

27 November 2024

Pennon Group plc
Half Year Results 2024/25

Pennon Group plc ('Pennon' or the 'Group') today announces its results for the half year ended 30 September 2024.

Susan Davy, Group Chief Executive Officer, commented:

"Water companies are rightly being challenged to do more for customers today and invest more for the future. We are doing both. 100% of customers across the south west found their bills affordable for the first time – five years ahead of the sector-wide pledge to eradicate water poverty. We continue to lead the way in helping customers to use less and save more with a range of money saving campaigns and pilots. Whilst that's led to lower wholesale water business revenues, it's the right thing to do.

"Alongside our bill support, we are delivering record capital investment. Our supply chain 'amplify' is up and running, delivering accelerated K8 investment to tackle the use of storm overflows. We are forecasting growth in regulatory capital of 75% over this regulatory period.

"Underpinned by solid relative operational performance, as assessed in Ofwat's latest Water Company Performance Report across all parts of the Group, we have continued to deliver to all of our customers across South West Water, Bristol Water and SES. When things go wrong, as they did for customers and businesses in and around Brixham earlier this year, we put it right, with no excuses. But we know we have more to do.

"As we look ahead, we are energised following our Business Plans for SWW and SES achieving 'outstanding' and 'good' ratings, respectively, from Ofwat. In preparation, we are reshaping the Group and driving cost base efficiency. We are putting more resources on the front line than ever before, streamlining our support functions, with clear business lines, aligned to our four strategic priorities.

"Of course, it's not what we are doing but how we do it that also matters. Our operations across the Group need a reliable and efficient power supply and we are investing to increase renewable energy provision through Pennon Power, supporting our Net Zero ambitions.

"Overall, we are well positioned for the future, with lower revenues protected by regulatory mechanisms, as we continue to focus on sustainable growth. Our financial position remains resilient to the challenges ahead, with good liquidity and a diversified debt portfolio. Our plans to restructure the business, as well as the benefits being delivered through integration of SES into our Group, will allow us to deliver efficiently as we move forward."

FINANCIAL PERFORMANCE

	H1 2024/25	H1 2024/25 (excl. SES)	H1 2023/24
Underlying revenue [^]	£527.2m	£450.6m	£448.6m
Underlying EBITDA [^]	£163.5m	£150.2m	£168.5m
Underlying (loss)/profit before tax[^]	(£18.6m)	(£13.8m)	£9.1m
Non-underlying items before tax ¹	(£20.2m)	(£20.2m)	(£5.9m)
(Loss)/profit before tax - statutory	(£38.8m)	(£34.0m)	£3.2m
(Loss)/profit after tax - statutory	(£30.0m)	(£26.2m)	£1.8m
(Loss)/earnings per share			
Adjusted EPS	(6.6p)		3.6p
Basic EPS	(10.6p)		0.5p
Dividend per share ²	14.69p		14.04p
Capital expenditure			
Group (incl. SES)	£331.8m		£266.3m
South West Water	£306.0m		£234.4m
	At 30 Sept 2024		At 31 Mar 2024
Water Group			
RCV ³	£5,916m		£5,536m
Gearing ⁴	65.0%		64.4%
SWW			
Cumulative RORE (real, notional) ⁵	6.0%		7.3%
Cumulative RORE (nominal, actual) ⁶	10.8%		

Financial results for H1 2024/25

- Results for H1 2024/25 in line with management expectation⁷
- On a like for like basis, lower revenues in South West Water ('SWW') compared to H1 2023/24 driven by successful water demand customer initiatives resulting in a loss before tax on both an underlying and statutory basis, with regulatory revenue mechanisms in place to protect future recovery
- As anticipated, newly acquired Sutton and East Surrey Group ('SES') incurred a loss for the period – we are focused on reducing interest costs and right sizing the cost base to improve profitability
- Profitable sector leading B2B retailers; Pennon Water Services ('PWS') and Water2Business – with plans to consolidate SES Business Water
- Loss before tax for the Group increased to £38.8m reflecting the cost of interventions to return quality water supplies to Brixham (c.£16m) and the costs of restructuring to reshape the Group's activities (c.£4m)
- Capital expenditure run rate is slightly lower than H2 2023/24, but increased by £65.5m on H1 2023/24, as we invest to secure operational improvements

- Solid relative performance for the wholesale water businesses in respect of common Outcome Delivery Incentives (ODIs)
- Balance sheet for the Group is robust with Pennon Group gearing at c.68%⁸, and total Water Group RCV gearing of 65% (SWW gearing of 64%)
- Strong investment grade credit rating with liquidity of c.£675m in place to support continued investment
- Return on regulated equity for SWW is relatively strong, equating to 10.8% on a nominal, actual balance sheet basis, and 6.0% on a real notional WaterShare basis
- Interim dividend of 14.69p is in line with policy of CPIH +2%

Reshaping our business

- Four clear business units established focused on Water Services, Wastewater Services, Pennon Power and Retail Services, aligned with our four strategic priorities
- Reshaping the Group to drive greater efficiencies, as we grow, with improvements in processes and operational effectiveness delivered and in progress of c.£55m of annualised efficiencies in H1 2024/25 against the targeted c.£86m annualised run rate for K8. The programme is targeted to:
 - deliver the synergies identified through the water company acquisitions of Bristol Water in 2021 and SES in 2024
 - c.£18m delivered in H1 2024/25 in Bristol Water, and we are on track for the c.£20m targeted by the end of 2024/25
 - c.£2m delivered in H1 2024/25 in SES, with a target of c.£11m
 - right size and reshape the Group to ensure we have resources focused on our priorities – bolstering front line staff by c.100, and ensuring we have a best-in-class customer service platform to serve our customers

Investment driving benefit

- SWW capital expenditure in H1 2024/25 broadly in line with the K8 run rate; delivering investments to meet our K7 commitments, support performance in our ODIs and respond to operational incidents as well as accelerate agreed K8 transitional spend and early start planning and design activities
- Investment in water resource diversification continues with the completion of the abstraction and new water treatment works at Rialton – supplementing resources in Cornwall by c.4%, bringing the cumulative resource position to 34% since 2022, with Devon benefitting from the cumulative 30% uplift in availability reported in the 2023/24 results
- Water quality investments are on track including the two new treatment works in Bournemouth – the treatment works will serve c.85% of the population of Bournemouth – with the first works on track for commissioning by the end of 2024/25

- Tackling sewer overflow spills through our WaterFit 2025 programme - preventing c.12,500 spills with over c.350 interventions, with two thirds of our top spillers in 2023 resolved this year
- Pennon Power solar investments on track with construction underway at two sites equating to c.45% of our targeted generation with first energisation expected at the end of 2024/25
- Supporting customers with c.£110m customer benefit for K7, including innovative tariffs driving water efficiency and affordability

Strong relative sector performance

- Upper quartile performance in: SWW on internal sewer flooding and water quality for water and sewerage companies; Bristol Water on customer service; SES Water on supply interruptions and water quality
- Growing and profitable non-household retail businesses – with c.15% market share, strong customer service - with Trustpilot scores for PWS and W2B of 4.8 and 5.0, respectively – alongside a doubling of business retail PBT from H1 2022/23

Underpinned by an ‘outstanding’ Business Plan for K8

- SWW's Business Plan for Bournemouth, Bristol, Cornwall, Devon, and the Isles of Scilly categorised as outstanding and recognised as a 'leading plan' in July
- Having acquired SES Water in January 2024, Ofwat has assessed their plan as standard, confirming this plan is 'generally good'
- SWW Draft Determination reflects minimum c.30% RCV growth to 2030, with a cost of capital protected against reduction between Draft and Final Determinations, with 30bps upside potential
- SES Draft Determination reflects growth of c.11% and 5bps upside for a good standard plan
- Representations made to Ofwat in respect of risk return balance (particularly focused on ODIs), providing additional evidence for our totex investments, requesting that natural rates are applied for capital charges and the balance between our regions and priorities
- Final Determination confirmed as 19 December 2024

Well positioned for a period of significant growth

- We have a sustainable supply chain to deliver our K8 programme – over 1,000 schemes already underway, with transition expenditure of c.£75m for storm overflows we have launched our ‘Turning the Tide’ storm overflow investment programme
- Strong investment grade credit ratings secured, with £2.5bn EMTN programme launched and an inaugural £400m public bond issuance. We have access to good liquidity funding through our sustainable financing framework to support our growing capital programme

Notes:

All percentage movements are on a half on half basis unless otherwise stated

Results include the results of SES in the current period. SES was acquired in January 2024 and therefore the prior year comparative period excludes the impact of this acquisition

[^] Measures with this symbol are defined in the Alternative Performance Measures (APM) section of this document, underlying measures are presented before non-underlying items

¹ Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of financial performance.

² Dividend policy of CPIH+2%. The CPIH rate used is 2.6% at 30 September 2024

³ Forecast shadow RCV at 31 March 2025 based on K7 Business Plan levels of investment, Green Recovery, accelerated delivery, and transitional investment, along with regulatory true-ups and inflationary impacts and the impact of acquisitions and shadow RCV at 31 March 2024

⁴ Based on Water Group (SWW including Bristol Water and SES Water) – net debt at period end/forecast shadow RCV at 31 March

⁵ Real cumulative RORE on underlying totex, financing and ODIs with notional gearing

⁶ Nominal cumulative RORE based on underlying real RORE using actual gearing plus average inflation over K7 at 4.3%

⁷ As set out in our Trading Statement in September 2024

⁸ Pennon Group net debt excluding fair value adjustments/Water Group forecast shadow RCV at 31 March 2025 and effective value of the non-regulated businesses

Results presentation

A presentation of the Half Year 2024/25 results hosted by Susan Davy, Group Chief Executive Officer and Laura Flowerdew, Group Chief Financial Officer, will be available at 08:00am (GMT) today, 27 November 2024. This will be followed by a live Q&A session at 08:45am (GMT). The presentation and Q&A session can be accessed here: www.pennon-group.co.uk/investor-information

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GROUP CHIEF EXECUTIVE OFFICER'S REVIEW

Overview

Water companies are rightly being challenged to do more for customers today and into the future. We are doing both, with good progress in K7, ensuring we are well positioned for the delivery of our 2025-30 (K8) Business Plan and in laying the foundations for sustainable future growth.

Our c.4,000 colleagues who live and work in the communities we support, care passionately about what we do, each day and I couldn't be more proud. Our customer and community roadshows continue to ensure we are hearing first-hand what matters most and as we fix the things they care about. From Bristol to Bournemouth, Devon, Cornwall, and the Isles of Scilly, and now Sutton and East Surrey, we continue to help customers to use less and save more with a range of money saving campaigns and pilots, leading the way.

Whilst South West Water ('SWW') revenues are lower on a like for like basis due to our water efficiency initiatives, it's the right thing to do and is protected by future regulatory mechanisms.

Agile group delivering for all in K7

As we are closing the K7 regulatory period we look back on a period of significant change for the Group. Our agility in delivering for all stakeholders has been a constant.

Following the sale of Viridor in 2020, as part of a highly disciplined strategic review:

- we responsibly deployed capital, positioning the Group sustainably by minimising liabilities
- we have reinvested in UK Water with the acquisition of Bristol and SES at a total value of £0.6bn⁹
- we have recognised shareholder support through our K7 dividend policy of CIPH+2%.

We have made record investment in the asset base of c.£1.8bn¹⁰ as we focus on the things that matter most. Alongside our acquisitive growth strategy this results in RCV growth of 75%¹¹.

We are also expanding our non-regulated business; our three retailers now having a combined market share of around 15% and our investments in Pennon Power are on track.

Customers have benefitted through our innovative first of its kind WaterShare+ scheme. Launched in 2020, this gives customers a stake and a say in our business and they have also shared in financial benefits.

Alongside this we have delivered solid relative sector performance with c.70% of ODIs met over the period and we have focused on supporting customers, keeping bills as low as possible through a drive for efficiency and providing tangible support to those who need it most achieving 100% affordability for the first time.

Reshaping our business to align with our four strategic priorities

To support the delivery of our outstanding and good rated Business Plans for SWW and SES we are reshaping the Group. We are putting more resources on the front line than ever before, with clear business lines, aligned to our four strategic priorities.

With Managing Directors in place for Water Services, Wastewater Services, Pennon Power and Retail Services, we have also commenced a Group-wide reshaping programme ensuring we have the right resources and capabilities, with more resources on the front line, supported by expert and streamlined corporate functions. Our supply chain partnership 'amplify' has already been stood up

⁹ Reflecting Bristol acquisition of £425m and £180m equity capital raised for SES acquisition

¹⁰ Capex investment for South West and Bristol Water over K7, excluding transition spend

¹¹ Based on Water Group (SWW and SES) forecast shadow RCV growth over K7

and is on track to deliver £75m of accelerated investment to kick start our plans to reduce storm overflows.

At September 2024, our transformation and restructuring programmes have delivered, or are in progress to deliver, c.£35m of annualised savings. This is in addition to the synergies delivered through our acquisitions of Bristol Water and SES Water where we have delivered synergies of c.£18m and c.£2m, respectively, and are on track to achieve the savings we set ourselves at acquisition. This is a step towards our targeted annualised savings of c.£86m in K8.

Investment driving benefits

With over £300m of capital investment in SWW in the first half of 2024/25, we are investing to make sure we make good operational progress on our four priorities in the long term. We are well prepared to deliver almost double the rate of investment from K7 ending the period at the K8 run rate.

