the company as it continues its strong progress on the construction and delivery of its growing PPP/ERF asset base. ERFs are central to the UK's waste and renewable energy strategies as the long term low cost alternative to landfill for treatment of residual waste, aligned with higher levels of recycling. Viridor expects to have at least 15% ERF market share by 2020 with a network of strategic ERFs which will underpin the company's long term profit growth.

Given this inflexion, Viridor has implemented a strategic re-orientation of its business around its 'Energy' and 'Recycling & Resources' divisions and has strengthened its Board with new hires.

The strong progress in the construction and operational delivery of Viridor's ERF asset base, and in the development of the Energy division, is underlined by the fact that all plants(1) are full at the time of opening. ERF asset and feedstock markets are now maturing, with a few major players emerging. In addition, the majority of long term municipal contracts have now been let.

The focus for Viridor's Recycling division is on margin enhancement via quality optimisation, investment in technology and efficiency improvements, thereby reducing exposure to recyclate price movements.

Landfill gas generation remains very profitable, albeit generation is slowly declining. Landfill continues to provide good cash generation whilst alternative uses for sites are being explored as they accelerate into closure.

Financial Highlights

As previously flagged, Viridor's financial performance was materially lower in the first half of 2014/15. This reflects the point of inflexion in the company's strategy, with full year 2014/15 EBITDA expected to exceed that of 2013/14.

Revenues in the first half of 2014/15 were up 6.6% to £424.4m. Landfill tax collected increased by 10.4% to £106.8m driven by the increase in landfill tax to £80 per tonne from 1 April 2014. Construction revenue was also up reflecting growth in assets under construction.

Viridor's EBITDA[1] for the half year decreased by £13.3m (32.1%) to £28.1m. PBIT fell £17.8m (98.9%) to £0.2m, but joint ventures were up £2.6m (48.1%) to £8.0m, resulting in PBIT plus joint ventures decreasing by £15.2m (65.0%) to £8.2m. Viridor underlying EBITDA was down £9.7m (14.9%) to £55.3m.

Viridor underlying EBITDA is a new non-statutory earnings measure that aggregates all of Viridor's earnings into a single figure, consisting of EBITDA £28.1m (H1 2013/14 £41.4m) plus IFRIC 12 finance income £5.8m (H1 2013/14 £4.2m) and share of joint venture EBITDA £21.4m (H1 2013/14 £19.4m). Viridor's share of non-recourse debt in its joint ventures was £303m. The introduction of this measure is timed to coincide with the significant progress made in the build out of Viridor's ERF business and will ensure earnings from ERFs contracted and accounted for in differing ways are captured in a single measure.

Profit before tax decreased £10.6m (69.3%) to £4.7m reflecting lower PBIT plus joint ventures partly offset by the benefit of reduced interest from intra group funding.

Capital expenditure for the half year was £127.3m (H1 2013/14 £146.6m) of which circa £116m was for Viridor growth projects (largely ERFs, but including recycling technology investment).

Following an extensive strategy planning exercise, Viridor is now actively implementing a major transformation of its business processes and procedures, including installation of a new enterprise IT platform. The first elements have recently been successfully delivered. As a result, over the next five years ongoing benefits in excess of the c. £30m capital investment are expected to be realised.

(1) All figures before exceptional credit

Operational Highlights

UK context

The UK is required under the EU Waste Framework and Landfill Directives to increase recycling, to achieve greater resource efficiency and to reduce the amount of biodegradable municipal waste going to landfill sites. This is being achieved by incentivising a major increase in recycling levels with residual waste increasingly being used for energy recovery.

The Government's main mechanism for diverting waste from landfill, and incentivising recycling and ERFs remains landfill tax. The Government has implemented its landfill tax escalator to reach £80 per tonne from 1 April 2014 and has confirmed a further inflationary rise next year. This ongoing increase continues to enhance the long term economics of both recycling and UK energy recovery. In addition, recyclate costs are typically significantly lower than the cost of using virgin materials for manufacturers. The EU and the UK Government have also introduced policy and regulation to deliver greater quality in recycled materials.

Viridor is clearly focused on recycling and renewable energy using waste as fuel. Investment in technology and operational practices continues to be made successfully to enhance recyclate quality to differentiate Viridor from its competitors. Significant progress has also been made in the development and delivery of the ERF business, with a substantial asset base being constructed and now becoming operational. This is being delivered in conjunction with the development of the associated business capability process across the whole "source to supply" ERF and recycling value chains.

Recycling

During the half year recycling volumes remained relatively stable at 0.9m tonnes. Recyclate prices have stabilised to some degree for most commodities but remain under pressure, reflecting global economic conditions and competitive markets. Overall average revenues per tonne from recyclate sales and gate fees for the half year fell to £86, 7.5% lower than for the same period last year. Viridor remains cautious about future recyclate price growth and shipping costs.

Recycling EBITDA in the first half of 2014/15 was £10.0m (H1 2013/14 £13.1m). Viridor is implementing a two year Input, Throughput, Output Optimisation programme (ITOO) to provide an enhanced focus on increasing margins by taking actions across the value chain. The company is targeting a substantial enhancement in EBITDA margin through improvements in asset productivity. Future actions are focused on the three key parts of the value chain:

- Inputs: Enforcing contractual waste specifications to ensure optimum quality and further reduce reject levels

- Throughput: A two year asset management optimisation process has commenced to improve availability and productivity at recycling facilities

- Outputs: Aiming for customer-centric quality production aided by investment in technology. A new polymers separation plant at Rochester is now operational, and a new glass reprocessing plant in Scotland is now in commissioning. These represent an investment of c. £25m.

Two underperforming Materials Recycling Facilities (MRFs) were closed in the first half of 2014/15 to reduce the cost base and improve portfolio efficiency.

Viridor continues to operate the most extensive MRF capacity in the UK with accreditations for export to China, and is established as a quality brand in the UK and other far eastern markets.

