29 November 2023

Half Year Results 2023/24

Susan Davy, Group Chief Executive, commented:

Pennon has continued to make progress in the last six months on delivering for customers and shareholders, improving operational resilience across the group through an 87% step up in investment, supported by a healthy balance sheet. We are executing on our twin track strategy of organic and acquisitive growth in UK water, creating long term value and making progress on what matters most to those across our regions.

I am very clear that if we serve our customers well, we serve our shareholders well, which is why we are focused on improving environmental performance, keeping bills as low as possible, developing new water resources, and investing in renewable energy generation. This has helped us deliver a 100% bathing water quality assessment for the third year running and reduce serious pollution incidents this year, but we know there is more to do.

Our twin track strategy of both organic and acquisitive growth in UK water ensures we continue to drive long term value, with the Bristol acquisition benefits on track, alongside a growing portfolio of complementary services delivered through our business to business retailers and growing renewable energy business.

Everyone at Pennon and in our wider supply chain works relentlessly to make change happen and I want to thank all my colleagues for their contribution to these results. I also want to thank them in advance for what they are about to do, as we look ahead to 2030, creating 2,000 new jobs in the region and delivering a sustainable future for all.

FINANCIAL PERFORMANCE

	H1 2023/24	H1 2022/23	Change
Underlying^ revenue	£448.6m	£425.5m	+5.4%
Underlying profit before tax	£9.1m	£22.5m	(59.6%)
Non-underlying items before tax[1]	(£5.9m)	(£1.6m)	-
Profit after tax	**£1.8m**	**£18.5m**	**(90.3%)**
Earnings per share (EPS)			
• Adjusted EPS^	3.6p	7.9p	(54.4%)
• Statutory EPS	0.5p	7.0p	(92.9%)
Dividend per share[2]	14.04p	12.96p	+8.3%

- Statutory and underlying revenue up 5.4% driven by inflationary tariff increases which are moderated through regulatory adjustments, minimising the impact on customer bills. Pennon Water Services generating ongoing revenue growth from contract wins outside of our wholesale supply regions
- £9.1 million underlying profit before tax – reduction compared to H1 2022/23 due to higher inflation driven costs. Compared to H2 2022/23 underlying profit before tax improved, a trend expected to continue in to H2 2023/24
- Net non-underlying cost items before tax of £5.9 million – includes one-off costs of business transformation, drought and renewable energy acquisitions
- Statutory profit after tax of £1.8 million (H1 2022/23: £18.5 million profit after tax)
- Adjusted earnings per share of 3.6 pence, down from 7.9 pence in H1 2022/23
- Statutory earnings per share of 0.5 pence after net non-underlying costs
- Delivering on established K7 (2020-25) dividend policy – interim dividend per share up 8.3% (CPIH +2%) to 14.04 pence.

A full reconciliation to the statutory reported results is included in item (i) in the Alternative Performance Measures on pages 67 to 70 of this announcement.

^ Measures with this symbol are defined in the Alternative Performance Measures (APMs) as outlined on pages 67 to 70
[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 6.3% as of 30 September 2023.

Making progress, growing sustainably

Step up in investment across the Group

- Delivering on our organic and acquisitive growth strategy – on track for 60% RCV growth to 2025 and c.100%[3] to 2030
- c.£1.6 billion K7 (2020-25) investment well underway – delivering sustainable environmental improvements across our region – £234 million[4] regulated water business capital investment represents a 65% increase on H1 2022/23
- Total Group investment increased by 87% v H1 2022/23
- Delivering on Bristol Water acquisition benefits – c.£16 million annualised synergies to date.

Making progress on what matters most across our region

- 100% bathing water quality for the third consecutive year[5]
- Breaking the cycle of drought – reservoir levels more than doubled compared to 2022[6], on track to increase water resources across Cornwall and Devon by 45% and 30% in K7
- Upper quartile performance for South West Water on industry comparative performance metrics – one of only two companies to improve performance in Ofwat rankings
- Targeted for 2023 to retain EPA performance gains delivered in 2022 (EPA 2* status) – remain focused on achieving 4* status for 2024
- Accelerating our Net Zero 2030 commitment – investing in renewable energy generation – pioneering our Green First approach, promoting nature-based solutions
- Supporting our customers and communities – unlocking over £90 million of customer support in K7 to date, keeping bills as low as possible with below inflation increases to 2025.

Adopting a Green First approach

- Sector-leading catchment management ahead of target – supporting improvements to water quality – 6% improvement in RNAGs to date in K7, from 19% to c.13%
- Renewable energy investment through Pennon Power Limited – current investment of c.£145 million on track to generate 40% of Group energy requirements, alongside reducing exposure to volatile global energy markets.

Underpinned by robust fundamentals

- Strong balance sheet – responsible, sustainable gearing at 61.0% – broadly in line with Ofwat's notional company expectations

[3] RCV growth over K7 forecast to be 60%, and RCV growth over K8 forecast to be c.40%
[4] Total H1 2023/24 capital expenditure - £266.3 million, including £31.7 million - Pennon Power
[5] For all bathing waters where South West Water has assets which may potentially impact water quality. Based on our preliminary analysis of Environment Agency data ahead of formal publication of results, anticipated at the end of November
[6] Total reservoir storage for Devon and Cornwall – 64% as at 30 September 2023 v 31% as at 30 September 2022

- Sector-leading financing portfolio - effective interest rate of 5.8% driven by the Group's strategically positioned financing portfolio
- Robust returns – track record of RORE^ outperformance – 7.9%[7] cumulative K7 Group RORE, reflecting a doubling of base returns.