Building water resources, improving water quality

Our investments mean we are making good progress in providing a more resilient and diverse portfolio for water resources across Devon and Cornwall. This has been a monumental undertaking, with teams across South West Water and our supply chain partners. Blackpool pit has been fully operational since the end of March with construction completed at the new treatment works at Rialton. We have supplemented capacity in Cornwall by 4% in this half year, with 34% cumulatively achieved since 2022, alongside the 30% uplift to Devon. Overall, water resource levels are at 80% across Devon and Cornwall, and we achieved 100% supply demand balance index for the first time in the 2023/24 EPA.

There are always two sides to the coin to ensuring a sustainable supply demand balance, and reducing demand is also key to future resilience. Our sector leading demand reduction schemes are focused on supporting customers to use less and save money. Leading with our 'Water is Precious' water efficiency campaign targeting both residents and visitors, we are also trialling several firsts for the region with progressive tariff trials. In Cornwall residents were given £10 off bills for delivering a 5% reduction in consumption, and we have also launched innovative trials including rising block tariffs and seasonal tariffs. Early analysis shows a c.2-9% reduction in demand from these trials.

Whilst we are focused on protecting water resources, safe, clean drinking water remains customers' number one priority and we continue to make good progress in rolling out our successful Quality First culture and training programme in Bristol, with plans to extend to SES.

The incident earlier in the year in Brixham highlights just how important it is that all customers can have confidence in their water supply. We continue to work with the Drinking Water Inspectorate on the lessons learned from the incident. We supported customers throughout, ensuring homes and businesses had access to bottled water, and went over and above our customer promise of £15, with customers compensated to the equivalent of a year's annual bill, given the rarity of the incident.

Our primary focus throughout was the health and safety of our customers and the 800 strong team who worked tirelessly around the clock to restore clean, safe drinking water to customers and businesses affected. Nothing mattered more, and over the period, SWW flushed over 34km of water pipes 27 times at high velocity to clean network pipes, with 17 phases of ice-pigging and swabbing the network, and installed ultraviolet (UV) solutions and microfilters to provide barriers. Over 1.2km of new pipework was laid to provide future resilience across the network.

Our underlying water quality is improving. With SES the top performer in the industry, and SWW upper quartile for water and sewerage companies, we are confident that we can do even more as we share best practice.

For Bournemouth customers, we continue to make good progress with upgrades to provide state-of-the-art water treatment works at Alderney and Knapp Mill. In Devon and Cornwall, we are on track to deliver improvements at four works and our tactical investments in Bristol – ahead of significant investment in K8 – are showing improvements on last year's performance.

Tackling storm overflows and pollutions

Tackling storm overflows is a priority, and there's no doubt we have been challenged with high rainfall and the third wettest October 2023 to August 2024 since records began. Ground water levels have remained exceptionally high with a corresponding increase in the headline number of storm overflow spills. However, beneath the headlines our investments are working, having resolved two thirds of our highest spillers from 2023, and preventing c.12,500 spills through c.350 interventions since 2022. Importantly, we have maintained our sector leading performance for internal sewer flooding and upper quartile for external flooding incidents.

Our WaterFit investments are focused on:

- reducing the flows into our network, with 57km of sewers relined to reduce infiltration and completing over 12 hectares of sewer separation
- increasing storage at 60 sites, nearly tripling our storage capacity to capture flows that otherwise would have split, returning them for treatment after the storm event
- increasing treatment capacity at 15 wastewater treatment works
- and maximising existing capacity at 90 sites through interventions such as increasing weir heights and flow optimisation.

With our regions 860 miles of coastline, we are rightly focused on improving our bathing beaches, with a 12% reduction in the number of spills during the 2024 bathing season and maintaining 100%¹² quality standards for the fourth year in a row.

Six new bathing water designations were made in 2024, and we are working to support catchment schemes to ensure the designations meet the highest standards. Three have already met standard, the remaining three are where our assets have a limited impact, so we are working to understand other upstream sources to support improvements.

We also recognise that there is still more to do on pollutions. We have some of the lowest absolute levels of serious pollutions across the sector, and we have not had a Category 1 incident since 2018. We remain focused on driving improvements to overall levels for Devon and Cornwall. Reducing levels of Category 3 pollutions remains a top priority.

Historically, the majority of our pollutions occurred in the network and the work we have done here is working with c.40% reduction in network incidents over K7. We have seen improvement underlying performance at our treatment works but our focus has now turned to our pumping stations, where resilience to the weather and increased flows has been challenging. We are responding with improved site MOTS and enhanced cleansing as well as tackling power resilience. We are also focused on up-skilling teams so we are better equipped to mitigate and react to pollution events.

Driving environmental gains

Customers and communities across our region live, relax and work around our bathing beaches and more and more people are using our rivers and water courses all year round.

Our award-winning catchment management programme is leading the way for biodiversity gains as well as continuing to help the way others manage their land, improve water quality, biodiversity and climate resilience. Activities range from building ponds, improving farm tracks, slurry storage, planting trees and creating buffer strips to catch and filter water, as well as peatland restoration that is benefiting from third-party contributions. Overall c.135,000 hectares have been improved, with a c.£25m ODI benefit forecast for K7.

We are supporting six newly designated bathing waters this year four of which are on the Dart Estuary. We are improving water quality by reducing the amount of post treatment phosphorus by c.80% at 37 sites, and have improved RNAGs¹³ over K7 from 19% to 12%.

¹² For those beaches impacted by our own assets on a like for like basis

¹³ RNAGs – Reasons for Not Achieving Good status

With our commitment to Net Zero, our investment in Pennon Power has continued. Around 45% of our targeted capacity is already under construction at two sites, with the first energisation expected at the end of 2024/25, and the two further sites on track. Annualised returns are expected to be between 11% to 15%¹⁴.

Supporting affordability, delivering for customers

In tackling affordability, we are doing two things, keeping bills as low as possible and supporting those who are vulnerable. By focusing on efficiency, we have kept bills below inflation and our bill in the South West is lower now (in actual value) than it was 10 years ago, with the average bill now less than £1.50 per day.

Whilst bills are lower, we are supporting more customers than ever before with over 140,000 across the Group benefitting from our support tariffs. By unlocking over £110m of financial support we have increased affordability to 100% for customers in South West and Bristol – on track to meeting our pledge of having zero customers in water poverty by March 2025 and five years ahead of the sector. We continue to support customers to use less and save more with our progressive charges trials.

Key to building trust is reducing complaints and with Bristol recognised as a top performer for complaints and customer service, we see opportunities for improvements across the Group – with South West reducing billing complaints by 18% last year and we see opportunities to share best practice with SES to improve customer service.

Delivering strong relative sector performance

Against our customer commitments, c.70% of our ODI commitments are ahead or on track and as outlined in Ofwat's Water Company Performance Report we are delivering good relative performance in the sector. We are industry leading or upper quartile in a number of measures including internal sewer flooding and unplanned outages in South West, quality and supply interruptions in SES, and in customer service in Bristol.

The common ODI framework has been challenging across the sector, with the majority of companies in net penalty for water and wastewater measures, with significant outperformance largely achieved on bespoke measures during this period.

As we enter the next regulatory period with the majority of measures common, our relative position puts us in a solid position.

While we are targeting an EPA 2-star rating for 2024, 4-star EPA status remains our focus. In recognition of the progress we are making and the challenges we face from the weather and topography, Ofwat has set a target of 2028 for achieving 4-star status. Pollution incidents remain the key element of this and while we have seen improvements in underlying performance across our networks and treatment works, we continue to focus on ensuring our pumping stations are resilient to the high flows we are experiencing. The Environment Agency's consultation on the revised EPA is underway and we are contributing to ensure an appropriate performance framework for the future – which truly reflects overall environmental performance.

Our non-regulated retailers, with a combined market share of c.15%, which now include SES Business Water, continue to build their strong performance and grow EBITDA and profit contributions. Pennon Water Services ('PWS') and Water2Business have an outstanding focus on customer service with Trustpilot scores of 4.8 and 5.0, respectively. Following the SES acquisition which included other non-regulated businesses we see opportunity for consolidation, efficiencies and sharing best practice.

¹⁴ Based on 55% assumed leverage, pre-tax; 7-9% unleveraged pre-tax returns

Underpinned by an ‘outstanding’ Business Plan for K8

We were delighted to be awarded ‘outstanding’ status on our SWW business plan by Ofwat, recognising the quality and ambition within our proposals. The Draft Determination provides a floor for RCV growth of c.30% for SWW to 2030. The cost of capital is protected against reduction, with 30bps upside if we meet four criteria by 2028, including 4-star EPA. SES’s Business Plan was assessed as a ‘standard’ plan and receives a 5bps upside to the cost of capital.

We had one of the lowest levels of totex reductions of any water and sewerage company in the sector at c.8% reflecting the efficient Business Plan we had submitted, and we positively received all funding for our storm overflow plans – allowing us to accelerate £75m of early start transition spend, which will be included in our March 2025 RCV, and returns applied over K8.

Given the outstanding status and good status for our respective plans, our response to the Draft Determination covered four key areas, many of which were consistent across the sector:

- we need to ensure a balance of risk and return with targets set at stretching but achievable levels that show upper quartile performance in one area can substantively offset underperformance in another. Whilst we welcomed the recent Outcome Adjustment Model proposed by Ofwat the underlying framework, targets and incentives also need to be balanced
- our response provided further evidence and justification to support a return to the expenditure levels within our submitted plan
- we recognise the need to balance customer bills, particularly given the scale of investment planned to 2030, however our customer research shows that this should not be at the expense of future customers and therefore capital charges (specifically RCV run-off) should reflect the natural rates
- as a Group that supports customers from as far west as the Isles of Scilly to Surrey in the east, we wanted to ensure our investment plans were balanced both between water and wastewater, but also across our regions where totex reductions had been greater in Bristol, SES and the Isles of Scilly, compared with Devon and Cornwall

With the Final Determination due on 19 December, we intend to hold a Capital Markets Day on 25 February, ahead of the start of K8 on 1 April.

Talented people doing great things for customers and each other

As a purpose led business, we recognise that the best way to deliver for customers is to focus on our people. Key to this is embedding our new business operating model, led by the four Managing Directors as we drive end to end accountability for delivery. We are ensuring we get the balance right between protecting and improving local services for customers and communities, through our brands, and using our size and scale to deliver efficient and effective support services across the Group. This includes having more resources on the front line than ever before and as we support the wider supply chain. We are also focused on making it simpler, easier and cheaper to work together by reducing duplication and management layers, with clear roles and responsibilities, with everyone living our values.

At the same time, we continue to invest in future skills and capabilities. We are the only water company to have been recognised as a Top 100 employer for apprenticeships for the second year running, as we are ahead of plan to offer 1,000 apprenticeships and graduate roles by 2030, with 680 to date. We’ve delivered over 4,000 courses at our growing number of internal training facilities and in November, were recognised for our “earn and learn” approach to development, with platinum status awarded to us by the ‘5% Club’ who share an ambition to shape the future of workforce development and national prosperity.

We continue to promote social mobility, through the Social Mobility Business Partnership giving young people the opportunity to dive into their local water company, so important in a region where deep seated social mobility issues exist, and where the South West ranks the third worst for upward occupational mobility.

Well positioned for period of significant growth

As we move towards K8, we have built our sustainable supply chain through our delivery partners, establishing 'amplify', an alliance with six tier one and multiple tier two partners, supported by a network of local sub-contractors which is already delivering on over 1,000 schemes.

We have a robust financial position with good liquidity having secured £550m of funding in H1 2024/25. This provides appropriate liquidity as we complete the K7 period and look ahead.

GROUP CHIEF FINANCIAL OFFICER'S REVIEW

We have delivered a resilient financial performance in the first half of 2024/25, in line with our expectations as set out in our Trading Statement in September. Our half year results reflect the inclusion of Sutton and East Surrey Group Holdings Limited and its subsidiary undertakings (together 'SES') for the full six-month period. The H1 2023/24 results were prior to the acquisition and therefore excluded any contribution from SES.

Underlying	H1 2024/25	H1 2024/25 (SES)	H1 2024/25 (excl. SES)	H1 2023/24
Revenue	£527.2m	£76.6m	£450.6m	£448.6m
Operating costs	(£363.7m)	(£63.3m)	(£300.4m)	(£280.1m)
EBITDA[^]	£163.5m	£13.3m	£150.2m	£168.5m
Depreciation and amortisation	(£94.0m)	(£8.4m)	(£85.6m)	(£82.6m)
Operating profit	£69.5m	£4.9m	£64.6m	£85.9m
Net interest charge	(£88.6m)	(£9.7m)	(£78.9m)	(£77.3m)
Share of associated companies PAT*	£0.5m	-	£0.5m	£0.5m
(Loss)/profit before tax	(£18.6m)	(£4.8m)	(£13.8m)	£9.1m
Non-underlying items before tax	(£20.2m)	-	(£20.2m)	(£5.9m)
Loss before tax	(£38.8m)	(£4.8m)	(£34.0m)	(£3.2m)
Underlying tax credit/(charge)	£3.9m			(£2.8m)
Non-underlying tax credit	£4.9m			£1.4m
(Loss)/profit for the period	(£30.0m)			£1.8m
(Loss)/earnings per share				
Adjusted EPS	(6.6p)			3.6p
Basic EPS	(10.6p)			0.5p
Interim dividend per share	14.69p			14.04p
Total Group capital expenditure	£331.8m			£266.3m
	At 30 Sept 2024			At 31 Mar 2024
Total Group net debt	£4,232.2m			£3,809.2m

* Share of associated companies PAT refers to the Group's 30% interest in Water2Business Limited which is accounted for under the equity method.