Contracts and collection

Viridor's contract base and collection operations remain a key element of Viridor's integrated offering. Collections play an increasing role in securing in-house recycling materials and fuel for ERFs. EBITDA for collections reduced slightly to £5.4m (H1 2013/14 £6.1m).

As previously flagged, in the first half of 2014/15 contracts (comprising 15 local authority contracts plus Thames Water and ERFs) profits were slightly lower due to contract expiry but the profit reduction was lower than expected given asset disposals and contract wins including:

- Hertfordshire County Council residual waste, 75,000 tonnes p.a.
- Extension of the Borough of Poole contract, residual and recycling to 2027
- Kent County Council recyclables for processing, 60,000 tonnes p.a.

Joint Ventures

Total share of joint ventures' EBITDA (comprising VLGM (including IFRIC 12 interest), TPSCo and Lakeside) was up 10.3% to £21.4m (H1 2013/14 £19.4m). Total share of joint ventures' profit after tax was £2.4m, up £1.6m from H1 2013/14.

(a) 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. Phase I is being built primarily for the Greater Manchester Waste PFI contract and Phase II will be available for the market generally, as high landfill tax drives residual waste away from landfill towards recycling and ERFs.

As part of the VLGM contract, a separate contractor was mandated to construct 43 facilities. As at 30 September 2014, 42 of these facilities had been formally taken over by Viridor. The final plant is nearing completion of its commissioning tests.

Viridor's share of VLGM's EBITDA was £1.5m (H1 2013/14 £1.2m). Viridor's share of IFRIC 12 interest was £6.0m (H1 2013/14 £6.2m).

(b) Runcorn I (TPSCo)

Viridor's share of TPSCo's EBITDA was £4.5m (H1 2013/14 £5.5m).

The Runcorn ERF Phase I project is about to move into final takeover tests (after first waste burn in March 2014), moving towards scheduled takeover in early 2015. Phase II has been only slightly affected by the Phase I delays, is on budget and first waste burn is imminent.

(c) Lakeside

Lakeside, the first of Viridor's ERF projects, continues to outperform its financial close assumed power generation and waste processing targets. Viridor's share of Lakeside's EBITDA was £9.4m (H1 2013/14 £6.4m).

Results in the first half of 2014/15 benefitted from different scheduled outage timing (H1 2013/14 vs H2 2014/15) and continued good performance.

Renewable Energy

Energy recovery from waste (both biodegradable and non-biodegradable) accounted for 8% of total UK renewable energy generated in 2012. Viridor believes that by 2020 UK energy recovery from waste could produce 15,000 GWh of the total forecasted UK renewable energy generation (120,000 GWh) accounting for circa 13%. This is particularly significant given predicted capacity shortages in the energy sector.

(a) Energy Recovery Facilities

Viridor continues to make excellent progress on the construction and delivery of its PPP/ERFs asset base. In 2014/15, two plants (Exeter and Oxford) have become operational to date - in addition to the already operating Lakeside and Bolton plants - with three further plants (Cardiff, and Runcorn I and II) expected to be operational by year end.

With regards to securing fuel, of the new and developing facilities, five are full. All plants (excluding Dunbar) are full at opening with more than 60% of feedstock coming from long term contracts and the balance from shorter term Industrial and Commercial (IC) contracts. Average gate fees are at modelled rates. The proportion of long-term local authority contracted material (circa 60%) versus commercial inputs providing well-balanced risk.

Progress on delivery of the ERF asset base can be summarised as:

- Exeter ERF – Safely completed on time (July), meeting capital budget and performing better than specification
- Oxford ERF – Takeover completed in November and plant fully operational. Below capital budget spend and performing better than specification
- Cardiff ERF – Construction complete and first waste burn has just occurred. On schedule and to capital budget
- Runcorn Phase I – Plant about to move into final takeover test
- Runcorn Phase II – construction complete, to capital budget and first waste burn is imminent
- Peterborough ERF – Progressing well to schedule and to capital budget
- Glasgow Recycling and Renewable Energy Centre – Construction progressing well and on schedule for completion 2016 as planned
- Beddington ERF – Judicial review challenge strongly dismissed. Well prepared for project commencement

- Dunbar ERF – Board approval to proceed. Construction commencement expected Q1 2015
- Overall programme is being delivered at world class safety levels and to good quality standards

The Pennon Board has given its approval to proceed with the £177m Dunbar ERF at its existing Oxwellmains waste treatment hub in East Lothian, Scotland. This follows an extensive assessment of market conditions and an appraisal of current competitive advantages.

The facility is integral to the Scottish Government's ambitions to deliver a zero waste, circular economy which encourages landfill diversion and maintains price regulation. There is good support for the project as evidenced by all necessary planning, environmental and operational consents having been secured. Following a competitive procurement process, an EPC contract is also already in place with trusted suppliers. The project is therefore "shovel ready" and construction is expected to commence in Q1 2015.

The plant will treat 300,000 tonnes per annum (tpa) of waste and is supported by a potential feedstock market of 1.25m tpa in the direct catchment area. The market comprises 570,000tpa Municipal Solid Waste (MSW) and 680,000tpa Commercial and Industrial (C&I) arisings. Viridor already has long term tonnages readily available to feed the plant as it currently services 110,000tpa of C&I waste in the central belt of Scotland. The company is well placed for the active MSW procurements and has qualified for three currently in progress: Clyde Valley (minimum 98,000tpa, likely 180,000tpa); Edinburgh and Midlothian (75,000tpa, likely 120,000 tpa) and South Lanarkshire (60,000tpa, likely 85,000tpa). The Dunbar facility is not reliant, however, on MSW procurement to achieve successful commercial returns. Being the first to commit to building an ERF in the Dunbar area provides Viridor with a significant first mover advantage over any potential competitors and there are no competitor facilities currently in progress.

At 30 September 2014, Viridor had 34MW of renewable energy capacity across its share of Lakeside ERF, Bolton and Exeter ERF and its Anaerobic Digestion (AD) operations, in addition to its 105 MW of landfill gas capacity. Since the end of the period, a further 24MW has been added with the takeover of Oxford ERF. The ERF asset base coming on stream in 2014/15 and in development will raise cumulative electricity generation capacity to over 300MW and cumulative ERF waste treatment capacity to around 2.8m tonnes.