Ambitious plan for K8 (2025-30) – the right plan for our regions

- Strong support from customers for our most ambitious plan to date – 74% customer acceptability following our most extensive engagement, with over 30,000 customers and 1,000 stakeholders engaged in the plan's development
- Investing in the areas that matter most – £4.5 billion totex plan for 2025-30, assuming 12% efficiency, more than quadruples our K7 enhancement capex to deliver benefits for customers, communities and the environment
- Transition underway to deliver on our ambitious plan – supply chain mobilised with new contractors appointed
- Keeping bills as low as possible – 3-4% average increase per annum to 2030 across our regions
- Incentivising performance, with the potential of up to 8.6% return on regulated equity
- Underpinned by responsible financing, with average gearing of 63.3% over K8, within our well-established range of 55-65%
- Nominal RCV growth of 38% (real – 25%) to 2030 – delivering sustainable growth.

Presentation of results

A presentation of these results hosted by Susan Davy, Group Chief Executive and Paul Boote, Group Chief Financial Officer, will be available at 08:00am (GMT), today, 29 November 2023 and can be accessed here: www.pennon-group.co.uk/investor-information.

The presentation will be followed by a live Q&A conference call at 08:45am (GMT). Details are included below:

United Kingdom (Toll-Free):	+44 800 358 1035
Global Dial-In Numbers	
Conference passcode:	803418

For further information, please contact:

Paul Boote	Group Chief Financial Officer	01392 443 168
Jennifer Cooke	Group Head of Investor Relations	
James Murgatroyd	FGS Global	020 7251 3801
Harry Worthington		

[7] Return on regulated equity calculated on Ofwat basis, excluding re-investment in additional commitments

CHIEF EXECUTIVE'S REVIEW

Our focus remains on delivering our strategy of growth in environmental infrastructure through organic investment and acquisitions, efficient delivery of our services and leadership in UK water.

We are implementing our plans to 2025 that will deliver:

- 60% growth in RCV from 2020 to 2025, including c.20% delivered through our recent acquisition of Bristol Water, and capital investment over the period of c.£1.6 billion
- 135 GWh of renewable energy generation, through c.£145 million announced to date to be invested in four acquired projects; and
- Continued double digit growth in the profitability of our B2B water retail businesses.

Our largest investment programme in decades, coupled with our focus on continual operational improvement will be crucial in the delivery of environmental improvement and in achieving our 2025 business plan targets. For South West Water, c.75% of ODIs are currently on track or ahead of target, with this figure standing at c.70% for Bristol Water, with South West Water's K7 cumulative ODI performance upper quartile.

Our cumulative RORE performance continues to be strong and at 7.9% represents a doubling of base returns on regulated equity, driven by our strategically positioned financing portfolio.

However, there remains more to do and we are committed to delivering on our four key priorities.

Building water resources, diversifying our portfolio through innovation

With the hottest, driest weather on record last year, we have seen the impact of climate change, intensified by population growth and tourism, putting significant pressure on our water resources. We have been working at pace to deliver supply and demand-side interventions, which are delivering results. In comparison to 2022, our water resources have more than doubled[8], with around a third of this increase driven by our investments, alongside a 45% increase in the level of rainfall. As a result we were pleased to have been able to lift all hosepipe bans across the region in September.

We have delivered new water resource and water efficiency plans, including reinvesting c.£125 million of outperformance to diversify and increase water resources across the region. We have already made good progress by creating new sources through repurposing quarries as well as developing new pipelines and are on track to deliver Cornwall's first ever desalination plant next

[8] As at 30 September 2023 – total reservoir storage 64%, 30 September 2022 – total reservoir storage 31%. Total reservoir storage as at 27 Nov 2023 – 77%, compared to 49% at the same point in 2022.

year to improve resilience. Through our agile approach and investment, we are on track to increase resource availability in Devon and Cornwall in K7 by 30% and 45%, respectively.

Alleviating storm overflows and eliminating pollutions

Storm overflows and pollutions have been at the forefront of the media, public, regulators', and the industry's minds over recent years. Following the successful rollout of monitors across 100% of our network of storm overflows in 2022, our performance has been scrutinised not only by us, but by our many stakeholders, and as a sector we committed to change. Noting the importance of bathing water to our customers, the environment and the economy of the region, we are pleased to have achieved 100% bathing water quality across the region for the third consecutive year.

We are investing £100 million in our WaterFit plan to 2025, including £45 million of additional investment being funded by our outperformance. This plan focuses on healthy rivers and seas and is targeting improvements at 49 of the 151 beaches across Devon and Cornwall, with over 70 schemes in progress or completed to date to increase storm storage, introduce sewer separation and divert flows with our Green First, nature-based approach. Alongside this, our Pollution Incident Reduction Plan continues to deliver results, having consolidated the improvements on pollutions, including serious pollutions – with only one incident to date this year. Supporting these improvements is our roll out of thousands of sewer depth monitors enabling proactive intervention, alongside investment at rising mains and pollution incident 'hotspots' across our network.

Driving environmental gains

Our pioneering catchment improvement programmes are delivering benefits across 80% of our catchments - with over 15 years of data and analysis, the science is confirming the improvements that we are making to water quality. Our ground breaking joint venture with the University of Exeter enables research into solutions to some of the world's most pressing issues such as tackling microplastics in the water cycle.

We are making good progress across all three pillars of our Net Zero 2030 strategy – sustainable living, championing renewables and reducing carbon emissions, and anticipate a reduction of more than 50% in our carbon footprint in K7. To date we have announced renewable energy investment of c.£145 million which will significantly contribute to the achievement of our Net Zero 2030 targets, and alongside smaller scale roll out of solar PV at our sites, puts us on track to have secured 50% renewable energy generation by 2025, five years ahead of our initial target. As we work to reverse carbon emissions, we have improved over 115,000 hectares of land, representing around 80% of our catchments, through activities including habitat and peatland restoration and tree planting.