Revenue increased to £527.2m in H1 2024/25 (H1 2023/24: £448.6m) with the £76.6m increase resultant from the acquisition of SES, whilst revenue in SWW reflected increases from regulated tariff and inflationary movements, more than offset by lower customer demand. This revenue is recovered through the regulatory true up mechanisms.

Operating costs increased on a like for like basis (excluding SES) by 7.3% with costs in South West Water ('SWW') up by 4.7% reflecting the impact of inflation, as well as continued high power costs and costs associated with the implementation of a new customer billing system in SWW, partially offset by efficiency savings. Costs for Pennon Water Services ('PWS') increased by 7.1%, slightly below revenue increases, due to wholesale cost increases (outside the South West Water region) and new contract wins. Including the impact of SES costs increased to £363.7m.

Cash collections across the Group have remained robust during the half year, with SWW achieving upper quarter debt performance at 1.5% of revenue.

Overall, underlying EBITDA for the Group was £163.5m (H1 2023/24: £168.5m). Excluding SES, which contributed £13.3m of EBITDA in the period, like for like EBITDA decreased to £150.2m, 10.9% lower than in the prior half year principally as a result of lower customer demand in SWW impacting regulated revenue.

Depreciation and amortisation increased in the period to £94.0m (H1 2023/24: £82.6m), following ongoing investment and the inclusion of SES, with underlying operating profit for the Group reducing to £69.5m (H1 2023/24: £85.9m).

The net interest charge increased to £88.6m (H1 2023/24: £77.3m), primarily due to the inclusion of SES, with SWW financing costs being broadly flat year on year, as interest costs fell but increased borrowing from the capital investment programme impacted on charges.

As a result, the Group reported an underlying loss before tax of £18.6m (H1 2023/24: profit of £9.1m) with SES contributing an underlying loss before tax of £4.8m. The Group reported a statutory loss before tax of £38.8m (H1 2023/24: profit of £3.2m) after net non-underlying charges of £20.2m (H1 2023/24: £5.9m). On a like for like basis, the Group's statutory loss before tax was £34.0m, compared with a profit before tax of £3.2m in H1 2023/24.

Our focus has been on reshaping and restructuring our operations for efficient delivery ahead of K8. We will recognise c.£16m of restructuring costs across the year to enable more streamlined delivery from the final quarter of 2024/25 and into K8. £3.7m of these non-underlying costs were recognised in the first six months of the year.

Our continued transformational and integration programmes have, and are in progress to, secure c.£55m of annualised savings at the half year to 30 September 2024, with a c.£86m targeted annualised run rate for K8 across overall expenditure.

The Brixham water contamination incident resulted in non-underlying costs of £16.3m recognised in the first half of the year, with costs reflecting supply and delivery of bottled water to customers, extensive flushing and cleansing work on the network, sampling of water across the networks alongside customer compensation.

Capital expenditure of £331.8m was incurred during the period, as we continue to invest in improvements across our regions and networks, as well as ensuring we are set up to deliver on the investment programme and improved service targets required in K8. Expenditure also included £12.0m in SES and £13.4m in Pennon Power. As we have invested over the K7 period through Green Recovery, accelerated investment, WaterFit and resilience we are seeing the impact coming through the income statement in increased financing charges and depreciation. This will be trued-up on 31 March 2025 through the regulatory adjustments with c.£34m annualised benefit to revenue from this early investment (c.£17m for a half year)..

We secured strong investment grade credit ratings at South West Water Limited, which enabled us to launch a £2.5bn EMTN programme¹⁵. We successfully raised £400m in an inaugural public bond issue under this programme. This EMTN programme will allow us to diversify our funding opportunities and positions us well for funding the K8 investment programme. SWW's gearing based on net debt at 30 September 2024 and forecast shadow RCV was 64.0%, within our K7 policy.

In line with Pennon's 2020-2025 dividend policy for growth of CPIH+2%, the Board has declared an interim dividend of 14.69 pence per share for the half year ended 30 September 2024.

Integration of our acquisitions

Since the completion of the merger of Bristol Water in February 2023, we have been delivering on our proven acquisition and integration blueprint. We are on track to deliver a run rate of c.£20m of annualised synergies ahead of K8, with c.£18m achieved by H1 2024/25.

¹⁵ Within SWW Group, South West Water Limited is the guarantor entity for the EMTN programme, net debt for South West Water Limited at 30 September 2024 was £3,635.4m

In addition, we received clearance from the CMA in June 2024 for our acquisition of SES. We will be aligning the SES businesses to the Pennon Group structure and are on target to deliver c.£11m of annualised integration savings with £1.6m achieved in H1 2024/25.

SEGMENTAL PERFORMANCE

SES was acquired on 10 January 2024 and has contributed to the Group financial results since that date. It largely comprises the regulated water company, Sutton and East Surrey Water plc ('SES Water'), along with non-regulated businesses including SES Business Water, a non-household retail business, and certain other ancillary businesses. The results of SES for the half year ended 30 September 2024 are reflected in the relevant segments in our segmental reporting. There are no results for SES in the prior year comparative period. In H1 2024/25, SES has contributed £76.6m of revenue, £13.3m of EBITDA and £4.9m operating profit to the Group results. Results have been shown for SWW and SES separately, as well as for the combined segment to aid comparability year on year.

WATER

Underlying	H1 2024/25 Water	H1 2024/25 SES Water	H1 2024/25 SWW	H1 2023/24 Water
Revenue	£412.9m	£41.6m	£371.3m	£377.8m
Operating costs	(£246.9m)	(£26.3m)	(£220.6m)	(£210.7m)
EBITDA[^]	£166.0m	£15.3m	£150.7m	£167.1m
Depreciation and amortisation	(£90.6m)	(£8.1m)	(£82.5m)	(£79.6m)
Operating profit	£75.4m	£7.2m	£68.2m	£87.5m
Net interest charge	(£89.9m)	(£9.7m)	(£80.2m)	(£80.9m)
(Loss)/profit before tax	(£14.5m)	(£2.5m)	(£12.0m)	£6.6m
Non-underlying items before tax	(£19.5m)	-	(£19.5m)	(£5.4m)
(Loss)/profit before tax	(£34.0m)	(£2.5m)	(£31.5m)	£1.2m

South West Water

SWW includes the operating businesses trading as South West Water, Bournemouth Water and Bristol Water.

SWW's statutory and underlying revenue for H1 2024/25 was £371.3m, £6.5m or 1.7% lower, compared with H1 2023/24. This was driven by lower customer demand, following our 'Water is Precious' water efficiency campaign, which more than offset tariff increases of c.3% and new customer numbers.

Underlying operating costs of £220.6m increased by £9.9m or 4.7% with increased non-commodity power costs, inflationary increases in employment costs as well as the cost of implementing the new digital customer services platform. These increases were partially offset by lower wholesale commodity power costs and efficiency savings.

SWW's underlying EBITDA reduced by 9.8% to £150.7m (H1 2023/24: £167.1m) reflecting the combined impact of lower revenue and higher costs in the period. Depreciation increased by 3.6% to £82.5m as our capital investment programme starts to impact the depreciation charge. Underlying operating profit also decreased by 22.1% to £68.2m (H1 2023/24: £87.5m) as a result of these factors.

The net interest charge of £80.2m (H1 2023/24: £80.9m) was broadly flat on the prior period, with the lower inflationary environment and benefit of a lower effective interest rate[^] (5.3%) offsetting the higher debt levels consequent on increased capital expenditure.

SWW's statutory loss before tax was £31.5m (H1 2023/24: profit of £1.2m) after non-underlying costs of £19.5m (H1 2023/24: £5.4m). £16.3m of non-underlying costs related to the Brixham water quality incident and included enhanced customer compensation, provision of bottled water over an eight-week period, and extensive interventions to clean and filter the network. A further £3.2m of non-underlying costs were incurred in connection with restructuring and reshaping actions in SWW.

SWW's capital expenditure was £306.0m, in line with expectations in the Trading Statement, continuing the increased investment path from H2 2023/24. This was largely driven by a c.55% increase in investment in tackling storm overflows and in reducing the risk of pollution incidents, sewer blockages and collapses. Clean water investment increased by c.17% driven by continued investment in new water treatment works. There were also increases due to transitional spending and targeted incident responses in the period.

SES Water

In H1 2024/25, SES Water contributed £41.6m of revenue, £15.3m of EBITDA and £7.2m of operating profit to the Group results. In the first half, revenue benefitted from a c.15% tariff increase allowed under the regulatory regime. Operating costs reflect the impact of wage inflation in the period.

The net interest charge of £9.7m comprises interest costs on RPI-linked bonds and other loans.

SES Water capital expenditure in the first half was £9.3m, largely associated with the rollout of the metering programme.

NON-HOUSEHOLD RETAIL

	H1 2024/25 NHH Retail	H1 2024/25 SESBW	H1 2024/25 PWS	H1 2023/24 NHH Retail
Revenue	£160.8m	£34.5m	£126.3m	£117.6m
<i>Water segment wholesale elimination</i>	<i>(£46.9m)</i>	<i>(£1.2m)</i>	<i>(£45.7m)</i>	<i>(£46.7m)</i>
<i>Revenue excluding elimination</i>	<i>£113.9m</i>	<i>£33.3m</i>	<i>£80.6m</i>	<i>£70.9m</i>
Operating costs	(£156.2m)	(£33.6m)	(£122.6m)	(£114.5m)
<i>Water segment wholesale elimination</i>	<i>£46.9m</i>	<i>£1.2m</i>	<i>£45.7m</i>	<i>£46.7m</i>
<i>Operating costs excluding elimination</i>	<i>(£109.3m)</i>	<i>(£32.4m)</i>	<i>(£76.9m)</i>	<i>(£67.8m)</i>
EBITDA[^]	£4.6m	£0.9m	£3.7m	£3.1m
Depreciation and amortisation	(£0.1m)	-	(£0.1m)	(£0.3m)
Operating profit	£4.5m	£0.9m	£3.6m	£2.8m
Net interest charge	(£1.9m)	(£0.8m)	(£1.1m)	(£1.1m)
Profit before tax	£2.6m	£0.1m	£2.5m	£1.7m

Pennon Water Services

PWS has delivered a robust financial performance for the half year through its focus on its key strategic initiatives of growing through long-term contracts in targeted business sectors, good customer retention, and strong control of operating costs despite additional cost pressures.

Non-household demand has continued to fall within our underlying water region, however, revenue for PWS was 7.4% higher at £126.3m, including the impact of new business contract wins of £5.1m and with inflation (net of customer attrition) contributing further to the increase.

Operating costs have increased, although at a lower rate than revenue, driving a 19.4% improvement in EBITDA to £3.7m (H1 2023/24: £3.1m). This strong performance has resulted in the business reporting a profit before tax of £2.5m (H1 2023/24: £1.7m), an increase of 47.1%.

The business continues to maintain its focus on targeting high quality, sustainable customers who will benefit from the value-added services that form part of PWS' differentiated service proposition, with new annualised contract wins of c.£10.5m secured during the first half.

SES Business Water

The results of SES Business Water ('SESBW', SES's non-household retail business) for the half year ended 30 September 2024 are reflected in the Non-household retail segment. As the business was acquired in January 2024, there are no results for SESBW in the prior year comparative period.

SESBW contributed £34.5m of revenue and profit before tax of £0.1m in H1 2024/25.

OTHER

The Other segment comprises the result of Pennon Group plc company and other Group businesses, including the recently acquired ancillary businesses of SES. The Other segment contributed an underlying loss before tax of £6.7m in H1 2024/25 (H1 2023/24: profit before tax of £0.3m) with non-underlying costs of £0.7m (H1 2023/24: £0.5m).

With the CMA clearance received in H1 2024/25, work is underway to perform a strategic review of the SES ancillary businesses to consider their fit and role within the Group for the future.

GROUP PERFORMANCE

Net finance costs

Total net finance costs for the Group were £88.6m, up £11.3m or 14.6%, largely reflecting the inclusion of SES financing charges (£9.7m), as well as the increased borrowing consequent on the ongoing investment in SWW, partially offset by the fall in inflation during the period reflected in our index-linked debt portfolio.

The non-cash element of our finance charges, which accretes to the debt principal, was c.£13m (H1 2023/24: c.£29m).

With the majority of debt in SWW, our efficient funding mix and hedging strategy has resulted in an effective interest rate of 5.3% (H1 2023/24: 5.8%) for SWW. The Group continues to secure efficient funding for SWW to ensure c.60% of its interest rate risk is mitigated in line with the Group Treasury Policy, which is achieved both through issuing fixed rate debt and effective interest rate hedging, with a further element being index-linked. SWW has a lower proportion of index-linked debt than the industry average.

SWW's net debt at 30 September 2024 comprised:

At 30 September 2024	Notional	Proportion	Industry average*
Fixed/swapped	£2,676m	75%	39%
Floating	£430m	12%	11%
Index-linked	£455m	13%	50%
Total	£3,561m	100%	100%

*UK Water position at 31 March 2024 as per published Annual performance Reports – weighted average

From March 2025, c.£600m of our K7 interest rate swaps mature reverting to floating rate. In preparation for K8, over £500m of swaps have been executed to fix our floating rate portfolio.

In addition to our effective interest rate hedging, the short term RPI-linked swaps issued in 2022 will be maturing in 2025.