ERF contracts and projects already contribute to the bottom line and reflect the realisation of a strategy which is expected to add circa £100m to Viridor's EBITDA in 2016/17.

(b) Landfill gas power generation

Viridor's landfill energy business is being managed to maximise the value of landfill gas power generation, whilst exploring photovoltaic (PV) and cryogenic energy generating developments as alternative uses for landfill sites with existing grid connections.

Gas volumes reached peak production in 2012/13 and are expected to gradually reduce over the coming years. In the first half of 2014/15 the landfill gas power generation output was marginally down to 297 Gigawatt hours (GWh) (H1 2013/14 303 GWh), reflecting a successful output optimisation programme. Landfill gas power generation EBITDA was £15.4m (H1 2013/14 £18.1m).

Average revenue per Megawatt hour (MWh) was flat, while average costs increased to £36.51 per MWh due to maintenance costs to improve gas capture. The switch from legacy Non Fossil Fuel Obligation (NFFO) contracts to Renewables Obligation Certificates (ROCs) continues with 94% of energy now sold under the higher value ROCs. The remaining 6% NFFO component will migrate to ROCs by 2016/17. Total landfill gas power generation operational capacity reduced to 105MW (excluding 3MW capacity at sub-contract sites in Suffolk), from 107MW last half year.

Future alternative uses for landfill sites are now being assessed as most of our landfill operations accelerate into closure. A 2.75MW PV installation at Westbury landfill was completed during the first half of 2014/15. Other alternative uses are also being explored, including an £8m cryogenic energy storage pilot project at Pilsworth landfill, funded by the Department of Energy and Climate Change.

Landfill

The business plan now being implemented for the landfill business is seeing 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 and reducing costs. Non-strategic sites and closed sites are being assessed for alternative uses – both for energy and for development potential. Three sites are being closed in 2014/15 and a similar closure rate is forecast for the next five years.

The business continues to be cash generative and contributed £9.3m to EBITDA in the first half of the year. Volumes were stable at 1.4m tonnes.

Average gate fees decreased by 15.2% to £19.73 per tonne. Consented landfill capacity reduced from 58.0 million cubic metres (mcm) at 31 March 2014 to 56.1 mcm at 30 September 2014, reflecting usage during the period. As previously stated, and provided for, 39 mcm is not expected to be used.

Landfill tax has increased to its maximum level under the Landfill Tax Escalator of £80 per tonne. The Government has confirmed that it will rise next year by the rate of inflation.

Outlook for Viridor

Viridor has reached its expected point of inflexion in its ongoing transformation from being predominantly a landfill business to becoming a leading recycling and renewable energy provider.

As forecast and previously flagged, EBITDA in the first half of 2014/15 is materially lower than in the same period last year. The new ERFs will boost results in the second half of 2014/15 significantly such that full year 2014/15 EBITDA is expected to exceed full year 2013/14.

Viridor’s full year performance is predicated on the continued successful delivery of the ERF business. Two ERFs have already been handed over in 2014/15, with a further three ERFs set to become operational this financial year.

Importantly, all plants[1] are full at opening with more than 60% of feedstock coming from long term contracts and the balance from shorter term Industrial and Commercial (IC) contracts. Average gate fees are at modelled rates. The committed ERF projects are expected to contribute £100m to Viridor's EBITDA in 2016/17.

A two year asset optimisation programme in recycling has commenced. The focus for the recycling division is on margin enhancement driven via quality, investment in technology and managing the cost base.

Viridor's transformational strategy is now being realised. Its asset base of ERFs will drive long term profitability together with a complementary quality focus in recycling.

[1] excluding Dunbar

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 K5 period. The average rate achieved on the fixed rate debt is circa 3.4%. In addition £391m 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 2014 was 3.7% and South West Water's was 3.8%.

The Group has also fixed the substantial majority of South West Water's existing floating rate debt to the end of K6. The rates reflect the fall in interest rates since 2009 taken account of by Ofwat in setting the cost of capital for K6.

The Group had substantial cash resources and committed funding as at 30 September 2014 and is well placed in current financial market conditions:

- cash balances of £694m (SWW £254m), including £174m restricted cash
- undrawn facilities of £1,091m

During the six months to 30 September 2014 £650m of new facilities were secured:

- £410m of new Revolving Credit Facilities (RCF's) and term loans; including
    - £125m 17 year facility for Plc
    - £130m Schuldschein for Plc
    - £80m 15 year facility for SWW
    - £75m RCF's for both Plc and SWW

- £240m of new finance leases
    - £175m of finance leases for Viridor ERF's
    - £65m finance lease for SWW

The £125m Convertible Bonds due 2014 have all converted resulting in the issuance of 20.9m Pennon shares.

The Group's average debt maturity is 21 years.

The fair value of the Group's debt is £190m 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 2014 of circa £75m (£94m gross), an increase of £12m on the 31 March 2014 balance.

Schemes' assets increased from £608m at 31 March 2014 to £629m at 30 September 2014 and schemes' liabilities increased from £687m to £723m over the same period, driven by a decrease in the long term AA corporate bond rates used to discount scheme liabilities.

The net deficit represents circa 2% of current market capitalisation.

During the year the Group reviewed the long term sustainability of its main defined pension benefit scheme and agreed to changes in benefits with the scheme trustee following extensive employee engagement. An exceptional credit of circa £15m (£12m net of tax) relating to past service cost has been recognised in operating profit following changes in scheme design, in particular the introduction of a cap on increases in pensionable pay.

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

The March 2013 actuarial valuation has been completed.

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 £19.8m (H1 2013/14 £27.0m) giving an effective current tax rate of 20% (H1 2013/14 24%) which is close to the current UK statutory corporation tax rate of 21%. The reduced rate compared to last year reflects the increase in capitalised interest, increased capital allowances and the 1% reduction in the corporation tax rate.