Supporting affordability

Our fourth priority is focused on ensuring we are able to support customers who struggle to afford their bills. We know that it is critical that we balance investing in our network infrastructure whilst ensuring that bills remain fair and affordable for all. We have kept bill increases to a minimum during the cost of living crisis, with increases for 2023/24 and 2024/25 below the headline rate of inflation.

As a Group, we are different from others in the sector and have around 90,000 customer shareholders, following the second c.£20 million issuance of our unique WaterShare+ scheme. We are doing more than ever to support customers through the cost-of-living crisis, delivering more than £90 million of benefits in K7 to date – at a time when many customers need it most.

Driving sustainable growth

Performance across the Group for the half year continues to be resilient, as we deliver robust fundamentals, and execute our twin track growth strategy – utilising both organic and acquisitive growth potential to drive long-term sustainable growth. As we deliver on this strategy we expect to increase the Group's RCV by c.100% over the period 2020-2030[9].

Alongside this, our complementary investment in environmental infrastructure through our Pennon Power renewable generation assets, will deliver attractive commercial returns and contribute significantly to the Group's Net Zero 2030 target. Our announced investment to date of c.£145 million across four projects will generate c.135 GWh, with the addition of two-hour 60 MWh battery storage at our Dunfermline project. This investment will also benefit the Group by reducing exposure to future volatility in wholesale power markets that we have experienced this year and will provide commercial returns ahead of those earned from our regulatory water business. The sites acquired have the required consents in place and will see construction commence in 2024, with the full portfolio of assets on track to contribute to Group earnings in 2025/26.

Our B2B businesses[10], Pennon Water Services and water2business continue to win contracts, driving strong financial performance and profits. With a combined market share of 12%, they have some of the lowest customer attrition rates in the market, and excellent customer service scores. Both businesses are well positioned for future growth, and continue to win key contracts, building on the continued double digit growth in their profitability to date.

The strength of our balance sheet is illustrated by our responsible gearing at 61% which remains in line with Ofwat's notional company expectations, and within our well-established range of 55% - 65%, positioning us well ahead of K8. Whilst our £2.8 billion capital investment plan for K8 is our

[9] RCV growth over K7 forecast to be c.60%, and RCV growth over K8 forecast to be c.40%

[10] Pennon Water Services: 80:20 joint venture with South Staffs, water2business: 30% share of a joint venture with Wessex Water.

most ambitious to date, we have worked hard to ensure that we deliver this investment responsibly, which is illustrated through our average gearing across K8 forecast to remain within our well-established range of 55-65% at c.63%, alongside keeping customer bills as low as they can be.

In many ways our plan to 2030 is also a ‘no surprises’ plan as we continue to do what we said we would. It’s a plan that goes further in tackling the biggest challenges in our region, as we invest to protect water quality and enhance resilience, tackle storm overflows at our beaches, eradicate pollutions and protect the environment from climate change. With a laser like focus on efficiency, it’s also a plan that supports customer affordability – balancing an extensive investment plan, whilst keeping bill increases to 3-4%, per annum, across each of our regions. Over 30,000 customers and 1,000 local stakeholders were directly engaged in the development of our plan, which is why we believe is the right plan, and the right deal for our region.

Board Matters

As previously announced, Steve Buck was appointed to the Board on 27 November 2023, ahead of taking up the role of Chief Financial Officer and its subsidiaries at the end of December 2023 following Paul Boote's decision to step down from his role as Chief Financial Officer, as part of a planned relocation away from the South West.

On 31 August 2023, Neil Cooper stepped down from the Boards of Pennon Group plc and South West Water Limited. Iain Evans was appointed Senior Independent Director of Pennon Group plc and South West Water Limited on 1 September 2023. Following these Board changes, the Group reviewed its Committee membership, Loraine Woodhouse replaced Neil as Audit Committee Chair and Iain Evans was appointed a member of the Audit Committee.

In the Company's Annual Report and Accounts 2023, Gill Rider announced her intention to step down as Chair of Pennon Group plc, at the close of the Company's Annual General Meeting in 2024. A formal process for the Chair's replacement is well underway.

Susan Davy

Group Chief Executive

28 November 2023

Financial Timetable

25 January 2024	Ordinary shares quoted ex-dividend
26 January 2024	Record date for interim dividend
08 March 2024	Final date for receipt of DRIP applications
25 March 2024	Trading Statement
05 April 2024	Interim dividend payment date
21 May 2024	Full Year Results 2023/24
10 June 2024	Annual Report and Accounts Published
25 July 2024	Annual General Meeting 2024
25 July 2024*	Ordinary shares quoted ex-dividend
26 July 2024*	Record date for final dividend
08 August 2024*	Final date for receipt of DRIP applications
05 September 2024*	Final dividend payment date
26 September 2024	Trading Statement
28 November 2024	Half Year Results 2024/25

* Subject to obtaining shareholder approval at the 2024 Annual General Meeting.

GROUP CHIEF FINANCIAL OFFICER'S OVERVIEW

Overall, the financial performance for H1 2023/24 is in line with management expectations. As flagged previously, the impact of elevated inflation reduces near term earnings with power prices remaining high, in part due to hedging at recent higher prices. H2 2022/23 was impacted by the drought in the South West, which resulted in increased levels of operating costs and capital expenditure as we sought to address these challenges, which has continued in H1 2023/24. The inflationary impact on finance costs is stabilising, in part through the £300 million RPI swaps that were put in place in H2 2022/23. Despite inflationary cost pressures, tariff increases have more than offset these impacts and H1 2023/24 earnings are up compared to H2 2022/23.

Over the long term the elevated inflationary environment provides the Group with additional growth in sustainable value with revenues and RCV linked to November and March CPIH inflation, respectively.

The merger of South West Water and Bristol Water completed on 1 February 2023 with the combined water business now operating under one licence held by South West Water Limited. Within this report, to aid comparability both now and ongoing, the results of South West Water include the operating performance of Bristol Water in both H1 2023/24 and the comparative period, H1 2022/23.