Non-underlying items

Non-underlying items for H1 2024/25 were a net charge before tax of £20.2m (H1 2023/24: net charge of £5.9m). Non-underlying items are those that in the Directors' view should be separately identified by virtue of their size, nature or incidence and where they believe excluding non-underlying items provides a useful comparison of business trends and performance.

The non-underlying charge before tax in H1 2024/25 comprised:

- £16.3m related to the Brixham water quality incident which includes enhanced customer compensation, provision of bottled water over an eight-week period, and extensive interventions to clean and filter the network
- £3.7m of costs in connection with restructuring and reshaping actions. Additional restructuring costs in relation to our restructuring programme of c.£12m are expected for the full year, with the programme well underway to deliver benefits in the last quarter of the financial year
- £0.2m of acquisition related costs in relation to Pennon Power and SES

The non-underlying charges above gave rise to a deferred tax credit of £4.9m in H1 2024/25.

Tax

We are proud of our responsible approach to tax. The Group has once again maintained its Fair Tax Mark accreditation for the year, having been the first water company to achieve this status and holding the award continuously since 2018.

The overall H1 2024/25 tax credit for the Group is £8.8m (H1 2023/24: charge of £1.4m). On an underlying basis, the net tax credit for the Group is £3.9m (H1 2023/24: charge of £2.8m), comprising:

- a deferred tax credit of £4.0m (H1 2023/24: charge of £3.4m), including a charge for prior year items of £0.2m (H1 2023/24: charge of £0.8m)
- a current tax charge of £0.1m (H1 2023/24: credit of £0.6m) relating solely to prior year items, with a £nil charge for the current period (H1 2023/24: £nil)

The deferred tax credit for the period and the nil current tax position (excluding prior year items), reflect the tax effect of the Group generating both an accounting loss and a tax loss in the period. The tax loss follows on from the accounting loss, coupled with the effect of the UK rules for claiming tax deductions for capital expenditure. These rules typically allow for either 100% or 50% first year tax deductions and, when taken together with the Group's significant future capital investment plans, mean that the Group is unlikely to be in a UK Corporation Tax paying position for the foreseeable future. Tax losses are carried forward for offset against taxable profits arising in future periods.

There is also a non-underlying deferred tax credit of £4.9m in H1 2024/25 (H1 2023/24: credit of £1.4m) relating to the non-underlying items set out above.

Earnings per share

The Group has recorded a basic loss of 10.6 pence per share for H1 2024/25 (H1 2023/24: earnings of 0.5 pence per share). This includes a net non-underlying charge before tax of £20.2m (H1 2023/24: £5.9m) and a net non-underlying deferred tax credit of £4.9m (H1 2023/24: credit of £1.4m).

Our adjusted loss per share excludes the impact of deferred tax charges and non-underlying items. For the Group, we have generated an adjusted loss per share for H1 2024/25 of 6.6 pence (H1 2023/24: earnings of 3.6 pence per share).

Capital expenditure

Capital expenditure	H1 2024/25	H1 2023/24
South West Water	£306.0m	£234.4m
Water	£175.2m	£150.2m
Wastewater	£130.8m	£84.2m
Pennon Power	£13.4m	£31.7m
Other*	£0.4m	£0.2m
Total Group (excl. SES)	£319.8m	£266.3m
SES	£12.0m	n/a
Total Group	£331.8m	£266.3m

* Other includes PWS and Pennon Group plc

Total Group capital expenditure in the first half was £331.8m, £65.5m or 24.6% higher than in H1 2023/24, driven by a £71.6m increase in SWW investment and £12.0m spend in SES. Investment reflects the ongoing focus on transitioning to K8, as well as delivering the final regulatory commitments for K7. With more resilient water resources, excellent progress on our state-of-the-art water treatment works in Bournemouth and 100% water quality at bathing waters, our investment is delivering benefits as we close out the regulatory period.

SES capital expenditure of £12.0m in H1 2024/25 largely comprises £9.3m spend in SES Water in respect of the rollout of SES Water's metering programme.

Investment in Pennon Power of £13.4m (H1 2023/24: £31.7m) reflects the commencement of construction at two sites, with a significant ramp up in activity anticipated in the second half of the year.

Robust liquidity and funding position

At 30 September 2024, the Group had £675.1m of cash and committed facilities contributing to a resilient balance sheet and strong liquidity position. This consisted of cash and cash deposits of £175.1m (including £38.1m of restricted funds representing deposits for future debt obligations and bond interest) and c.£500.0m of undrawn committed facilities, providing the Group with enough funding to support its obligations for at least the next 12 months. The Group continues to receive support and enquiries from a diverse group of debt providers, showing investor appetite to support the Group and SWW, notwithstanding sector volatility.

During H1 2024/25 the Group, through SWW, has achieved two strong credit ratings with Moody's and Fitch, supporting the strength of the Group's financial outlook. We were also pleased that SES Water's credit rating was strengthened by Moody's in November, in recognition of the benefit gained from being part of the wider Pennon Group.

SWW also completed two debt raises totalling £550m at fixed rates. These were:

- £150m in US private placements with an average maturity of 15 years
- £400m inaugural public bond issuance through our EMTN programme

These issuances signal the move to more benchmark-sized transactions in both the private placement and public bond markets as the scale of capital expenditure and ongoing refinancing grows. The bond followed the launch of our £2.5bn EMTN programme, which allows us to issue funding across the forthcoming regulatory period to fund the growth in the business and improvement in services reflected in our Business Plan.

Group debt

At 30 September 2024	Gross debt	Net debt
Pennon Group plc	£245.0m	£238.9m
Water Group	£3,986.9m	£3,845.3m
SWW	£3,666.2m	£3,561.3m
SES Water	£320.7m	£284.0m
Other Group companies:		
Pennon Power Limited	£53.0m	£38.8m
Pennon Water Services	£32.6m	£28.3m
Other subsidiaries	£44.5m	£35.6m
Intercompany borrowing eliminations	(£71.0m)	(£71.0m)
Group indebtedness	£4,291.0m	£4,115.9m
Acquisition related fair value adjustments ¹⁶	£116.3m	£116.3m
Total Group	£4,407.3m	£4,232.2m

The Group's IFRS net debt at 30 September 2024 was £4,232.2m (31 March 2024: £3,809.2m). This includes acquisition related fair value adjustments of £116.3m which are released over the life of the related debt instruments. The Group's net debt position excluding these adjustments is £4,115.9m, giving gearing of c.68.0%.

At 30 September 2024, SWW's net debt/forecast shadow RCV gearing ratio was 64.0% (31 March 2024: 63.5%), reflecting increased capital expenditure and reduced operating cashflows.

SES's total net debt was £340.3m, largely comprising index-linked borrowings (£233.1m) and unsecured loan notes (£74.6m). SES Water's net debt was £284.0m with a forecast shadow RCV gearing ratio of 80.7%. On 1 October 2024, Pennon Group injected £30m into the SES, with £20m being passed down to SES Water to de-leverage the business, reducing SES Water's gearing to 75.0%.

SWW's gross debt at 30 September 2024 was £3,666.2m (31 March 2024: £3,323.3m). The debt has a maturity of up to 33 years with a weighted average maturity of 14 years.

SES Water's gross debt at 30 September 2024 was £320.7m (31 March 2024: £321.3m). The debt has a maturity of up to eight years with a weighted average maturity of six years.

Return on Regulated Equity[^]

During K7 to date we have continued to deliver SWW RORE outperformance (excluding SES Water). Cumulatively to H1 2024/25 SWW Group RORE was 6.0% (6.1% in South West and 4.8% in Bristol) on a real notional basis. On an actual gearing basis, returns increase to 6.5% real and 10.8% nominal. This equates to c.£176m of cumulative outperformance to H1 2024/25. This consists of c.£308m financing outperformance, net of c.(£90m) totex[^] overspend (including tax impact), and c.(£42m) ODI net penalty impact¹⁷. This has enabled the funding of additional capital investment initiatives.

The cumulative benefits from the structure of our debt book on financing costs persist but have reduced due to the impact of falling inflation. Additional expenditure to deliver our K7 commitments is more than offsetting positive outperformance delivered earlier in the regulatory period.

¹⁶ Fair value accounting adjustments recognised for acquisitions

¹⁷ Excludes the ODI impact of the third party Carland Cross event in 2021

ODI performance across the SWW Group has continued to be dominated by pollutions performance, partly mitigated by areas of outperformance such as internal sewer flooding, catchment management and bathing waters. Overall a net penalty is anticipated in 2024/25.

The table below summarises the cumulative average RORE position for South West and Bristol over K7 to 2024/25:

	South West Water	Bristol Water
Base return	4.0%	4.5%
Financing	4.0%	1.0%
Totex	(1.3%)	1.0%
ODI	(0.6%)	(1.7%)
Cumulative RORE	6.1%	4.8%

For SES Water, forecast RORE for one year is (6.7%) driven by higher totex expenditure and an effective interest rate above Ofwat's allowance resulting in underperformance.

Dividends

In line with Pennon's 2020-2025 dividend policy of growth of CPIH +2%, the Board has declared an interim dividend of 14.69 pence per share for the half year ended 30 September 2024. Pennon offers shareholders the opportunity to invest their dividend in a Dividend Reinvestment Plan (DRIP).

Pennon Group plc has substantial retained earnings and a sustainable balance sheet to support its stated dividend policy. Dividends are charged against retained earnings in the year in which they are paid.

FINANCIAL OUTLOOK FOR 2024/25

Looking forward to the full year 2024/25, the outlook for SWW revenue sees a continuation of lower customer demand, offsetting tariff increases and new customer numbers, resulting in a balanced H1/H2 split and a broadly flat year on year position.

Continued elevated non-commodity power costs and the costs of the new digital customer services platform in SWW are expected to be partially offset by increased efficiency savings realised with effect from the final quarter of 2024/25.

We anticipate ongoing growth in Pennon Water Services, increasing revenue and costs, and benefitting full year profitability.

Our acquisition of SES in January 2024 will result in a full year benefit of SES results in the full year position.

We anticipate Group capital expenditure in H2 2024/25 to continue at the H1 2024/25 run rate. This reflects early work in preparation for K8, including £75m accelerated investment in storm overflows agreed with Ofwat, as well as Pennon Power development costs and the full year impact of SES investment.

The impact of our ongoing capital programme on our debt position, in addition to SES's financing charges, is expected to increase Group net finance costs for the full year.

The Water Group's RCV for 2024/25 is expected to increase reflecting additional and accelerated investment along with regulatory true-ups and inflationary impacts at the close of the K7 regulatory period.

TECHNICAL GUIDANCE FOR FY 2024/25

Pennon Group		FY 2023/24	Change
Revenue*	<ul style="list-style-type: none"> Higher year on year SWW revenue expected to see a continuation of lower customer demand, offsetting tariff increases and new customer numbers, resulting in a balanced H1/H2 split and broadly flat year on year position Ongoing growth in our retail businesses Full year impact of SES acquisition 	£907.8m	▲
Operating costs*	<ul style="list-style-type: none"> Higher year on year SWW operating costs in H2 2024/25 expected to be lower than H1 2024/25, with a full year increase on 2023/24 Pay increases of c.4% Growth in retail businesses leading to higher wholesale supply charges Full year impact of SES acquisition 	£569.5m	▲
Depreciation*	<ul style="list-style-type: none"> Higher year on year SWW broadly equal H1/H2 split Full year impact of SES acquisition 	£172.0m	▲
Net interest charge*	<ul style="list-style-type: none"> Higher year on year driven by increased levels of debt to support capital investment profile SWW interest costs step up in H2 2024/25 reflecting timing of debt issuance and capital investment Full year impact of SES acquisition 	£150.2m	▲
Current tax	<ul style="list-style-type: none"> 2023/24 effective credit rate reflects prior year credits arising from settlement of outstanding tax returns with HMRC. These are unlikely to recur Group is unlikely to be in a UK Corporation Tax paying position for the foreseeable future due to the availability of tax losses and tax deductions for capital expenditure As a result, the current tax rate, excluding the effect of any prior period items, is expected to remain at 0% 	3.6% (credit rate)	▲
Capital expenditure	<ul style="list-style-type: none"> Group capital expenditure in H2 2024/25 expected to continue at H1 2024/25 run rate including a step up in investment in Pennon Power 	£649.5m	-
Net debt	<ul style="list-style-type: none"> Continued delivery of capital investment programme across the Group increases net debt Full year impact of SES acquisition 	£3,809.2m	▲
SWW RORE (excl. SES)	<ul style="list-style-type: none"> Expected year on year reduction in line with lower inflation expectations – continued expectation of RORE outperformance 	7.3%	▼
Water Group RCV	<ul style="list-style-type: none"> Increase reflecting additional and accelerated investment, along with regulatory true-ups and inflationary impact, and inclusion of SES 	£5.5bn	▲

*Underlying basis

PRINCIPAL RISKS AND UNCERTAINTIES

Principal Risks

During the first half of 2024/25 the Board has carried out a detailed review of the Group's principal risks in the context of the Group's strategic objectives and priorities as well as the external environment within which it operates. This has included the impact of changes to the external macro-economic, legal and regulatory environment within which the Group operates. This has resulted in the following change to the Group's principal risks compared with those reported within the Pennon Group plc Annual Report and Accounts 2024:

- The risk of failure to receive CMA approval for the acquisition of Sutton and East Surrey has been removed as a principal risk following approval being received from the CMA.