Before exceptional items deferred tax for the half year was a debit of £14.2m (H1 2013/14 credit £28.2m).

The 2013/14 credit included a credit of £40.1m from the impact of the reductions in the rate of corporation tax enacted in July 2013.

PRINCIPAL RISKS AND UNCERTAINTIES

In accordance with DTR4.2.3 and 4.2.7 of the Disclosure & Transparency Rules the principal risks and uncertainties for the remaining six months of the financial year for the Group which could have a material adverse affect on the Group's business, financial condition, results, operations and reputation:

South West Water

- changes in law, regulation or decisions by governmental bodies or regulators
- non-recovery of customer debt
- poor operating performance due to extreme weather and climate change
- poor service provided to customers
- non-compliance or occurrence of avoidable health and safety incidents
- significant operational failures or incidents
- uncertainty arising from regulatory market reforms

Viridor

- changes in law, regulation or decisions by governmental bodies or regulators
- reduced waste volumes to landfill and in the overall market
- business interruption particularly in growing energy recovery facilities business
- downward pressure on UK wholesale power prices
- non-compliance or occurrence of avoidable health and safety incidents
- failure or increased cost of capital projects and/or joint ventures not achieving predicted revenues or performance
- exposure to contractor failure to deliver construction progress, increasing costs and potentially requiring lengthy legal action or other redress
- reliability and performance of assets and obsolescence of plants
- reduced customer base, increased competition affecting prices or reduced demand for services
- potential over capacity in the UK and in other parts of the European ERF markets impacting demand for Viridor's new plants
- information technology systems requiring replacement, development or upgrading to meet growing requirements of the business

Group

- an inability to raise sufficient funds to finance its activities or such funds only being available at higher cost
- pension costs increasing due to higher cost for future service and growing deficit in relation to past service in the Defined Benefit Scheme.

These principal risks and uncertainties are largely as set out, together with the mitigating actions of the Group, in the Group's 2014 Annual Report & Accounts which can be viewed on or downloaded from the Group's website, http://www.pennonannualreport.co.uk/2014/group/principal-risks-and-uncertainties.php or obtained from the Group Company Secretary at the Company's registered office.

BOARD MATTERS

The Board announced in September the planned retirement of David Dupont, Group Director of Finance and an Executive Director of Pennon Group Plc, on 31 January 2015. The Board would like to take this opportunity to express its gratitude to David for his significant contribution to the success of the Group and the strategic development of both South West Water and Viridor. In his 12 years as Group Director of Finance, David has successfully managed the financial affairs of Pennon during a period of substantial development and growth. He has put in place the funding required to take South West Water forward into the K6 period and to finance the construction of Viridor's committed ERF programme. The Board wishes him well for the future.

The Board also announced in September that David's successor will be Susan Davy, currently Finance and Regulatory Director of South West Water. Susan was appointed to the South West Water Board 7 years ago and is well placed to take on the role immediately upon David's retirement.

Neil Cooper joined the Board on 1 September 2014 as a Non-Executive Director and as chairman of the Audit Committee. Neil is Group Finance Director of William Hill PLC and previously was Group Finance Director of Bovis Homes Group PLC.

INTERIM MANAGEMENT STATEMENTS AND PRE-CLOSE TRADING UPDATES

With effect from 7 November 2014, the Financial Conduct Authority removed the requirement in the Disclosure and Transparency Rules to publish Interim Management Statements (IMSs). Before IMSs were introduced, Pennon published pre-close trading updates that were released immediately prior to pre-close meetings with analysts and investors. The Group intends to revert back to this policy and the next pre-close trading update will be released in late March 2015.

Accordingly, the Group does not intend to issue IMSs in the future and will not issue one next February.

Ken Harvey
Chairman
28 November 2014

FINANCIAL TIMETABLE FOR THE YEAR ENDED 31 MARCH 2015

29 January 2015	Ordinary shares quoted ex-dividend
30 January 2015	Record date for interim cash dividend
16 February 2015	Posting of Scrip dividend offer
March 2015	Pre-close trading update
9 March 2015	Final date for receipt of Forms of Election/Mandate
2 April 2015	Interim cash dividend payment date
20 May 2015	2014/15 Preliminary Results
Late June 2015	Annual Report & Accounts published
30 July 2015	Annual General Meeting
August 2015 *	Ordinary shares quoted ex-dividend
August 2015 *	Record date for final cash dividend
September 2015	Pre-close trading update
September 2015 *	Final date for receipt of Forms of Election/Mandate
October 2015 *	Final cash dividend payment date

* These dates are provisional and, in the case of the final dividend, subject to obtaining shareholder approval at the 2015 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 30 and 31 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 2014

		Unaudited			
	Note	**Before exceptional items half year ended 30 September 2014 £m**	**Exceptional items half year ended 30 September 2014 (note 5) £m**	**Total half year ended 30 September 2014 £m**	Half year ended 30 September 2013 £m
Revenue	4	**692.3**	**-**	**692.3**	667.0
Operating costs					
Manpower costs		**(85.0)**	**14.9**	**(70.1)**	(80.0)
Raw materials and consumables used		**(56.3)**	**-**	**(56.3)**	(57.4)
Other operating expenses		**(351.0)**	**-**	**(351.0)**	(314.2)
Earnings before interest, tax, depreciation and amortisation		**200.0**	**14.9**	**214.9**	215.4
Depreciation and amortisation		**(80.8)**	**-**	**(80.8)**	(75.7)
Operating profit	4	**119.2**	**14.9**	**134.1**	139.7
Finance income	6	**18.3**	**-**	**18.3**	27.3
Finance costs	6	**(39.9)**	**-**	**(39.9)**	(56.9)
Net finance costs	6	**(21.6)**	**-**	**(21.6)**	(29.6)
Share of post-tax profit from joint ventures		**2.4**	**-**	**2.4**	0.8
Profit before tax	4	**100.0**	**14.9**	**114.9**	110.9
Taxation	7	**(21.4)**	**(3.0)**	**(24.4)**	11.9
Profit for the period		**78.6**	**11.9**	**90.5**	122.8
Attributable to:					
Ordinary shareholders of the parent		**62.6**	**11.9**	**74.5**	107.2
Perpetual capital security holders		**16.0**	**-**	**16.0**	15.6
Earnings per ordinary share (pence per share)	8				
- Basic				**19.4**	29.4
- Diluted				**19.3**	29.3