Underlying	H1 2023/24	H1 2022/23	Change
Revenue	£448.6m	£425.5m	+5.4%
Power	(£55.2m)	(£48.7m)	(13.3%)
Operating costs	(£224.9m)	(£202.2m)	(11.2%)
EBITDA^	£168.5m	£174.6m	(3.5%)
Depreciation and amortisation	(£82.6m)	(£77.4m)	(6.7%)
Operating profit	£85.9m	£97.2m	(11.6%)
Net interest charge	(£77.3m)	(£74.7m)	(3.5%)
Share of associated companies PAT	£0.5m	-	-
Profit before tax	**£9.1m**	**£22.5m**	**(59.6%)**
Non-underlying items before tax[1]	(£5.9m)	(£1.6m)	-
Profit before tax	**£3.2m**	**£20.9m**	**(84.7%)**
Underlying tax charge	(£2.8m)	(£2.7m)	(3.7%)
Non-underlying tax credit	£1.4m	£0.3m	-
Profit for the period	**£1.8m**	**£18.5m**	**(90.3%)**
Earnings per share			
Adjusted EPS^	3.6p	7.9p	(54.4%)
Statutory EPS	0.5p	7.0p	(92.9%)
Dividend per share - dividend policy[2]	14.04p	12.96p	+8.3%
Capital investment^			
Total Group	£266.3m	£142.6m	+86.7%
South West Water	£234.4m	£142.5m	+64.5%
Pennon Power	£31.7m	-	-
Other	£0.2m	£0.1m	+100.0%
	30 September 2023	**30 September 2022**	
Total Group net debt	(£3,326.8m)	(£2,877.8m)	

The Group's statutory and underlying revenue has increased from £425.5 million to £448.6 million, an increase of 5.4%, with South West Water's revenue increased by £14.0 million with inflationary tariff increases being moderated through regulatory tariff adjustments, minimizing the impact on customer bills. Pennon Water Services' revenue increased by £9.4 million, with new contracts, predominantly outside South West Water's regions, contributing c.£7 million to this increase.

Overall, underlying EBITDA has reduced 3.5% from £174.6 million to £168.5 million including the impact of higher power costs of c.£7 million on the prior period.

Further details of the performance of South West Water and Pennon Water Services is outlined below.

We recognise the pressure the ongoing elevated levels of inflation pose to our customers and we remain focused on providing a broad range of affordability measures to support those in financial need. Across all Group businesses, the potential impact of significant increases in the cost of living on affordability has been considered in assessing our expected credit loss charges.

Cash collections across the Group have remained robust during the period. Expected credit loss charges for H1 2023/24 of £3.3 million for South West Water (0.9% of revenue) are in line with previous levels (H1 2022/23 1.1%). For Pennon Water Services, the expected credit loss charge of £0.5 million (0.5% of revenue) is also in line with previous levels (H1 2022/23 0.3% of revenue).

The Group reported a statutory profit before tax of £3.2 million (H1 2022/23 profit £20.9 million) after non-underlying costs of £5.9 million (H1 2022/23 £1.6 million). Group underlying profit before tax decreased to £9.1 million from £22.5 million in H1 2022/23. Whilst this outturn reflects a reduction in earnings compared to H1 2022/23 it represents a marked improvement in performance compared to H2 2022/23 where the impact of elevated power pricing and financing costs resulted in a second half underlying loss before tax of £5.7 million.

SOUTH WEST WATER

Since 1 February 2023, the trade and the significant majority of assets and liabilities of Bristol Water plc were transferred to South West Water Limited under a statutory transfer mechanism set out in the Water Industry Act. The Bristol Water brand will continue as a trading name of South West Water. As noted above the financial performance of South West Water includes the performance of Bristol Water in both this half year and the comparative half year.

South West Water underlying	**H1 2023/24**	**H1 2022/23**	**Change**
Revenue	£377.8m	£363.8m	+3.8%
Power	(£55.2m)	(£48.7m)	(13.3%)
Other operating Costs	(£155.5m)	(£142.5m)	(9.1%)
EBITDA	£167.1m	£172.6m	(3.2%)
Depreciation and amortisation	(£79.6m)	(£74.8m)	(6.4%)
Operating profit	£87.5m	£97.8m	(10.5%)
Net interest charge	(£80.9m)	(£78.6m)	(2.9%)
Profit before tax	**£6.6m**	**£19.2m**	**(65.6%)**
Non-underlying items before tax	(£5.4m)	-	-
Profit before tax	**£1.2m**	**£19.2m**	**(93.8%)**

Statutory and underlying revenue of £377.8 million for H1 2023/24 has increased by 3.8% compared with the prior period (H1 2022/23 £363.8 million). The revenue growth of £14.0 million reflects inflationary tariff increases of £30.8 million which have been moderated through the impact of regulatory adjustments of £14.8 million, minimising the impact on customer bills, and a small overall reduction in demand.

Underlying operating costs of £210.7 million increased by £19.5 million (H1 2022/23 £191.2 million). Power costs were up £6.5 million on the same period last year as a result of recent higher power prices locked in through our hedging strategy which de-risks the business from further increases in the wholesale energy markets. The inflationary impact on power costs accounts for £9.4 million of the increase with reductions achieved from efficient consumption management. Whilst the rates of inflation are starting to reduce, other operating costs have been impacted by higher levels of inflation, notably in respect of employee wage inflation (c.£3 million) and the impact of cost inflation across chemicals and other third party costs.

South West Water's underlying EBITDA reduced by 3.2% impacted by higher costs. Underlying operating profit has reduced by 10.5% as our accelerated capital investment programme starts to impact the depreciation charge which has increased by £4.8 million compared to the same period last year.