The Group's principal risks are:

Law, Regulation and Finance

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

Market and Economic Conditions

7. Macro-economic near-term risks impacting on inflation, interest rates and power prices

Operating Performance

8. Failure to secure, treat and supply clean drinking water
9. Failure to improve wastewater performance resulting in environmental commitments not being delivered
10. Failure to provide excellent service or meet the needs and expectations of our customers and communities
11. Inability to attract and retain staff with the skills to deliver the Group's strategy

Business Systems and Capital Investment

12. Insufficient capacity and resilience of the supply chain to support the delivery of the Group's operational and capital programmes
13. Inadequate technological control or cyber attack results in a breach of the Group's assets, systems and data

FINANCIAL TIMETABLE

30 January 2025	Ordinary shares quoted ex-dividend
31 January 2025	Record date for interim dividend
25 February 2025	Capital Markets Day
14 March 2025	Final date for receipt of DRIP applications
March 2025	Trading Statement
4 April 2025	Interim dividend payment date
May/June 2025	Full Year Results 2024/25
June 2025	Annual Report and Accounts Published
24 July 2025	Annual General Meeting 2025
24 July 2025*	Ordinary shares quoted ex-dividend
25 July 2025*	Record date for final dividend
8 August 2025*	Final date for receipt of DRIP applications
4 September 2025*	Final dividend payment date
September 2025	Trading Statement
November 2025	Half Year Results 2025/26

* Subject to obtaining shareholder approval at the 2025 Annual General Meeting

CAUTIONARY STATEMENT IN RESPECT OF FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements relating to the Pennon Group's operations, performance and financial position based on current expectations of, and assumptions and forecasts made by, Pennon Group management which may constitute "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are identified in this Report by words such as "anticipate", "aim", "believe", "continue", "could", "due", "estimate", "expect", "forecast", "goal", "intend", "may", "outlook", "plan", "probably", "project", "remain", "seek", "should", "target", "will", "would" and related and similar expressions, as well as statements in the future tense. All statements other than of historical fact may be forward-looking statements and represent the Group's belief regarding future events, many of which, by their nature, are inherently uncertain and outside the Group's control. Various known and unknown risks, uncertainties and other factors could lead to substantial differences between the actual future results, financial situation, development or performance of the Group and the estimates and historical results given herein. Important risks, uncertainties and other factors that could cause actual results, performance or achievements of Pennon Group to differ materially from any outcomes or results expressed or implied by such forward-looking statements include, among other things, changes in Government policy; regulatory and legal reform; compliance with laws and regulations; maintaining sufficient finance and funding to meet ongoing commitments; non-compliance or occurrence of avoidable health and safety incidents; tax compliance and contribution; failure to pay all pension obligations as they fall due and increased costs to the Group should the defined benefit pension scheme deficit increase; non-recovery of customer debt; poor operating performance due to extreme weather or climate change; macro-economic risks impacting commodity and power prices and other matters; poor customer service and/or increased competition leading to loss of customer base; business interruption or significant operational failure/incidents; difficulty in recruitment, retention and development of skills; non-delivery of regulatory outcomes and performance commitments; failure or increased cost of capital projects/exposure to contract failures; failure of information technology systems, management and protection, including cyber risks; and all other risks in the Pennon Group Annual Report published in June 2024. Such forward looking statements should therefore be construed in light of all risks, uncertainties, and other factors, including without limitation those identified above, and undue reliance should not be placed on them. Nothing in this report should be construed as a profit forecast.

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

UNSOLICITED COMMUNICATIONS WITH SHAREHOLDERS

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

PENNON GROUP PLC

Consolidated income statement for the half year ended 30 September 2024

		Unaudited					
	Notes	Before non-underlying items half year ended 30 September 2024 £m	Non-underlying items (note 5) half year ended 30 September 2024 £m	Total half year ended 30 September 2024 £m	Before non-underlying items half year ended 30 September 2023 £m	Non-underlying items (note 5) half year ended 30 September 2023 £m	Total half year ended 30 September 2023 £m
Revenue	4	527.2	-	527.2	448.6	-	448.6
Operating costs							
Employment costs		(79.6)	(0.9)	(80.5)	(61.3)	-	(61.3)
Raw materials and consumables used		(26.3)	(0.2)	(26.5)	(18.6)	-	(18.6)
Trade receivables impairment		(6.5)	-	(6.5)	(3.8)	-	(3.8)
Other operating expenses		(251.3)	(19.1)	(270.4)	(196.4)	(5.9)	(202.3)
Earnings before interest, tax, depreciation and amortisation	4	163.5	(20.2)	143.3	168.5	(5.9)	162.6
Depreciation and amortisation		(94.0)	-	(94.0)	(82.6)	-	(82.6)
Operating Profit	4	69.5	(20.2)	49.3	85.9	(5.9)	80.0
Finance income	6	7.9	-	7.9	5.7	-	5.7
Finance costs	6	(96.5)	-	(96.5)	(83.0)	-	(83.0)
Net finance costs	6	(88.6)	-	(88.6)	(77.3)	-	(77.3)
Share of post-tax profit from associated companies		0.5	-	0.5	0.5	-	0.5
(Loss) / profit before tax	4	(18.6)	(20.2)	(38.8)	9.1	(5.9)	3.2
Taxation credit / (charge)	7	3.9	4.9	8.8	(2.8)	1.4	(1.4)
(Loss) / profit for the period		(14.7)	(15.3)	(30.0)	6.3	(4.5)	1.8
Attributable to:							
Ordinary shareholders of the parent		(15.0)	(15.3)	(30.3)	5.9	(4.5)	1.4
Non-controlling interests		0.3	-	0.3	0.4	-	0.4
(Loss) / earnings per ordinary share (pence per share)	8						
- Basic				(10.6)			0.5
- Diluted				(10.6)			0.5

The Group activities above are derived from continuing activities.

The notes on pages 30 to 49 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of comprehensive income for the half year ended 30 September 2024

	Unaudited					
	Before non- underlying items half year ended 30 September 2024 £m	Non- underlying items (note 5) half year ended 30 September 2024 £m	Total half year ended 30 September 2024 £m	Before non- underlying items half year ended 30 September 2023 £m	Non- underlying items (note 5) half year ended 30 September 2023 £m	Total half year ended 30 September 2023 £m
(Loss) / profit for the period	(14.7)	(15.3)	(30.0)	6.3	(4.5)	1.8
Other comprehensive income / (loss)						
<i>Items that will not be reclassified to profit or loss</i>						
Remeasurement of defined benefit obligations (note 16)	14.4	-	14.4	(28.6)	-	(28.6)
Income tax on items that will not be reclassified	(3.6)	-	(3.6)	7.1	-	7.1
Total items that will not be reclassified to profit or loss	10.8	-	10.8	(21.5)	-	(21.5)
<i>Items that may be reclassified subsequently to profit or loss</i>						
Cash flow hedges	(9.9)	-	(9.9)	19.1	-	19.1
Income tax on items that may be reclassified	2.6	-	2.6	(4.7)	-	(4.7)
Total items that may be reclassified subsequently to profit or loss	(7.3)	-	(7.3)	14.4	-	14.4
Other comprehensive income / (loss) for the period net of tax	3.5	-	3.5	(7.1)	-	(7.1)
Total comprehensive loss for the period	(11.2)	(15.3)	(26.5)	(0.8)	(4.5)	(5.3)
Total comprehensive loss attributable to:						
Ordinary shareholders of the parent	(11.5)	(15.3)	(26.8)	(1.2)	(4.5)	(5.7)
Non-controlling interests	0.3	-	0.3	0.4	-	0.4

The notes on pages 30 to 49 form part of this condensed half year financial information.

PENNON GROUP PLC
Consolidated balance sheet at 30 September 2024

		Unaudited 30 September 2024 £m	Audited 31 March 2024 £m
ASSETS	Notes		
Non-current assets			
Goodwill		179.5	179.5
Other intangible assets	17	70.3	67.7
Property, plant and equipment	17	5,601.0	5,361.6
Other non-current assets		8.7	8.7
Financial assets at fair value through profit and loss		0.6	0.9
Derivative financial instruments		15.6	17.4
Investments in associated companies		1.5	1.0
Retirement benefit assets	16	31.4	26.6
		5,908.6	5,663.4
Current assets			
Inventories		13.0	13.2
Trade and other receivables		342.9	353.7
Current tax receivable		-	6.0
Derivative financial instruments		18.3	23.4
Cash and cash equivalents*	14	137.0	134.0
Restricted funds*	14	38.1	37.4
Retirement benefit assets	16	9.4	-
		558.7	567.7
LIABILITIES			
Current liabilities			
Borrowings	14	(239.4)	(238.2)
Unamortised hedging adjustment		(2.5)	(2.6)
Derivative financial instruments		(5.0)	(5.4)
Trade and other payables	18	(306.7)	(341.2)
		(553.6)	(587.4)
Net current assets/(liabilities)		5.1	(19.7)
Non-current liabilities			
Borrowings	14	(4,167.9)	(3,742.4)
Other non-current liabilities	18	(161.5)	(154.9)
Unamortised hedging adjustment		(30.8)	(31.8)
Derivative financial instruments		(3.8)	(3.3)
Deferred tax liabilities		(540.4)	(548.3)
Provisions		(0.4)	(0.4)
		(4,904.8)	(4,481.1)
Net assets		1,008.9	1,162.6
Shareholder's equity			
Share capital	10	174.6	174.6
Share premium account	11	398.0	398.2
Capital redemption reserve	12	157.1	157.1
Retained earnings and other reserves		277.5	431.3
Total shareholders' equity		1,007.2	1,161.2
Non-controlling interests		1.7	1.4
Total equity		1,008.9	1,162.6

*Cash and cash deposits has been re-presented to separately disclose cash and cash equivalents and restricted funds.
The notes on pages 30 to 49 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of changes in equity for the half year ended 30 September 2024

	Unaudited					
	Share capital (note 10)	Share premium account (note 11)	Capital redemption reserve (note 12)	Retained earnings and other reserves	Non- controlling interests	Total equity
	£m	£m	£m	£m	£m	£m
At 1 April 2023	159.5	237.6	157.1	570.6	0.4	1,125.2
Profit for the period	-	-	-	1.4	0.4	1.8
Other comprehensive loss for the period	-	-	-	(7.1)	-	(7.1)
Total comprehensive loss for the period	-	-	-	(5.7)	0.4	(5.3)
<i>Transactions with equity shareholders:</i>						
Dividends paid	-	-	-	(111.7)	-	(111.7)
Adjustments in respect of share-based payments (net of tax)	-	-	-	0.2	-	0.2
Own shares acquired by the Pennon Employee Share Trust in respect of Share options	-	-	-	(1.4)	-	(1.4)
Proceeds from shares issued under the Sharesave Scheme	-	0.1	-	-	-	0.1
Total transactions with equity shareholders	-	0.1	-	(112.9)	-	(112.8)
At 30 September 2023	159.5	237.7	157.1	452.0	0.8	1,007.1

	Unaudited					
	Share capital (note 10)	Share premium account (note 11)	Capital redemption reserve (note 12)	Retained earnings and other reserves	Non- controlling interests	Total equity
	£m	£m	£m	£m	£m	£m
At 1 April 2024	174.6	398.2	157.1	431.3	1.4	1,162.6
Loss for the period	-	-	-	(30.3)	0.3	(30.0)
Other comprehensive income for the period	-	-	-	3.5	-	3.5
Total comprehensive loss for the period	-	-	-	(26.8)	0.3	(26.5)
<i>Transactions with equity shareholders:</i>						
Dividends paid	-	-	-	(126.9)	-	(126.9)
Adjustments in respect of share-based payments (net of tax)	-	-	-	1.1	-	1.1
Own shares acquired by the Pennon Employee Share Trust in respect of Share options	-	-	-	(1.2)	-	(1.2)
Transaction costs arising on shares issued	-	(0.2)	-	-	-	(0.2)
Total transactions with equity shareholders	-	(0.2)	-	(127.0)	-	(127.2)
At 30 September 2024	174.6	398.0	157.1	277.5	1.7	1,008.9

The notes on pages 30 to 49 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of cash flows for the half year ended 30 September 2024

	Notes	Unaudited	
		Half year ended 30 September 2024	Half year ended 30 September 2023
		£m	£m
Cash flows from operating activities			
Cash generated from operations	13	125.4	88.8
Interest paid		(64.6)	(49.3)
Tax received		3.0	-
Net cash generated from operating activities		63.8	39.5
Cash flows from investing activities			
Interest received		4.1	3.8
Movement in restricted funds		(0.7)	-
Purchase of property, plant and equipment		(352.1)	(249.8)
Purchase of intangible assets		(4.7)	(20.7)
Proceeds from sale of property, plant and equipment		0.9	0.2
Net cash generated from investing activities		(352.5)	(266.5)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		-	0.1
Purchase of ordinary shares by the Pennon Employee Share Trust		(1.2)	(1.4)
Proceeds from new borrowings		655.1	325.1
Repayment of borrowings		(246.9)	(70.2)
Cash inflows from lease financing arrangements	13	25.0	24.8
Lease principal repayments		(13.4)	(10.7)
Dividends paid	9	(126.9)	(111.7)
Net cash used in financing activities		291.7	156.0
Net increase / (decrease) in cash and cash equivalents		3.0	(71.0)
Cash and cash equivalents at beginning of period*	14	134.0	143.7
Cash and cash equivalents at end of period	14	137.0	72.7

*Cash and cash equivalents opening balance has been amended due to the re-presentation of restricted funds on the balance sheet. The notes on pages 30 to 49 form part of this condensed half year financial information.