The notes on pages 40 to 54 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of comprehensive income for the half year ended 30 September 2014

	Unaudited			
	Before exceptional items half year ended 30 September 2014 £m	**Exceptional items half year ended 30 September 2014 (note 5) £m**	**Total half year ended 30 September 2014 £m**	Half year ended 30 September 2013 £m
Profit for the period	**78.6**	**11.9**	**90.5**	122.8
Other comprehensive (loss)/income:				
Items that will not be reclassified to profit or loss				
Remeasurement of defined benefit obligations	**(28.1)**	**-**	**(28.1)**	5.9
Income tax on items that will not be reclassified	**5.6**	**-**	**5.6**	(5.8)
Total items that will not be reclassified to profit or loss	**(22.5)**	**-**	**(22.5)**	0.1
Items that may be reclassified subsequently to profit or loss				
Share of other comprehensive income from joint ventures	**(2.4)**	**-**	**(2.4)**	2.7
Cash flow hedges	**(5.0)**	**-**	**(5.0)**	24.4
Income tax on items that may be reclassified	**(0.3)**	**-**	**(0.3)**	1.1
Total items that may be reclassified subsequently to profit or loss	**(7.7)**	**-**	**(7.7)**	28.2
Other comprehensive (loss)/income for the period net of tax	**(30.2)**	**-**	**(30.2)**	28.3
Total comprehensive income for the period	**48.4**	**11.9**	**60.3**	151.1
Total comprehensive income attributable to:				
Ordinary shareholders of the parent	**32.4**	**11.9**	**44.3**	135.5
Perpetual capital security holders	**16.0**	**-**	**16.0**	15.6

The notes on pages 40 to 54 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated balance sheet at 30 September 2014

	Note	Unaudited 30 September 2014 £m	31 March 2014 £m
ASSETS			
Non-current assets			
Goodwill		**339.3**	339.3
Other intangible assets		**47.6**	30.6
Property, plant and equipment	15	**3,506.9**	3,450.4
Other non-current assets		**269.3**	230.3
Financial assets at fair value through profit		**0.4**	-
Derivative financial instruments		**28.8**	25.9
Investments in joint ventures		**0.1**	0.1
		4,192.4	4,076.6
Current assets			
Inventories		**12.2**	12.1
Trade and other receivables		**296.8**	278.2
Financial assets at fair value through profit		**-**	0.4
Derivative financial instruments		**6.1**	2.6
Cash and cash deposits	13	**694.1**	613.1
		1,009.2	906.4
LIABILITIES			
Current liabilities			
Borrowings	13	**(61.5)**	(273.9)
Financial liabilities at fair value through profit		**(0.2)**	-
Derivative financial instruments		**(12.4)**	(20.8)
Trade and other payables		**(375.3)**	(298.8)
Current tax liabilities		**(44.9)**	(37.7)
Provisions		**(26.4)**	(33.3)
		(520.7)	(664.5)
Net current assets		**488.5**	241.9
Non-current liabilities			
Borrowings	13	**(2,738.1)**	(2,533.2)
Other non-current liabilities		**(86.1)**	(82.8)
Financial liabilities at fair value through profit		**(27.3)**	(15.6)
Derivative financial instruments		**(8.9)**	(3.9)
Retirement benefit obligations		**(94.3)**	(79.3)
Deferred tax liabilities		**(239.0)**	(227.1)
Provisions		**(185.6)**	(179.0)
		(3,379.3)	(3,120.9)
Net assets		**1,301.6**	1,197.6
Shareholders' equity			
Share capital	10	**162.4**	151.3
Share premium account		**118.6**	4.9
Capital redemption reserve		**144.2**	144.2
Retained earnings and other reserves		**581.6**	602.4
Total shareholders' equity		**1,006.8**	902.8
Perpetual capital securities	11	**294.8**	294.8
Total equity		**1,301.6**	1,197.6

The notes on pages 40 to 54 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 £m	Perpetual capital securities (note 11) £m	Total equity £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)
Current tax relief 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

	Unaudited					
	Share capital (note 10) £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Perpetual capital securities (note 11) £m	Total equity £m
At 1 April 2014	151.3	4.9	144.2	602.4	294.8	1,197.6
Profit for the period	-	-	-	74.5	16.0	90.5
Other comprehensive loss for the period	-	-	-	(30.2)	-	(30.2)
Total comprehensive income for the period	-	-	-	44.3	16.0	60.3
Transactions with equity shareholders						
Dividends paid or approved	-	-	-	(117.0)	-	(117.0)
Adjustment for shares issued or to be issued under the scrip dividend alternative	2.6	(2.6)	-	48.0	-	48.0
Convertible bond – equity issuance	8.5	116.3	-	(0.5)	-	124.3
Distributions due to perpetual capital security holders	-	-	-	-	(20.3)	(20.3)
Current tax relief on distributions to perpetual capital security holders	-	-	-	-	4.3	4.3
Adjustment in respect of share-based payments	-	-	-	1.9	-	1.9
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	-	(0.8)	-	(0.8)
Proceeds from treasury shares re-issued	-	-	-	3.3	-	3.3
	11.1	113.7	-	(65.1)	(16.0)	43.7
At 30 September 2014	162.4	118.6	144.2	581.6	294.8	1,301.6

The notes on pages 40 to 54 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of cash flows for the half year ended 30 September 2014