The net interest charge of £80.9 million is £2.3 million higher than prior year (H1 2022/23 £78.6 million).

South West Water's capital expenditure was £234.4 million, an increase of £91.9 million (64.5%) on the prior year (H1 2022/23 £142.5 million), due to our commitment to accelerate investment across priority areas of water resources, water quality, pollution reductions and storm overflows.

In drinking water, £150.2 million expenditure has been incurred, with investment focused on enhancing water resources with investment in new abstraction points, links between key supply sources and work on Cornwall's first desalination plant is underway. Additionally, investments in drinking water quality through granular activated carbon (GAC) schemes and ongoing work on the Alderney water treatment works in Bournemouth are being delivered.

In wastewater, overall capital expenditure of £84.2 million has been focused; on deployment of sewer level monitoring technology, to support proactive identification of issues to prevent pollution incidents; targeted environmental improvements in line with our WINEP profile; and increased expenditure to optimise wastewater treatment works at key strategic works serving the region's major cities of Plymouth and Exeter.

PENNON WATER SERVICES

Pennon Water Services – statutory and underlying	H1 2023/24	H1 2022/23	Change
Revenue	£117.6m	£108.2m	+8.7%
Water segment wholesale elimination	*(£46.7m)*	*(£46.7m)*	-
Revenue excluding elimination	*£70.9m*	*£61.5m*	*+15.3%*
Operating Costs[11]	(£114.5m)	(£105.9m)	(8.1%)
Water segment wholesale elimination	*£46.7m*	*£46.7m*	-
Operating costs excluding elimination	*(£67.8m)*	*(£59.2m)*	*(14.5%)*
EBITDA	£3.1m	£2.3m	+34.8%
Depreciation and amortisation	(£0.3m)	(£0.4m)	+25.0%
Operating profit	£2.8m	£1.9m	+47.4%
Net interest charge	(£1.1m)	(£0.8m)	(37.5%)
Profit before tax	£1.7m	£1.1m	+54.5%

Pennon Water Services has delivered a robust financial performance for the half year through its focus on 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 fallen due to restrictions within our underlying water region, however year on year revenue, EBITDA and PBT have continued to grow in the first half of 2023/24.

The overall impact on revenues for Pennon Water Services, including the impact of new contract wins, is an increase of c.9% compared to the prior year. New business wins have contributed £7.3 million of additional revenue compared to the same period last year, with inflation (net of customer attrition) contributing further to the increase.

Underlying operating costs have grown marginally behind improving revenues and the business has improved its underlying EBITDA by c.35% to £3.1 million (H1 2022/23 £2.3 million). This strong performance has resulted in the business reporting a profit before tax of £1.7 million (2022/23 £1.1 million), an increase of c.55%.

The business continues to maintain its focus on targeting high quality, sustainable customers who will benefit from the value-added services that form part of Pennon Water Services' differentiated service proposition, with new annualised contract wins of c.£2.8 million secured during the year.

[11] Includes wholesale costs for non-household customers.

Group net finance costs

Total net finance costs for the Group of £77.3 million are £2.6 million higher than last year (H1 2022/23 £74.7 million). The non-cash element of our finance charges, which accretes to the debt principal, was c.£29 million (H1 2022/23 c.£39 million).

There were no non-underlying finance costs in H1 2023/24 or H1 2022/23 although a non-underlying gain of £18.4 million was recognised in the second half of 2022/23 being the gain resulting from the repayment of the Bristol Water plc index-linked bond due 2041.

The outturn reflects the actions taken in H2 2022/23 where the Group reduced its proportion of index-linked debt by repaying the Bristol Water plc index-linked bond due in 2041 and entered into £300 million of RPI to fixed rate swaps to fix the interest charge over the period to 2025, smoothing the impact of inflation over 2023 to 2025. These changes have helped to manage the Group's exposure to volatility in finance costs experienced in particular last year and have proven well founded as the rates of inflation have remained higher than external inflation forecasts initially expected.

Following the changes made last year, c.15% of South West Water's debt is currently index-linked, a relatively low proportion compared to the industry average. Whilst the recent reductions in inflation have generated some benefit for overall finance costs, these have been offset by the increasing rates on our floating rate debt and the impact of increased levels of borrowing to support our accelerated capital investment programme. The index-linked proportion of debt has historically been maintained at a relatively stable proportion of c.25% and is expected to return to this level by March 2025.

Overall, the efficient funding mix and hedging strategy has resulted in an effective interest rate of 5.8% (H1 2021/22 5.8%) for South West Water.

The Group continues to efficiently secure funding for South West Water through its Sustainable Financing Framework and to ensure c.60% of its interest rate risk is mitigated in line with the Group treasury policy, which is achieved through issuing both fixed rate debt and effective interest rate hedging, with a further element being index-linked.

In H1 2023/24, South West Water completed its first syndicated private placement transaction with the company receiving £300 million to support the ongoing K7 business plan projects. This issuance signals the move to more benchmark sized transactions as the capital expenditure and ongoing refinancing continues to increase following the integration of Bristol Water.

Share of post-tax profit from associated companies

As part of the acquisition of Bristol Water in June 2021, the Group obtained a 30% interest in Water 2 Business Limited (W2B), a water retailer joint venture with Wessex Water. This investment is accounted for under the equity method and following a period of losses as the business reached scale, we are pleased to recognise £0.5 million of profit after tax from our associated company, Water2business, in H1 2023/24 results (H1 2022/23: £nil).

Non-underlying items and acquisition accounting

Non-underlying items for H1 2023/24 total a charge before tax of £5.9 million (H1 2022/23 charge of £1.6 million). 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 more useful comparison of business trends and performance.