PENNON GROUP PLC

Notes to condensed half year financial information

1. General information

Pennon Group plc is a company registered in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 49. Pennon Group's business is operated through its principal subsidiaries. South West Water Limited, provides water and wastewater services in Devon, Cornwall and parts of Dorset and Somerset and water only services in parts of Dorset, Hampshire, Wiltshire and Bristol. Sutton and East Surrey Water plc ("SES Water") provides water only services in the South East region. Sutton and South East Surrey Water Services ("SESWS") provides water and wastewater retail services to non-household customer accounts. Pennon Group is the majority shareholder of Pennon Water Services Limited, a company providing water and wastewater retail services to non-household customer accounts across Great Britain. Bristol Water Holdings Limited owns a 30% share in Water 2 Business Limited, a joint venture with Wessex Water, operating in the same sector as Pennon Water Services Limited and SESWS.

This condensed half year financial information was approved by the Board of Directors on 26 November 2024.

The financial information for the period ended 30 September 2024 does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The statutory accounts for 31 March 2024 were approved by the Board of Directors on 20 May 2024 and have been delivered to the Registrar of Companies. The independent auditor's report of the previous auditor, Ernst & Young LLP, 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 Conduct Authority, and UK adopted IAS 34 'Interim financial reporting'. 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 2024, which were prepared in accordance with UK-adopted international accounting standards and in conformity with the requirements of the Companies Act 2006.

The going concern basis has been adopted in preparing the condensed half year financial information (interim accounts). At 30 September 2024 the Group has access to undrawn committed funds and cash and cash deposits totalling £665 million, including cash and other short-term deposits of £137 million, £490 million of undrawn facilities and £38 million of restricted funds deposited with lessors or held for bond interest, are available for access, subject to being replaced by an equivalent valued security. The Group is forecast to retain headroom of £193m, throughout the going concern period through to 30 November 2025.

In making their assessment, the Directors reviewed the principal risk which has been deemed to be the outcome of the PR24 pricing review and the Ofwat Final Determination due on 19 December 2025. A combined stress testing scenario has been performed to assess the overall impact of a "severe but plausible" outcome from the Final Determination and its impact on the Group. This severe but plausible scenario has been assessed at an interim point between the Draft Determination and Draft Determination response.

The nature of the Group's financing portfolio means that we are continuously raising new debt to fund our growth and investment along with refinancing individual facilities. Our operational cashflow remains resilient, and with a Baa1/BBB+ investment grade credit rating from Moodys and Fitch, our funding and financial position is strong, and our EMTN programme also allows us to raise funding on a regular and timely basis. Given this strong credit rating and the regulated nature of the business, it is fully anticipated that funding can be raised to support the investment programme and ongoing needs of the business over the forthcoming period.

In addition, management mitigations are also available to the business, should it be required, in order to manage the cash flow impact of any crystallisation of risks; these include, but are not limited to, raising additional funding, reduction and/or deferral of operational expenditure and the reduction and/or deferral of capital expenditure.

As a result, the Directors have considered the Group's funding position and financial projections, taking into account a range of possible scenarios and concluded that there is a reasonable expectation that the Group will meet the requirements of its covenants and has adequate resources to continue in operational existence for a period of at least 12 months from the date of signing the financial statements. For this reason, they continue to adopt the going concern basis in preparing the interim accounts.

Notes to condensed half year financial information (continued)

2. Basis of preparation (continued)

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

The preparation of the half year financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are consistent with those that applied to the consolidated financial statements for the year ended 31 March 2024.

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 2024, except for the estimation of income tax (see note 7) and are in accordance with IFRS and interpretations of the IFRS Interpretations Committee expected to be applicable for the year ending 31 March 2025 in issue which have been adopted by the UK.

New standards or interpretations which were mandatory for the first time in the year beginning 1 April 2024 did not have a material impact on the net assets or results of the Group. New standards or interpretations due to be adopted from 1 April 2025 are not expected to have a material impact on the Group's net assets or results.

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Notes to condensed half year financial information (continued)

4. Segmental information

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

The Group is organised into two operating segments. The water segment comprises the regulated water and wastewater services undertaken by South West Water and the regulated water services undertaken by SES Water. The non-household retail segment (business retail) reflects the services provided by Pennon Water Services and SESWS.

	Unaudited	
	Half year ended 30 September 2024	Half year ended 30 September 2023
	£m	£m
Revenue		
Water total	412.9	377.8
Non-household retail	160.8	117.6
Other	10.8	1.2
Less intra-segment trading	(57.3)	(48.0)
Total revenue	527.2	448.6
Segment result		
Operating profit before depreciation, amortisation and non-underlying items (Underlying EBITDA)		
Water total	166.0	167.1
Non-household retail	4.6	3.1
Other	(7.1)	(1.7)
	163.5	168.5
Operating profit before non-underlying items		
Water total	75.4	87.5
Non-household retail	4.5	2.8
Other	(10.4)	(4.4)
	69.5	85.9
(Loss) / profit before tax before non-underlying items		
Water total	(14.5)	6.6
Non-household retail	2.6	1.7
Other	(6.7)	0.8
	(18.6)	9.1
(Loss) / profit before tax		
Water total	(34.0)	1.2
Non-household retail	2.6	1.7
Other	(7.4)	0.3
	(38.8)	3.2

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

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

All revenue is generated in the United Kingdom. The grouping of revenue streams by how they are affected by economic factors, as required by IFRS 15, is as follows:

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Notes to condensed half year financial information (continued)

4. Segmental information (continued)

Six months ended 30 September 2023	Unaudited			
	UK total			
	Water	Non-household retail	Other	Total
	£m	£m	£m	£m
Segment revenue	377.8	117.6	1.2	496.6
Inter-segment revenue	(46.7)	(0.1)	(1.2)	(48.0)
Revenue from external customers	331.1	117.5	-	448.6
Significant service lines				
Water	331.1	-	-	331.1
Non-household retail	-	117.5	-	117.5
	331.1	117.5	-	448.6

Six months ended 30 September 2024	Unaudited			
	UK total			
	Water	Non-household retail	Other	Total
	£m	£m	£m	£m
Segment revenue	412.9	160.8	10.8	584.5
Inter-segment revenue	(50.8)	(0.1)	(6.4)	(57.3)
Revenue from external customers	362.1	160.7	4.4	527.2
Significant service lines				
Water	362.1	-	-	362.1
Non-household retail	-	160.7	-	160.7
Other	-	-	4.4	4.4
	362.1	160.7	4.4	527.2

PENNON GROUP PLC

Notes to condensed half year financial information (continued)

5. Non-underlying items

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

	Unaudited	
	Half year ended 30 September 2024	Half year ended 30 September 2023
	£m	£m
Operating Costs		
Restructuring / transformational costs ⁽¹⁾	(3.7)	(3.6)
Costs associated with water quality event in Brixham ⁽²⁾	(16.3)	-
Acquisition costs ⁽³⁾	(0.2)	(0.5)
Drought related costs ⁽⁴⁾	-	(1.8)
Earnings before interest, tax, depreciation and amortisation	(20.2)	(5.9)
Non-underlying tax credit	4.9	1.4
Net non-underlying charges	(15.3)	(4.5)

- (1) £3.7 million (half year ended 30 September 2023: £3.6 million) of costs were incurred in connection with the business transformation of South West Water following the merger of Bristol Water into South West Water, £0.9 million of which were employment costs. Total additional restructuring costs of c.£12 million expected to be incurred wholly in H2 of the current financial year.
- (2) On 15 May 2024 an outbreak of cryptosporidium was detected in the water supply in the Brixham area of Devon, causing South West Water to issue a notice to customers in the area to boil water before consuming. £16.3 million of costs have been incurred which includes enhanced customer compensation, provision of bottled water over an eight-week period, and extensive interventions to clean and filter the network.
- (3) The Group incurred expenses of £0.1 million in the half year ended 30 September 2024 in relation to the costs of acquisition of SES and £0.1 million (half year ended 30 September 2023: £0.5 million) of expenses in connection with the acquisition of four renewable power generation investments.
- (4) In financial year 2022/23, a combination of elevated demand from increased tourism and record-breaking extremes of prolonged dry and hot weather led to extremely low water storage levels in the Cornwall region. Drought permits were issued allowing increased extractions and water-saving measures for the South West Water region were implemented for the first time since 1995. To ensure the region could be supplied with water over the summer and continuing into 2023, South West Water instigated a series of mitigating measures and one-off expenditure to address the situation. £1.8 million of specifically identifiable costs were recognised in the first half of 2023/24.

Cash totalling £28.6 million was paid in the half year ended 30 September 2024 (half year ended 30 September 2023: £2.7 million) in relation to items disclosed as non-underlying in the current and previous financial years.

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Notes to condensed half year financial information (continued)

6. Net finance costs

	Unaudited					
	Half year ended 30 September 2024			Half year ended 30 September 2023		
	Finance costs £m	Finance income £m	Total £m	Finance costs £m	Finance income £m	Total £m
Cost of servicing debt						
Bank borrowings and overdrafts	(66.4)	-	(66.4)	(58.0)	-	(58.0)
Interest element of lease payments	(25.1)	-	(25.1)	(22.9)	-	(22.9)
Other finance costs	(5.0)	-	(5.0)	(2.1)	-	(2.1)
Interest receivable	-	7.1	7.1	-	5.0	5.0
	(96.5)	7.1	(89.4)	(83.0)	5.0	(78.0)
Notional interest						
Retirement benefit obligations	-	0.8	0.8	-	0.7	0.7
	(96.5)	7.9	(88.6)	(83.0)	5.7	(77.3)

In addition to the above, finance costs of £12.1 million have been capitalised on qualifying assets included in property, plant and equipment (H1 2023/24: £4.1 million).

7. Taxation

	Unaudited					
	Before non- underlying items half year ended 30 September 2024 £m	Non- underlying items (note 5) half year ended 30 September 2024 £m	Total half year ended 30 September 2024 £m	Before non- underlying items half year ended 30 September 2023 £m	Non- underlying items (note 5) half year ended 30 September 2023 £m	Total half year ended 30 September 2023 £m
	Analysis of charge					
Current tax charge / (credit)	0.1	-	0.1	(0.6)	-	(0.6)
Deferred tax (credit) / charge	(4.0)	(4.9)	(8.9)	3.4	(1.4)	2.0
Tax (credit) / charge for the period	(3.9)	(4.9)	(8.8)	2.8	(1.4)	1.4

UK corporation tax is calculated at 25% (H1 2023/24: 25%) of the estimated assessable profit for the year. The tax charge for September 2024 and September 2023 has been derived by applying the anticipated effective annual tax rate to the first half year profit before tax.

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

The effective tax rate for the period for the group, including prior year adjustments but before the impact of non-underlying items was an effective charge of 21.0% (H1 2023/24: charge of 30.8%).

The effective tax rate for the period for the group including prior year adjustments and the impact of non-underlying items was a charge of 22.7% (H1 2023/24: charge of 43.8%).

PENNON GROUP PLC

Notes to 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 in issue is adjusted to include all dilutive potential ordinary shares.

The weighted average number of shares and earnings used in the calculations were:

	Unaudited	
	Half year ended 30 September 2024	Half year ended 30 September 2023
Number of shares (millions)		
For basic earnings per share	285.9	261.2
Effect of dilutive potential ordinary shares from share options	-	0.7
For diluted earnings per share	285.9	261.9

Adjusted basic and diluted earnings per ordinary share

Adjusted earnings per share are presented to provide a more useful comparison of business trends and performance. Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance (as described in note 5).

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to include all dilutive potential ordinary shares.

Potential ordinary shares that could dilute basic earnings per share in the future were not included in the calculation for diluted earnings per share because they were anti-dilutive for the current year as any dilution would reduce the loss per share. Diluted earnings per share is therefore equal to basic earnings per share.

Earnings per share have been calculated as follows:

	Unaudited					
	Half year ended 30 September 2024			Half year ended 30 September 2023		
	Loss after tax £m	Earnings per share		Profit after tax £m	Earnings per share	
		Basic p	Diluted p		Basic p	Diluted p
Statutory earnings	(30.3)	(10.6)	(10.6)	1.4	0.5	0.5
Deferred tax before non-underlying items	(4.0)	(1.4)	(1.4)	3.4	1.4	1.4
Non-underlying items (net of tax)	15.3	5.4	5.4	4.5	1.7	1.7
Adjusted earnings before non-underlying items and deferred tax	(19.0)	(6.6)	(6.6)	9.3	3.6	3.6

PENNON GROUP PLC

Notes to condensed half year financial information (continued)

9. Dividends

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

	Unaudited	
	Half year ended 30 September 2024 £m	Half year ended 30 September 2023 £m
Interim dividend paid for the year ended 31 March 2024: 14.04 pence (2023: 12.96 pence) per share	40.1	33.9
Final dividend paid for the year ended 31 March 2024: 30.33 pence (2023: 29.77 pence) per share	86.8	77.8
	126.9	111.7

In the six months to 30 September 2024 the 2023/24 interim and final dividends were paid resulting in a cash outflow of £126.9 million.

	Unaudited	
	Half year ended 30 September 2024 £m	Half year ended 30 September 2023 £m
Proposed interim dividend for the year ended 31 March 2025: 14.69 pence per share (31 March 2024: 14.04 pence)	42.0	36.7

The proposed interim dividend has not been included as a liability in this condensed half year financial information. The proposed interim dividend for the year ending 31 March 2025 will be paid on 4 April 2025 to shareholders on the register on 31 January 2025.