	Note	**Unaudited** **Half year ended 30 September 2014 £m**	Half year ended 30 September 2013 £m
Cash flows from operating activities			
Cash generated from operations	12	**140.9**	157.1
Interest paid		**(24.0)**	(39.2)
Tax repaid/(paid)		**4.3**	(31.3)
Net cash generated from operating activities		**121.2**	86.6
Cash flows from investing activities			
Interest received		**7.3**	19.2
Loan repayments received from joint ventures		**0.1**	0.1
Dividends received from joint venture		**-**	3.5
Purchase of property, plant and equipment		**(138.2)**	(174.6)
Proceeds from sale of property, plant and equipment		**3.4**	1.7
Net cash used in investing activities		**(127.4)**	(150.1)
Cash flows from financing activities			
Proceeds from treasury shares re-issued	10	**3.3**	2.2
Deposit of restricted funds		**(0.6)**	(2.7)
Purchase of ordinary shares by the Pennon Employee Share Trust		**(0.8)**	(0.5)
Proceeds from new borrowing		**130.0**	90.0
Repayment of borrowings		**(20.1)**	(140.1)
Finance lease sale and leaseback		**89.6**	40.5
Finance lease principal repayments		**(88.0)**	(6.3)
Dividends paid		**(26.8)**	(29.5)
Net cash received from/(used in) financing activities		**86.6**	(46.4)
Net increase/(decrease) in cash and cash equivalents		**80.4**	(109.9)
Cash and cash equivalents at beginning of period	13	**439.9**	490.5
Cash and cash equivalents at end of period	13	**520.3**	380.6

The notes on pages 40 to 54 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 54. 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 2014.

The financial information for the period ended 30 September 2014 does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The statutory accounts for 31 March 2014 were approved by the Board of Directors on 23 June 2014 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 2014, 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 2014, with the exception of changes in estimates that are required in determining the provision of income taxes.

Notes to the condensed half year financial information (continued)

3. Accounting policies

The accounting policies adopted in this condensed half year financial information are consistent with those applied and set out in the Pennon Group Plc Annual Report and Accounts for the year ended 31 March 2014, 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 2015 in issue which have been adopted by the EU.

- IFRS 10, 'Consolidated financial statements'. Under IFRS 10, subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

  The new standard IFRS 10 has no financial impact on the Group.

- IFRS 11, 'Joint arrangements'. Under IFRS 11, investments in Joint arrangements are classified as Joint ventures based on contractual rights and obligations each investor has rather than the legal structure of the joint arrangement.

  Under IFRS 11 entities can no longer account for an interest in a joint venture using the proportionate consolidation method and must use the equity method in accordance with IAS 28, Investments in associates.

  The new standard IFRS 11 has no financial impact on the Group. All joint ventures continue to be recognised using the equity method.

- IFRS 12, 'Disclosure of interests in other entities'. IFRS 12 sets out the required disclosures for entities reporting under the two new standards noted above. The new standard requires additional disclosure in relation to subsidiaries, associates and joint arrangements.

  The new standard IFRS 12 has no financial impact on the Group, although further disclosure of joint arrangements will be presented in the 2014/15 financial statements.

Other standards or interpretations which were mandatory for the first time in the year beginning 1 April 2014 did not have a material impact on the net assets or results of the Group.

The tax charge for September 2014 and September 2013 has been derived by applying the anticipated effective annual rate to the first half year profit before tax.

4. **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 2014 £m	Half year ended 30 September 2013 £m
Revenue		
Water and sewerage	**268.3**	269.1
Waste management	**424.4**	398.2
Other	**5.3**	5.6
Less intra-segment trading	**(5.7)**	(5.9)
	692.3	667.0
Segment result		
Operating profit before depreciation, amortisation and exceptional items (EBITDA)		
Water and sewerage	**172.2**	173.8
Waste management	**28.1**	41.4
Other	**(0.3)**	0.2
	200.0	215.4
Operating profit before exceptional items		
Water and sewerage	**119.2**	121.3
Waste management	**0.2**	18.0
Other	**(0.2)**	0.4
	119.2	139.7
Profit before tax and exceptional items		
Water and sewerage	**86.2**	87.3
Waste management	**4.7**	15.3
Other	**9.1**	8.3
	100.0	110.9
Profit before tax		
Water and sewerage	**98.0**	87.3
Waste management	**6.6**	15.3
Other	**10.3**	8.3
	114.9	110.9

Intra-segment transactions between and to other segments are under normal commercial terms and conditions. Intra-segment revenue or interest receivable of one segment is a cost or interest payable of another.

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

PENNON GROUP PLC

Notes to the condensed half year financial information (continued)

4. **Segmental information (continued)**

Geographic analysis of revenue based on location of customers

	Unaudited	
	Half year ended 30 September 2014 £m	Half year ended 30 September 2013 £m
UK	**671.5**	640.5
Rest of European Union	**5.0**	6.6
China	**13.7**	15.2
Rest of World	**2.1**	4.7
	692.3	667.0

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.

5. **Exceptional items**

Exceptional items are those that in the Directors' view are required to be separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance.

	Unaudited	
	Half year ended 30 September 2014 £m	Half year ended 30 September 2013 £m
Operating costs		
Pension costs – past service	**14.9**	-
Tax charge on exceptional items	**(3.0)**	-
Credit for the period	**11.9**	-

During the period an exceptional credit before tax of £14.9m was recognised relating to changes made to the Group's defined benefit pension scheme. Changes implemented during the period capped pensionable pay for active members, reducing past service cost.