The non-underlying charge of £5.9 million consists of:

- 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 issued 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 secure water resources. c.£17 million of costs (including customer incentives) to address the severe drought conditions were recognised in H2 2022/23. In H1 2023/24, a further £1.8 million of specifically identifiable costs have been incurred to address these specific issues.
- £3.6 million of costs in connection with the business transformation of South West Water following the merger of Bristol Water into South West Water.
- £0.5 million of expenses in connection with the acquisition of four renewable power generation investments.

The non-underlying charges in H1 2023/24 give rise to a net tax credit of £1.4 million in relation to the above items.

Responsible approach to tax

Once again, the Group is pleased to confirm it has maintained the Fair Tax Mark accreditation for the year, having been the first water company to achieve this status. This is the sixth year in succession that the Group has been awarded the accreditation and we are proud of our responsible approach to tax.

The overall H1 2023/24 tax charge for the Group is £1.4 million (H1 2022/23 charge of £2.4 million). On an underlying basis, the net tax charge for H1 2023/24 for the Group of £2.8 million (H1 2022/23 charge of £2.7 million) consists of:

- Current tax credit of £0.6 million, reflecting an effective tax credit rate of (6.6%) (2022/23 charge of £1.5 million, 6.7%). The reduction in rate is due to the Group generating tax losses all of which are carried forward for future relief. These tax losses reflect the enhanced capital allowances available as a result of full expensing and first year allowances, along with pension payments made during recent years where tax relief is now due. Around 50% of the group's capital additions qualify for enhanced capital allowances. The £0.6m current tax credit relates to prior year adjustments in respect of additional interest deductions due in accordance with UK tax legislation.
- Deferred tax charge of £3.4 million (H1 2022/23 charge of £1.2 million). This primarily reflects a current year deferred tax charge in relation to capital allowances in excess of depreciation charged across the Group, largely due to full expensing, offset by tax losses carried forwards for utilisation in later periods. It also includes a deferred tax charge in respect of prior years of £0.8 million in relation to interest deductions.

There is also a non-underlying deferred tax credit of £1.4 million in H1 2023/24 relating to the non-underlying items set out above. This relates to losses carried forward for utilisation in later years.

Full expensing deductions which originally applied for the three years from 1 April 2023 to 31 March 2026 together with 50% first year allowances on long life assets and integral features, have both been made permanent in the recent Autumn Statement. Given the Group's continued capital investment programme, these changes mean that the Group does not expect to generate taxable profits for the foreseeable future, and therefore does not expect to make any corporation tax payments during this time.

Earnings per share

The Group has recorded a statutory profit per share of 0.5 pence per share for the six months ended 30 September 2023 (H1 2022/23 earnings of 7.0 pence per share). This includes a net non-underlying charge before tax of £5.9 million and a net non-underlying deferred tax credit of £1.4 million.

Our adjusted earnings per share excludes the impact of deferred tax charges and non-underlying items. For the Group, we have generated adjusted earnings per share for H1 2023/24 of 3.6 pence (H1 2022/23 7.9 pence), with the enduring elevated levels of inflation impacting near term earnings. Despite this reduction in earnings compared to H1 2022/23 it represents a marked improvement in performance compared to H2 2022/23 where the impact of elevated power pricing and financing costs resulted in a second half adjusted earnings per share of 0.3 pence.

Net debt position is sustainable

The Group's cash flow from operating activities for H1 2023/24 was £88.8 million (H1 2022/23 £160.2 million). Cash collections have remained robust and we continue to monitor cash collections closely and are focused on providing a broad range of affordability measures to support those in need of support. The reduction in operating cashflow reflects the cyclical impact of the working capital cycle which will naturally reverse during H2 2023/24 alongside the cash impact of our Watershare+ and Stop the Drop bill credits which were recognised in H2 2022/23.

Net interest payments were £45.5 million (H1 2022/23 £93.3 million) with the comparative for H1 2022/23 including £51.5 million of interest paid on lease settlements relating to interest accreted to the lease principal. As noted above, c.£29 million (H1 2022/23 c.£39 million) of the income statement finance charges arises from our index-linked debt, and is non-cash, as the indexation element accretes to the debt principal repayable on maturity.

Our accelerated environmental investment programme has resulted in an increase in capital investment cash outflows of £114.9 million to £270.3 million (H1 2022/23 £155.4 million). This includes c.£23 million of cash outlay on our renewable investments through Pennon Power, being c.£30 million total capital outlay net of agreed deferred payments.

Other significant movements in net debt in H1 2023/24 include payment of our interim and final dividends for 2022/23 (£111.7 million) and £14.4 million of non-cash indexation on our loan instruments. Other movements of £8.3 million arise in the main from cash payments for the acquisition of own shares by the Pennon Employee Share Trust, and the unwind of fair value adjustments on debt from previous acquisitions.

The Group's IFRS net debt at 30 September 2023 was £3,326.8 million (31 March 2023 £2,965.4 million). This includes fair value adjustments on acquired debt of £118.1 million[12] which are released over the life of the related debt instruments. The Group's net debt position excluding these adjustments is £3,208.7 million.

Efficient and responsible financing

Since 31 March 2023, the Group has secured c.£710 million of new and renewed facilities, including:

- Our first syndicated £300 million private placement with an average maturity of 12 years
- £50 million of new term loans and leasing with an average maturity of 9 years
- £100 million bilateral facility to support Group investments
- £25 million 20 year Private placement

[12] Carrying value of fair value acquisition adjustments to net debt as at 30 September 2023 – £34.6 million Bournemouth Water, £83.5 million Bristol Water.

- £235 million of new and renewed revolving credit facilities.

We look to raise all new and renewed facilities under our Sustainable Financing Framework.

The Group took steps during the previous financial year to re-balance the proportion of index-linked debt to align with previously maintained levels for the longer-term. Whilst the current level is around 15% we expect this to increase back to 25% by March 2025.