PENNON GROUP PLC

Notes to condensed half year financial information (continued)

10. Share capital

Allotted, called up and fully paid:

1 April 2023 to 30 September 2023

	Unaudited		
	Number of shares		£m
	Treasury shares	Ordinary shares	
At 1 April 2023 ordinary shares of 61.05 pence each	5,628	261,315,489	159.5
For consideration of £0.1 million, shares issued in respect of the Company's Sharesave Scheme	-	17,606	-
At 30 September 2023 ordinary shares of 61.05 pence each	5,628	261,333,095	159.5

1 April 2024 to 30 September 2024

	Unaudited		
	Number of shares		£m
	Treasury shares	Ordinary shares	
At 1 April 2024 ordinary shares of 61.05 pence each	5,628	286,045,323	174.6
For consideration of £21,000, shares issued in respect of the Company's Sharesave Scheme	-	3,386	-
At 30 September 2024 ordinary shares of 61.05 pence each	5,628	286,048,709	174.6

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

The weighted average market price of the Company's shares at the date of exercise of share scheme options during the period was 625 pence (H1 2023/24: 631 pence).

PENNON GROUP PLC

Notes to condensed half year financial information (continued)

11. Share premium account

	Unaudited
	£m
1 April 2023 to 30 September 2023	
At 1 April 2023	237.6
Shares issued under the Sharesave Scheme	0.1
At 30 September 2023	<u>237.7</u>
1 April 2024 to 30 September 2024	
At 1 April 2024	398.2
Shares issued under the Sharesave Scheme	-
Less: Transaction costs arising on share issues	(0.2)
At 30 September 2024	<u>398.0</u>

12. Capital redemption reserve

	Unaudited
	£m
1 April 2023 to 30 September 2023	
At 1 April 2023 and 30 September 2023	<u>157.1</u>
1 April 2024 to 30 September 2024	
At 1 April 2024 and 30 September 2024	<u>157.1</u>

PENNON GROUP PLC

Notes to condensed half year financial information (continued)

13. Cash flow from operating activities

Reconciliation of (loss)/profit for the period to net cash generated from operations:

	Unaudited	
	Half year ended 30 September 2024	Half year ended 30 September 2023
	£m	£m
Cash generated from operations		
(Loss) / profit for the period	(30.0)	1.8
Adjustments for:		
Share-based payments	1.1	0.3
Profit on disposal of property, plant and equipment	(0.5)	(0.1)
Depreciation charge	91.9	80.8
Amortisation of intangible assets	2.1	1.7
Non-underlying costs	-	5.9
Share of post-tax profit from associated companies	(0.5)	(0.5)
Finance income	(7.9)	(5.7)
Finance costs	96.5	83.0
Taxation (credit) / charge	(8.8)	1.4
Changes in working capital:		
Decrease in inventories	0.2	0.1
Increase in trade and other receivables	5.7	(45.8)
Decrease in trade and other payables	(24.4)	(31.0)
Cash impact of non-underlying costs	-	(2.7)
Decrease in provisions	-	(0.4)
Cash generated from operations	125.4	88.8
Total interest paid		
Interest paid in operating activities	64.6	49.3
Interest paid in investing activities	12.1	4.1
Total interest paid	76.7	53.4

During the period the Group completed a number of sale and leaseback transactions in respect of its infrastructure assets as part of its ongoing finance arrangements. Cash proceeds of £25.0 million (H1 2023/24: £24.8 million) were received and a gain of £nil (H1 2023/24: £nil). These assets are leased back at market rates with lease terms of 10.0 years.

PENNON GROUP PLC
Notes to condensed half year financial information (continued)
14. Net borrowings

	Unaudited	Audited
	Half year ended 30	Year ended 31
	September 2024	March 2024
	£m	£m
Cash and cash equivalents	137.0	134.0
Restricted funds	38.1	37.4
	175.1	171.4
<i>Borrowings – current</i>		
Bank and other current borrowings	(114.2)	(186.3)
Lease obligations	(125.2)	(51.9)
Total current borrowings	(239.4)	(238.2)
<i>Borrowings – non-current</i>		
Bank and other non-current borrowings	(3,137.0)	(2,658.7)
Listed preference shares	(12.5)	(12.5)
Lease obligations	(1,018.4)	(1,071.2)
Total non-current borrowings	(4,167.9)	(3,742.4)
Total net borrowings	(4,232.2)	(3,809.2)

Restricted funds are deposited with lessors or held for bond interest, are available for access, subject to being replaced by an equivalent valued security.

PENNON GROUP PLC

Notes to condensed half year financial information (continued)

14. Net borrowings (continued)

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

	Unaudited				
	Net cash/ (borrowings) at 1 April 2023 £m	Cash flows £m	Transfer between non- current and current £m	Other non- cash movements £m	Net cash/ (borrowings) at 30 September 2023 £m
Cash and cash deposits	165.4	(71.0)	-	-	94.4
Bank and other current borrowings	(92.7)	45.2	(36.1)	-	(83.6)
Current lease obligations*	(32.0)	30.6	(13.9)	(30.2)	(45.5)
Bank and other non-current borrowings	(1,960.9)	(300.1)	36.1	(8.0)	(2,232.9)
Listed preference shares	(12.5)	-	-	-	(12.5)
Non-current lease obligations*	(1,032.7)	(24.8)	13.9	(3.1)	(1,046.7)
Net borrowings	(2,965.4)	(320.1)	-	(41.3)	(3,326.8)

	Net cash/ (borrowings) at 1 April 2024 £m	Cash flows £m	Transfer between non- current and current £m	Other non- cash movements £m	Net cash/ (borrowings) at 30 September 2024 £m
Cash and cash deposits	171.4	3.7	-	-	175.1
Bank and other current borrowings	(186.3)	147.0	(76.1)	1.2	(114.2)
Current lease obligations	(51.9)	38.5	(82.0)	(29.8)	(125.2)
Bank and other non-current borrowings	(2,658.7)	(555.2)	76.1	0.8	(3,137.0)
Listed preference shares	(12.5)	-	-	-	(12.5)
Non-current lease obligations	(1,071.2)	(25.0)	82.0	(4.2)	(1,018.4)
Net borrowings	(3,809.2)	(391.0)	-	(32.0)	(4,232.2)

*The movement in net borrowings for the prior year has been corrected to show the gross cash flows and other non-cash movements relating to lease obligations whereby interest accrues to and is paid from net borrowings, these amounts were previously shown net within other non-cash movements. Transfers between non-current and current for these items has also been corrected.

The Group has entered into covenants with lenders and, while terms vary, these typically provide for limits on gearing and interest cover. The Group has been in compliance with its covenants during the year to date. Other non-cash movements for the Group in the period includes the increase in borrowings from interest which is rolled into the amount repayable.

PENNON GROUP PLC

Notes to condensed half year financial information (continued)

15. Fair value disclosure for financial instruments

Fair value of financial instruments carried at amortised cost.

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

	Unaudited		Audited	
	Half year ended 30 September 2024		Year ended 31 March 2024	
	Book value	Fair value	Book value	Fair value
	£m	£m	£m	£m
Non-current borrowings:				
Bank and other loans	3,137.0	3,045.0	2,658.7	2,540.8
Other non-current borrowings	12.5	19.7	12.5	20.1
Non-current borrowings excluding leases	3,149.5	3,064.7	2,671.2	2,560.9

Valuation hierarchy of financial instruments carried at fair value

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

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

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

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

	Unaudited	Audited
	Half year ended 30 September 2024	Year ended 31 March 2024
	£m	£m
Level 2 inputs		
Assets		
Derivatives used for cash flow hedging	33.8	40.5
Derivatives used for fair value hedging	0.1	0.3
Total assets	33.9	40.8
Liabilities		
Derivatives used for cash flow hedging	(8.8)	(8.7)
Total liabilities	(8.8)	(8.7)

PENNON GROUP PLC

Notes to condensed half year financial information (continued)

16. Retirement benefit assets

Defined benefit schemes

All the Group's defined benefit pension schemes are closed to future accrual.

The principal actuarial assumptions were the rate used to discount schemes' liabilities and expected return on scheme assets with the same rate of 5.1% (Sept 2024: 5.5%) and the inflation assumption of 3.1% (Sept 2024: 3.3%).

	Unaudited					
	Half year ended 30 September 2024			Half Year ended 30 September 2023		
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Present value of obligation £m	Fair value of plan assets £m	Total £m
At beginning of period	(774.2)	800.8	26.6	(719.5)	748.8	29.3
Amounts recognised in the income statement	(18.6)	18.3	(0.3)	(17.4)	17.0	(0.4)
Remeasurements through other comprehensive income	27.6	(13.2)	14.4	43.5	(72.1)	(28.6)
Company contributions	0.1	-	0.1	-	-	-
Benefits and expenses paid	23.7	(23.7)	-	21.2	(21.2)	-
At end of period	(741.4)	782.2	40.8	(672.2)	672.5	0.3

Recognition of surplus on principal pension scheme

In accordance with IAS 19 'Employee Benefits' the value of the net pension scheme surplus that can be recognised in the statement of financial position is restricted to the present value of economic benefits available in the form of refunds from the scheme or reductions in future contributions. In respect of the Group's principal pension scheme, PGPS, the surplus has been recognised as the Group believes that ultimately it has an unconditional right to a refund of any surplus assuming the full settlement of the plan's liabilities in a single event, such as a scheme wind up.

Bristol Water

The overall surplus includes a net surplus of c.£9.4 million relating to the Bristol Water Section of the Water Companies Pension Scheme (WCPS) which remains largely unchanged as the liabilities of the scheme are fully insured through a bulk annuity policy. The Group believes that it has an unconditional right to a refund of surplus and that the gross pension surplus can be recognised. This benefit is only available as a refund as no additional defined pension benefits are being earned. Under UK tax legislation a tax deduction of 25% is applied to a refund from a UK pension scheme, before it is passed to the employer. This tax deduction has been applied to restrict the value of the surplus recognised for this scheme. The process to buy out and wind up the scheme continues and the Trustee has indicated its intention to return the surplus to the Company. The buy-out of the section is expected to be completed within the next 12 months and therefore the surplus relating to the Bristol Water Section has been recognised as a current asset on the balance sheet.

Sutton and East Surrey Water

The Group believes that it has an unconditional right to a refund of surplus and that the gross pension surplus can be recognised. This benefit is only available as a refund as no additional defined pension benefits are being earned. Under UK tax legislation a tax deduction of 25% (2024: 25%) is applied to a refund from a UK pension scheme, before it is passed to the employer. This tax deduction has been applied to restrict the value of the surplus recognised for this scheme.

PENNON GROUP PLC

Notes to condensed half year financial information (continued)

16. Retirement benefit assets (continued)

In June 2023, the High Court handed down a decision (Virgin Media Limited v NTL Pension Trustees II Limited and others) which potentially has implications for the validity of amendments made by schemes, including the PGPS and other Group defined benefit schemes, which were contracted-out on a salary-related basis between 6 April 1997 and the abolition of contracting-out in 2016. This decision was upheld by the Court of Appeal in August 2024. There is potential for legislative intervention following industry lobbying efforts that may retrospectively validate certain rule amendments that would otherwise be held void where the requirements of section 37 were not met. However, the Company has engaged with the relevant Trustee for PGPS and other Group defined benefit schemes who have confirmed that based on the governance processes in place and an initial review of significant deed changes during the period in question, these bodies have no reason to believe, at this stage in their review, that the relevant requirements were not complied with in relation to the Schemes with regard to the relevant period in question. Given that there is no indication at this stage of non-compliance with the relevant requirements, the PGPS and other Group defined benefit schemes valuation as at 30 September 2024 does not reflect potential additional liabilities arising from the Virgin Media case.

17. Capital expenditure

	Unaudited	Audited
	Half year ended 30	Year ended 31
	September 2024	March 2024
	£m	£m
Property, plant and equipment		
Additions	327.1	604.5
Arising on acquisitions	-	441.6
Assets adopted at fair value	6.7	10.6
Net book value of disposals	(0.4)	-
Intangible assets		
Additions	4.7	45.0
Arising on acquisitions	-	11.6
Net book value of disposals	-	(0.1)
Capital commitments		
Contracted but not provided for the Group	157.6	211.5

Notes to condensed half year financial information (continued)

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

	Unaudited	Audited
	Half year ended 30 September 2024	Year ended 31 March 2024
	£m	£m
Trade and other payables – current		
Trade payables	164.0	227.5
Contract liabilities	10.7	10.6
Other tax and social security	1.9	3.1
Accruals	41.2	37.4
Other payables	88.9	62.6
	306.7	341.2
Other non-current liabilities		
Contract liabilities	161.5	154.9

19. Contingencies and Financial Guarantee

Financial Guarantee

	Unaudited	Audited
	Half year ended 30 September 2024	Year ended 31 March 2024
	£m	£m
Performance bonds	21.7	13.8

Guarantees in respect of performance bonds relate to changes to the collateral requirements for the non-household retail business with other wholesalers. The possibility of the bond being required is remote hence the fair value of the bond is not material.

Contingency

Other contractual and litigation uncertainties

In November 2021, Ofwat and the Environment Agency announced industry-wide investigations into how companies manage their wastewater assets. In June 2022, as part of its ongoing investigation, Ofwat announced enforcement action against South West Water Limited and has subsequently included all 11 water and sewerage companies in the scope of their enforcement activities. If Ofwat were to find a company were in breach of its legal obligations, it has a range of options that it could apply from accepting formal section 19 undertakings which would accept operational improvements in lieu of any fine or penalty, through to fining the Group up to 10% of its revenue in relation to the regulated wastewater business. In August 2024, Ofwat proposed penalties for three companies, ranging from 5% to 9% of relevant wastewater turnover; Ofwat has however stated that the opening of enforcement cases does not automatically imply that a financial penalty will necessarily follow.