6. Net finance costs

	Unaudited					
	Half year ended 30 September 2014			Half year ended 30 September 2013		
	Finance cost £m	**Finance income £m**	**Total £m**	Finance cost £m	Finance income £m	Total £m
Cost of servicing debt						
Bank borrowings and overdrafts	**(12.5)**	**-**	**(12.5)**	(19.0)	-	(19.0)
Interest element of finance lease rentals	**(18.3)**	**-**	**(18.3)**	(18.6)	-	(18.6)
Other finance costs	**(1.9)**	**-**	**(1.9)**	(1.9)	-	(1.9)
Interest receivable	**-**	**2.8**	**2.8**	-	2.4	2.4
Interest receivable on shareholder loans to joint ventures	**-**	**5.6**	**5.6**	-	4.6	4.6
	(32.7)	**8.4**	**(24.3)**	(39.5)	7.0	(32.5)
Other finance income						
Investment income received	**-**	**-**	**-**	-	11.3	11.3
Fair value losses on derivative financial instruments providing commercial hedges	**-**	**-**	**-**	(10.7)	-	(10.7)
	-	**-**	**-**	(10.7)	11.3	0.6
Notional interest						
Interest receivable on service concession arrangements	**-**	**5.8**	**5.8**	-	4.2	4.2
Retirement benefit obligations	**(1.7)**	**-**	**(1.7)**	(2.1)	-	(2.1)
Unwinding of discounts on provisions	**(5.5)**	**-**	**(5.5)**	(4.6)	-	(4.6)
	(7.2)	**5.8**	**(1.4)**	(6.7)	4.2	(2.5)
Net gains on non-designated derivative financial instruments	**-**	**4.1**	**4.1**	-	4.8	4.8
	(39.9)	**18.3**	**(21.6)**	(56.9)	27.3	(29.6)

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 prior period.

Notes to the condensed half year financial information (continued)

7. **Taxation**

	Unaudited	
	Half year ended 30 September 2014 £m	Half year ended 30 September 2013 £m
Analysis of charge/(credit) :		
Current tax charge	**7.2**	16.3
Deferred tax – other	**14.2**	11.9
Deferred tax arising on change of rate of corporation tax	**-**	(40.1)
Total deferred tax charge/(credit)	**14.2**	(28.2)
Tax charge/(credit)before exceptional items	**21.4**	(11.9)
Tax on exceptional items	**3.0**	-
	24.4	(11.9)

UK corporation tax is calculated at 21% (2013 23%) of the estimated assessable profit for the year. The tax charge for September 2014 and September 2013 has been derived by applying the anticipated effective annual tax rate to the first half year profit before tax.

The 2013 deferred tax credit includes a credit of £40.1m reflecting a 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 and exceptional items was 21% (2013 25%).

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 2014	Half year ended 30 September 2013
Number of shares (millions)		
For basic earnings per share	**383.5**	364.8
Effect of dilutive potential ordinary shares from share options	**1.7**	1.8
For diluted earnings per share	**385.2**	366.6

Basic and diluted earnings per ordinary share

Adjusted earnings per share are presented to provide a more useful comparison on business trends and performance. Exceptional items are adjusted for as by nature and size they can distort comparison of business trends. Deferred tax is adjusted for as it reflects distortive effects of changes in corporation tax rates and the level of long term investment. The annual perpetual capital return is recognised in full at the half year, so is proportionately adjusted to allow a more useful comparison at the half year. Earnings per share have been calculated:

	Unaudited					
	Half year ended 30 September 2014			Half year ended 30 September 2013		
		Earnings per ordinary share			Earnings per ordinary share	
	Profit after tax £m	**Basic p**	**Diluted p**	Profit after tax £m	Basic p	Diluted p
Statutory earnings	**74.5**	**19.4**	**19.3**	107.2	29.4	29.3
Deferred tax charge/(credit) before exceptional items (note 7)	**14.2**	**3.7**	**3.7**	(28.2)	(7.7)	(7.7)
Exceptional items (net of tax) (note 5)	**(11.9)**	**(3.1)**	**(3.1)**	-	-	-
Proportionate impact of perpetual capital returns	**8.0**	**2.1**	**2.1**	7.8	2.1	2.1
Adjusted earnings	**84.8**	**22.1**	**22.0**	86.8	23.8	23.7

PENNON GROUP PLC

Notes to the condensed half year financial information (continued)

9. **Dividends to ordinary shareholders**

Amounts recognised as distributions to Ordinary shareholders in the period :

	Unaudited	
	Half year ended 30 September 2014 £m	Half year ended 30 September 2013 £m
Interim dividend paid for the year ended 31 March 2014 : 9.39p (2013 8.76p) per share	**34.8**	31.9
Final dividend approved for the year ended 31 March 2014 : 20.92p (2013 19.70p) per per share	**82.2**	72.0
	117.0	103.9

Proposed interim dividend

	Unaudited	
	Half year ended 30 September 2014 £m	Half year ended 30 September 2013 £m
Proposed interim dividend for the year ended 31 March 2015 : 9.98p (2014 9.39p) per share	**39.8**	34.8

The proposed interim dividend of 9.98p per share will be paid on 2 April 2015 to shareholders on the register on 30 January 2015.

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 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

1 April 2014 to 30 September 2014	Number of shares		
	Treasury shares	Ordinary shares	£m
At 1 April 2014 Ordinary shares of 40.7p each	1,282,690	370,552,276	151.3
Shares issued in respect of the £125m convertible bond	-	20,909,635	8.5
Shares issued under the scrip dividend alternative	-	1,982,455	0.8
Shares re-issued under the Company's Performance and Co-investment Plan	(131,685)	131,685	-
For consideration of £0.8m, shares re-issued to the Pennon Employee Share Trust	(104,482)	104,482	-
For consideration of £2.5m, shares re-issued under the Company's Sharesave Scheme	(587,156)	587,156	-
At 30 September 2014 ordinary shares in issue of 40.7p each	**459,367**	**394,267,689**	**160.6**
Shares to be issued under the scrip dividend alternative	-	4,383,167	1.8
	459,367	**398,650,856**	**162.4**

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 808p (2013 701p).

Notes to the condensed half year financial information (continued)

11. **Perpetual capital securities**

	Unaudited Half year ended 30 September 2014 £m	Year ended 31 March 2014 £m
GBP 300m 6.75% perpetual subordinated capital securities	**294.8**	294.8

On 8 March 2013 the Company issued £300m perpetual capital securities. 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 3 April 2014 the periodic return of £20.3m scheduled 8 March 2015 is payable and consequently has been recognised as a liability at 30 September 2014.