Resulting from the changes above and drawing of new debt during the year, South West Water[13] gross debt at 30 September 2023 was £3,149 million (31 March 2023 £2,918 million). The debt has a maturity of up to 34 years with a weighted average maturity of 14 years.

At 30 September 2023, South West Water's[13] net debt to RCV ratio[14] stood at 61.0% (31 March 2023 60.8%). This is broadly in line with Ofwat's notional structure of 60%.

South West Water's cost of finance, with an effective interest rate in H1 2023/24 of 5.8% remains among the lowest in the industry, continuing to benefit from the diverse portfolio of debt.

Financing portfolio strategically positioned

The Group has a strong liquidity and funding position with £544 million of cash and committed facilities as at 30 September 2023. This consists of cash and cash deposits of £94 million (including £22 million of restricted funds representing deposits with lessors against lease obligations) and £450 million of undrawn facilities.

South West Water[13] net debt at 30 September 2023 is a mix of fixed / swapped (£2,146 million, 69%), floating (£525 million, 17%) and index-linked borrowings (£420 million, 14%), which reflects our diverse debt portfolio and compares to an industry average[15] of fixed / swapped 40%, floating 7% and index-linked 53%. New debt raised during this regulatory period has been fixed to align to iBoxx indices in line with Ofwat's approach to allowed cost of debt. Where appropriate, derivatives are used to fix the rate on floating rate debt.

As we progress through the remainder of K7, we expect the mix of our debt portfolio to evolve and are strategically targeting index-linked debt to represent 25% of our portfolio in the long term. This will enable the Group to maintain its financing flexibility, whilst remaining within our treasury policy of at least 60% fixed rate debt.

As the Group continues to grow through capital investment in our infrastructure so will our funding requirements. In the coming years, we expect the Group to manage its portfolio with larger, and more

[13] Based on South West Water Limited's group of companies, including Bristol Water plc
[14] Based on South West Water net debt and shadow RCV
[15] UK water position as at 31 March 2022 as per published Annual Performance Reports – weighted average.

diverse debt instruments, taking advantage of the public ratings once established, by 2025 at the latest, in line with Ofwat's final PR24 methodology requirements.

The Group will require c.£1 billion in new funding by March 2025 to meet K7 and new business opportunities through the renewables business whilst also providing c.£300 million in readiness for the new K8 period.

We will continue to maintain a diverse portfolio of debt to support flexibility and growth opportunities. In the long-term this investment will provide returns though K8 revenues and a higher RCV. We now expect RCV to reach £5.4 billion at the start of K8.

Financial resilience - well positioned for PR24

April 2025 will see the start of the new regulatory period K8 with an increase in the investment requirement to meet more investment programme designed to address the new and more stringent environmental regulation.

The Group has always operated broadly in line with Ofwat's historical range of notional company expectations. To provide flexibility to react to market challenges and maintain a gearing level to support this, a range of between 55% and 65% has been targeted in the past and the K8 business plan expects to remain within this established range with an average of c.63% anticipated.

The K8 business plan will be funded through additional debt, utilising our diverse portfolio through our key bilateral relationships and raising c.£2.5 billion through additional opportunities in the private placement and public bond markets. This overall funding requirement includes c.£700 million of refinancing.

Contingencies

Ofwat and the Environment Agency announced an industry-wide investigation into sewage treatment works on 18 November 2021. In June 2022, as part of its ongoing investigation, Ofwat announced enforcement action against South West Water Limited, alongside the five companies which received enforcement notices in March 2022.

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.

All company data is subject to extensive process checks, which include both internal and external assurance. All data disclosed in South West Water's Annual Performance Report is subject to rigorous checks and balances carried out by South West Water's external technical auditor.

The company continues to work openly and constructively with regulators to comply with the formal notices as part of these ongoing investigations by engaging and providing information as required.

Pensions

At 30 September 2023, the overall surplus on retirement obligations of £0.3 million compares to a surplus of £29.3 million at 31 March 2023.

The overall reduction of the surplus in H1 2023/24 of c.£29 million, which relates to the Group's principal pension scheme, Pennon Group Pension Scheme (PGPS), reflects:

- £15 million net reduction in surplus from the net under performance in asset values compared to reductions in liabilities, from the increasing discount rate, reflecting ongoing market volatility
- £14 million reduction in surplus with the change in other actuarial assumptions reflecting the impact of inflation on immediate term pension increases, and other changes in actuarial assumptions from the March 2022 triennial valuation.

The triennial valuation of PGPS as at 31 March 2022 was finalised in March 2023 and no deficit recovery contributions were required. The ongoing funding requirements for the Company to the scheme are limited to the continuing administration expenses.

The overall surplus includes a net surplus of c.£7 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 surplus recognised is restricted by a tax deduction of 35% under UK tax legislation. The trustee of WCPS is in working through the process to wind up the Bristol Water section of WCPS and has indicated its intention to return the surplus to the Company.

Dividends

The Group continues to strive to deliver on its commitments to customers, shareholders and stakeholders as our investments drive strong and sustainable results. Over half of Pennon's shareholders are UK pension funds, savings, charities and individuals with almost half of the Group's employees, now including Bristol Water, also being shareholders. Following the second issuance of our unique WaterShare+ initiative, customers now make up more than four times the number of institutional shareholders.

Pennon's 2020-2025 dividend policy of growth of CPIH +2% reflects the Board's ongoing confidence in the Group's strategy and is underpinned by continued RORE outperformance in South West Water.

For H1 2023/24 the Board has declared an interim dividend of 14.04 pence, representing an increase of 8.3% on H1 2022/23 (H1 2022/23 interim dividend of 12.96 pence). The interim dividend will be paid on 5 April 2024 to shareholders on the register on 26 January 2024. Pennon offers shareholders the opportunity to invest their dividend in a Dividend Reinvestment Plan (DRIP).