On 23 May 2023 Ofwat announced an investigation into South West Water's 2021/22 operational performance data relating to leakage and per capita consumption. This operational performance data was reported in South West Water's Annual Performance Report 2021/22. This report is subject to rigorous assurance processes which include independent checks and balances carried out by an external technical auditor. Ofwat has a range of options that it could apply should its investigation identify any concerns, from accepting to formal section 19 undertakings through to fining the Group up to 10% of its revenue in relation to the regulated drinking water business.

Whilst to date, Ofwat has not given a firm indication of the expected timeframe for either of its ongoing investigations or any subsequent actions it will take, we have engaged openly and transparently with Ofwat throughout the investigation and continue our discussions with them in respect of these matters.

On 2 February 2024 summons were received by South West Water Limited from the EA in relation to alleged breaches of environmental permits relating to the illegal water discharge activity at seven locations with a total of 30 charges. In May 2024 the EA withdrew six of the 30 charges. At a court hearing on 14 November 2024 the company entered a guilty plea on five of the charges, sentencing is expected for these charges in the third quarter of 2025. Further hearings are due for the remaining cases. The potential outcome of the remaining prosecutions is currently unknown.

Notes to condensed half year financial information (continued)

19. Contingencies and Financial Guarantee (continued)

The Group establishes provisions in connection with contracts and litigation where it has a present legal or constructive obligation as a result of past events and where it is more likely than not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where it is uncertain that these conditions are met a contingent liability is disclosed unless the likelihood of the obligation arising is remote or the matter is not deemed material.

20. Related party transactions

Group companies entered into the following transactions with joint ventures which were not members of the Group. Bristol Wessex Billing Services Limited ("BWBSL") and Water 2 Business Limited ("Water 2 Business") are joint venture investments of Bristol Water plc.

Transactions with joint ventures

	Unaudited	
	Half year ended 30 September 2024	Half year ended 30 September 2023
	£m	£m
Sales to Water 2 Business	15.0	9.6
Purchases from BWBSL	2.0	2.0

Balances with joint ventures

	Unaudited	Audited
	Half year ended 30 September 2024	Year ended 31 March 2024
	£m	£m
Trade and other receivables		
Water 2 Business (including loan receivable of £8.7m, 2024: £8.7m)	8.9	8.9
Trade and other payables		
BWBSL	2.6	3.0

Notes to condensed half year financial information (continued)

21. Acquisition of SES Group

On 10 January 2024, the Pennon Group acquired 100% of the issued share capital of Sumisho Osaka Gas Water UK Limited, which has subsequently been renamed Sutton and East Surrey Group Holdings Limited ('SESGHL'). SESGHL is the holding company of the SES Group which comprises Sutton and East Surrey Water plc ('SES Water'), a regulated water only company, and certain other ancillary businesses. The purpose of the acquisition was to expand the Group's presence in water supply across Southern England.

The details of the business combination, accounted for in the year ended 31 March 2024, are as follows:

	£m
Fair value of consideration transferred	
Amount settled in cash	90.2
Total consideration transferred	<u>90.2</u>
Fair value of assets and liabilities recognised on acquisition	
Property, plant and equipment	441.6
Intangible assets	11.6
Inventories	2.1
Trade and other receivables	61.4
Cash and cash deposits	27.5
Current tax receivable	0.4
Borrowings	(360.1)
Trade and other payables	(65.3)
Retirement benefit obligations	3.3
Deferred tax liabilities	(47.5)
Provisions	(0.4)
Identifiable net assets	<u>74.6</u>
Goodwill on acquisition	15.6
Outflow of cash to acquire subsidiary, net of cash acquired	
Consideration for equity settled in cash	90.2
Cash and cash equivalents acquired	<u>(27.5)</u>
Net cash outflow on acquisition	<u>62.7</u>
Acquisition costs paid charged to expenses	9.7

PENNON GROUP PLC

Notes to condensed half year financial information (continued)

21. Acquisition of SES Group (continued)

Acquisition related costs

Acquisition related costs of £9.7 million are not included as part of the consideration transferred and were recognised as an expense in the consolidated income statement in the year ended 31 March 2024 (£9.6 million) and 30 September 2024 (£0.1 million) within other operating expenses.

Adjustments made to the carrying values of SES Group at acquisition.

The net assets recognised in the 30 September 2024 financial statements were based on a provisional assessment of their fair value, whilst all necessary information is finalised to complete the valuation exercise. The initial significant fair value adjustments are described further below and have been incorporated into the 10 January 2024 fair value balance sheet.

Acquired receivables

The provisional fair value of trade and other receivables acquired as part of the business combination amounted to £32.9 million with a gross contractual amount of £35.1 million. At the acquisition date the Group's best estimate of the contractual cash flows expected not to be collected amounted to £2.2 million.

Goodwill

Goodwill is attributable to the recognition of deferred tax liabilities on fair value gains recognised as part of the acquisition. None of the goodwill recognised is expected to be deductible for tax purposes. Goodwill has been allocated to the water segment.

22. Events after the reporting period

In October 2024 the Group announced a restructuring of the business, it is expected that c.£12 million of costs will be incurred as a result of the restructuring.

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

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

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

Dorothy Burwell
Jonathan Butterworth
Iain Evans
Susan Davy
Laura Flowerdew
Claire Ighodaro
David Sproul
Lorraine Woodhouse

For and on behalf of the Board of Directors who approved this half year report on 26 November 2024.

L Flowerdew
Group Chief Financial Officer

INDEPENDENT REVIEW REPORT TO PENNON GROUP PLC**REPORT ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****Our conclusion**

We have reviewed Pennon Group plc's condensed consolidated interim financial statements (the "interim financial statements") in the Half Year Results of Pennon Group plc for the 6 month period ended 30 September 2024 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim financial statements comprise:

- the Consolidated balance sheet as at 30 September 2024;
- the Consolidated income statement and Consolidated statement of comprehensive income for the period then ended;
- the Consolidated statement of cash flows for the period then ended;
- the Consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Half Year Results of Pennon Group plc have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council for use in the United Kingdom ("ISRE (UK) 2410"). A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Half Year Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern.

RESPONSIBILITIES FOR THE INTERIM FINANCIAL STATEMENTS AND THE REVIEW**Our responsibilities and those of the directors**

The Half Year Results, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the Half Year Results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the Half Year Results, including the interim financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

PENNON GROUP PLC**INDEPENDENT REVIEW REPORT TO PENNON GROUP PLC (continued)**

Our responsibility is to express a conclusion on the interim financial statements in the Half Year Results based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
Bristol

26 November 2024

PENNON GROUP PLC

Alternative performance measures

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

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

- Group dividend cover is not presented in the half year APM disclosure. The ratio represents a measure of full year adjusted profit and dividend performance and cannot be calculated on a comparable basis using half year adjusted profits and the interim dividend.
- Underlying Return on capital employed is not presented in the half year APM disclosure. This ratio represents the total of underlying operating profit by capital employed (net debt plus total equity invested). An average value for this metric is part of the long-term incentive plan for Directors.
- Like for like has been added following the acquisition of SES in January 2024 to aid comparability between reporting periods.

(i) Underlying earnings

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

Underlying earnings reconciliation 30 September 2024	Non-underlying items					Statutory results	Earnings per share p
	Underlying	Restructuring / transformational costs	Costs associated with water quality event in Brixham	Acquisition costs			
	£m	£m	£m	£m	£m	£m	
EBITDA (see below)	163.5	(3.7)	(16.3)	(0.2)	143.3		
Operating profit	69.5	(3.7)	(16.3)	(0.2)	49.3		
Loss before tax	(18.6)	(3.7)	(16.3)	(0.2)	(38.8)		
Taxation	3.9	0.8	4.1	-	8.8		
Loss after tax					(30.0)		
Non-controlling interests					(0.3)		
Profit after tax attributable to shareholders					(30.3)		(10.6)

Underlying earnings reconciliation 30 September 2023	Non-underlying items					Statutory results	Earnings per share p
	Underlying	Restructuring / transformation	Drought related costs	Acquisition costs			
	£m	£m	£m	£m	£m	£m	
EBITDA (see below)	168.5	(3.6)	(1.8)	(0.5)	162.6		
Operating profit	85.9	(3.6)	(1.8)	(0.5)	80.0		
Profit before tax	9.1	(3.6)	(1.8)	(0.5)	3.2		
Taxation	(2.8)	0.1	0.4	0.9	(1.4)		
Profit after tax					1.8		
Non-controlling interests					(0.4)		
Profit after tax attributable to shareholders					1.4		0.5

PENNON GROUP PLC

Alternative performance measures (continued)

(ii) Underlying EBITDA

Underlying EBITDA (earnings before interest, tax, depreciation and amortisation and non-underlying items) is used to assess and monitor operational underlying performance.

(iii) Effective interest rate

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

	H1 2025	H1 2024
	£m	£m
Net finance costs before non-underlying items (note 6)	88.6	77.3
Remove: net finance (cost)/income before non-underlying items not associated with South West Water Limited's group of companies	(8.4)	3.6
Net finance costs before non-underlying items associated with South West Water Limited's group of companies	80.2	80.9
Net interest on retirement benefit obligations associated with South West Water Limited's group of companies	0.6	0.7
Capitalised interest (note 6)	10.2	4.1
Net finance costs for effective interest rate calculation	91.0	85.7
Group net debt (opening) (note 14)	3,809.2	2,965.4
Remove: opening net debt not associated with South West Water Limited's group of companies	(514.5)	(100.1)
Opening net debt for calculation	3,294.7	2,865.3
Group net debt (closing) (note 14)	4,232.2	3,326.8
Remove: closing net debt not associated with South West Water Limited's group of companies	(670.9)	(235.4)
Closing net debt for calculation	3,561.3	3,091.4
Average net debt (opening net debt + closing net debt divided by 2)	3,428.0	2,978.4
Effective interest rate (%)	5.3	5.8

(iv) Effective cash cost of interest

Effective cash cost of interest for South West Water Limited's group of companies is based on the effective interest cost calculation above, but excludes finance costs that are not paid in cash, but accrete to the carrying value of debt (principally the inflationary impact of indexation on index-linked debt).

	H1 2025	H1 2024
	£m	£m
Net finance costs for effective interest rate calculation (as above)	91.0	85.7
Remove non-cash interest accrued (income statement indexation charge)	(12.6)	(28.7)
Net finance costs for effective cash cost of interest calculation	78.4	57.0
Opening net debt (as above)	3,294.7	2,865.3
Closing net debt (as above)	3,561.3	3,091.4
Average net debt (opening net debt + closing net debt divided by 2)	3,428.0	2,978.4
Effective cash cost of interest (%)	4.6	3.8

PENNON GROUP PLC

Alternative performance measures (continued)

(v) Underlying interest cover

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

	H1 2025	H1 2024
	£m	£m
Net finance costs after non-underlying items	88.6	77.3
Net interest on retirement benefit obligations	0.8	0.7
Net finance costs for interest cover calculation	89.4	78.0
Operating profit before non-underlying items	69.5	85.9
Underlying Interest cover (times)	0.8	1.1

(vi) Capital investment

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

	H1 2025	H1 2024
	£m	£m
Additions to property, plant and equipment	327.1	239.1
Additions to intangible assets	4.7	27.2
Capital investment	331.8	266.3

(vii) Capital payments

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

	H1 2025	H1 2024
	£m	£m
Cash flow statements: purchase of property, plant and equipment	352.1	249.8
Cash flow statements: purchase of intangible assets	4.7	20.7
Cash flow statements: proceeds from sale of property, plant and equipment	(0.9)	(0.2)
Capital payments	355.9	270.3

Alternative performance measures (continued)**(viii) Return on Regulated Equity (RORE)**

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

Returns are made up of a base return (set by Ofwat, the water business regulator, at c.3.9% for South West Water and c.4.4% for Bristol Water for the period 2020-25) plus Totex (see ix) outperformance, financing outperformance and ODI outperformance. Returns are calculated post tax and post sharing (only a proportion of returns are attributed to shareholders and shown within RoRE). The three different types of return calculated and added to the base return are:

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

Regulated equity is a notional proportion of regulated capital value (RCV which is set by Ofwat at the start of every five-year regulatory period, adjusted for actual inflation). For 2020-25, the notional equity proportion is 40.0%.

References are made to Ofwat RORE and Watershare RORE which utilise differing inflation assumptions and the disclosure of tax.

Further information on this metric can be found in South West Water's annual performance report and regulatory reporting, published in July each year.

(ix) Total Expenditure (Totex)

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

(x) Outcome Delivery Incentive (ODI)

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

(xi) Regulatory Capital Value (RCV)

RCV has been developed for regulatory purposes and is primarily used in setting price limits.

RCV is widely used by the investment community as a proxy for the market value of the regulated business and forms part of covenant debt limits.

Shadow RCV reflects the addition of anticipated regulatory adjustments which amend RCV at the end of a regulatory period. These changes are accrued due to performance through ODIs, changes in levels of totex expenditure, changes in inflation rates and other regulatory adjustments.

(xii) Like for like

To aid comparison between reporting periods, "like for like", refers to the results of the Group excluding SES which was acquired on 10 January 2024 and therefore the results of SES are not included in H1 2023/24.