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 2014 £m	Half year ended 30 September 2013 £m
Cash generated from operations		
Profit for the period	**90.5**	122.8
Adjustments for:		
Share-based payments	**1.9**	1.8
Profit on disposal of property, plant and equipment	**(2.9)**	(1.4)
Depreciation charge	**79.4**	74.3
Amortisation of intangible assets	**1.3**	1.4
Exceptional credit from defined benefit pension change	**(14.9)**	-
Share of post-tax profit from joint ventures	**(2.4)**	(0.8)
Finance income	**(18.3)**	(27.3)
Finance costs	**39.9**	56.9
Taxation charge/(credit)	**24.4**	(11.9)
Changes in working capital :		
Increase in inventories	**(0.1)**	(1.1)
Increase in trade and other receivables	**(24.8)**	(40.1)
Increase in service concession arrangements receivable	**(45.0)**	(26.5)
Increase in trade and other payables	**14.5**	14.3
Increase/(decrease) in retirement benefit obligations	**0.1**	(0.3)
Decrease in provisions	**(2.7)**	(5.0)
Cash generated from operations	**140.9**	157.1

	Unaudited	
Total interest paid	**Half year ended 30 September 2014 £m**	Half year ended 30 September 2013 £m
Interest paid in operating activities	**24.0**	39.2
Interest paid in investing activities (purchases of property, plant and equipment)	**13.9**	9.9
Total interest paid	**37.9**	49.1

13. Net borrowings

	Unaudited Half year ended 30 September 2014 £m	Year ended 31 March 2014 £m
Cash and cash deposits	**694.1**	613.1
Borrowings – current		
Other current borrowings	**(32.0)**	(155.4)
Finance lease obligations	**(29.5)**	(118.5)
Total current borrowings	**(61.5)**	(273.9)
Borrowings – non-current		
Bank and other loans	**(1,206.1)**	(1,077.8)
Other non-current borrowings	**(284.2)**	(304.3)
Finance lease obligations	**(1,247.8)**	(1,151.1)
Total non-current borrowings	**(2,738.1)**	(2,533.2)
Total net borrowings	**(2,105.5)**	(2,194.0)

During the period the £125 million convertible bond due to mature in August 2014 was fully converted to 20.9 million Pennon Group Plc shares.

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

	Unaudited Half year ended 30 September 2014 £m	Year ended 31 March 2014 £m
Cash and cash deposits as above	**694.1**	613.1
Less : deposits with a maturity of three months or more (restricted funds)	**(173.8)**	(173.2)
	520.3	439.9

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 2014		Year ended 31 March 2014	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Non-current borrowings :				
Bank and other loans	**1,206.1**	**1,203.5**	1,077.8	1,018.9
Other non-current borrowings	**284.2**	**247.8**	304.3	260.1
Finance lease obligations	**1,247.8**	**1,097.2**	1,151.1	978.8
Total non-current borrowings	**2,738.1**	**2,548.5**	2,533.2	2,257.8
Other non-current assets	**269.3**	**376.3**	230.3	307.6

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.

Notes to the condensed half year financial information (continued)

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

Valuation hierarchy of financial instruments carried at fair value (continued)

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

	Unaudited Half year ended 30 September 2014 £m	Year ended 31 March 2014 £m
Level 2 inputs		
Assets		
Derivatives used for hedging	**33.2**	28.5
Liabilities		
Derivatives used for hedging	**18.0**	20.1
Derivatives deemed held for trading	**3.3**	2.2
Total liabilities	**21.3**	22.3

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.

	Unaudited Half year ended 30 September 2014 £m	Year ended 31 March 2014 £m
Level 3 inputs		
Assets		
Derivatives deemed held for trading	**1.7**	-
Liabilities		
Derivatives deemed held for trading	**-**	2.4

The table below shows the summary of changes in the fair value of the Group's level 3 financial instruments:

	Unaudited Half year ended 30 September 2014 £m	Year ended 31 March 2014 £m
Opening balance	**(2.4)**	9.7
Gains and losses recognised in net finance costs	**4.1**	8.4
Settlement of recognised gains	**-**	(20.5)
Closing balance	**1.7**	(2.4)

Notes to the condensed half year financial information (continued)

15. Capital expenditure

	Unaudited Half year ended 30 September 2014 £m	Year ended 31 March 2014 £m
Property, plant and equipment		
Additions	**137.3**	360.8
Net book value of disposals	**0.5**	1.2
Capital commitments		
Contracted but not provided	**292.6**	373.1

16. Contingent liabilities

	Unaudited Half year ended 30 September 2014 £m	Year ended 31 March 2014 £m
Performance bonds	**150.7**	150.0
Other	**4.0**	6.9
	154.7	156.9

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

The Group is subject to litigation from time to time as a result of its activities. The Group establishes provisions in connection with litigation where it has a present legal or constructive obligation as a result of a past event and where it is more likely than not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

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 2014. There was no material change during the half year to September 2014 in the nature of transactions with these related parties.

Pennon Group Plc
Registered Office : Registered in England No 2366640
Peninsula House
Rydon Lane
Exeter
EX2 7HR
pennon-group.co.uk

PENNON GROUP PLC

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors named below confirm on behalf of the Board of Directors that this unaudited condensed half year financial information has been prepared in accordance with IAS 34 "Interim financial reporting" as adopted by the European Union and to the best of their knowledge the interim management report herein includes a fair review of the information required by DTR 4.2.4, DTR 4.2.7R and DTR 4.2.8R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the period and their impact on the unaudited condensed half year financial information; a description of the principal risks and uncertainties for the remaining six months of the current financial year; and the disclosure requirements in respect of material related party transactions.

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

The Directors of Pennon Group Plc are as listed on pages 52 and 53 of the Annual Report and Accounts of the Company for the year ended 31 March 2014 with the exception of Mr Neil Cooper who was appointed as a Non-executive Director on 1 September 2014.

For and on behalf of the Board of Directors who approved this half year report on 27 November 2014.

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 consolidated set of financial statements in the half-yearly financial report for the six months ended 30 September 2014 which comprises the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated statement of changes in equity, the Consolidated statement of cash flows and related notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2014 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.

Ernst & Young LLP
Bristol
27 November 2014