Investing for sustainable growth – renewable energy generation

In line with both our long-term sustainable growth strategy in UK environmental infrastructure and our desire to accelerate on our Net Zero target by 2030, we have allocated up to £160 million for investment in renewable energy generation. This strategy will also benefit the Group by reducing our exposure to future volatility in wholesale power markets, that we have experienced throughout calendar years 2022 and 2023, and will provide commercial returns ahead of those earned from our regulatory water business.

To date, Pennon Power Limited, a direct subsidiary to Pennon Group plc, has acquired the rights to build three solar farms and one co-located solar and battery storage site in the UK with a total initial capital outlay of c.£30 million. Specifically these investments include:

- A c.40 GWh site co-located solar and battery storage site in Dunfermline, acquired in May 2023. This is an attractive ready to build site, with consents in place, with total build costs expected to be c.£60 million. Generation is expected to commence in calendar year 2024.
- A further three sites, located in Aberdeenshire, Cumbria and Buckinghamshire, acquired in July 2023. These sites, with total anticipated build costs of c.£85 million, are expected to generate a further 96 GWh, and are targeted to be operational across calendar year 2025.

Pennon continues to identify further opportunities to enable further renewable generation. The generating capacity of our investments to date equates to around c. 40% of our electricity usage and contribute significantly towards our target of 50% self-generation.

Financial outlook

Overall, our underlying results for the Group for the full year are expected to be H2 weighted. Seasonal demand patterns and continued focus on promoting water efficiency are expected to reduce revenue. Operating costs in H2 2023/24 are anticipated to reduce with power costs falling as a result of both price[16] and usage, as our activities to address immediate water resilience challenges are more H1 focused coupled with the realisation of efficiencies that have been implemented in the first half of the year. We expect the costs of implementing integration of South West Water and Bristol based operations alongside operational improvements to continue with non-underlying

[16] Based on current market pricing and current hedged position of c.95% for 2023/24 and c.45% for 2024/25.

implementation costs of c.£10 million to be incurred in H2. Financing costs are expected to be evenly profiled over the year.

The step up in our capital investment programme is expected to continue with overall capital expenditure of financial years 2023/24 and 2024/25 anticipated to be over £850 million, an increase of £100 million on the guidance given at the time of our FY 2022/23 results of over £750 million. The additional investment will ensure we are well positioned to deliver on our commitments outlined in our draft business plan for K8 and across our commitments across priority areas of water resources, water quality, pollution reductions and storm overflows.

Overall, these impacts are expected to result in improvements in near-term earnings and, in the longer term, the elevated inflationary environment provides the Group with additional growth in long-term sustainable value, with revenues and RCV linked to November and full year average inflation, respectively. Shadow RCV at 31 March 2025 is forecast to be £5.4 billion, reflecting growth of c.60% during K7.

Looking beyond the current financial year to 2024/25, we expect overall revenues to increase with the combined impact of inflation on our 2024/25 tariffs (net of the year-on-year impact of regulatory adjustments and ODI penalties) and ongoing expected growth in our non-household retail business.

We recognise the pressure that inflationary pricing increases may pose to our customers, and customer bill affordability continues to remain a key consideration for us. Our broad range of affordability measures ensures we are able to support those in need of support, and we continue to focus on delivering improvements efficiently and effectively.

Overall group operating costs in 2024/25 are expected to remain broadly flat with softening power prices, the associated impact on other costs and implementation efficiencies being offset by increasing wholesale water costs outside of our region from increased activity in PWS.

OPERATIONAL REVIEW

Making progress on what matters most across our regions

Building water resources, diversifying our portfolio through innovation

Diversifying our water resources is critical to building resilience across Devon and Cornwall, and ensuring a continuous supply for our customers, as we navigate the ever-increasing impact of climate change. Our target to 2025 is to increase water resources available in Cornwall by c.45%, and in Devon by c.30%, which is being delivered through our reinvestment of c.£125 million, and we are well underway in delivering on these targets and breaking the cycle of drought.

All hosepipe bans in place across the region were lifted in September 2023, with total reservoir storage at 64% more than double where it was at the same time last year. In October 2023, the Environment Agency removed the official drought status declared for the South West over fourteen months earlier in August 2022, with the region now classified as in 'recovery'. In Cornwall, where reservoir levels fell to their lowest ever levels in 2022, we are now on track to achieve 90% reservoir capacity by 31 March 2024, before we head into the summer season.

Alongside the numerous interventions already delivered, including the expansion of the treated water network in Cornwall, and repurposing quarries including Hawks Tor, Blackpool Pit, a water filled clay pit near St Austell, is now around 55% complete. Over 50% of the new 21km pipeline connecting this resource with Colliford reservoir is now in place, and we are on track to bring this asset online in early 2024. Once in place, Blackpool Pit will provide up to 12 Ml/day and bring the total increase to date in water supplies in Cornwall to 35%.

Further resilience ahead of 2025 will also be delivered through the development of Cornwall's first desalination solution. This will be a modular, scalable, and permanent plant located adjacent to Par Docks. Extensive design and development work is underway to minimise any environmental impact, including utilising directional drilling and sympathetic pipeline locations to protect the marine and terrestrial environment. Alongside this, hydro-electric energy recovery solutions have been incorporated at both the intake for the works, and the input to Restormel water treatment works to maximise energy efficiency. We are progressing through early contractor involvement with a view to signing a design and build, and operation and maintenance joint contract to cover a 20-year period. We anticipate that the site will be fully operational in 2024, ensuring we enter K8 with a robust, and diversified portfolio of water resources.

In Devon, schemes to further augment the network, enabling the transfer of water across strategic resource zones is now underway. Work on a new winter pump storage scheme at Gatherley is c.20% complete and on track for completion in early 2024, and at which point supplies in Devon will have increased by 30% - a year ahead of our initial target.

Alongside extensive supply side interventions, our focus on demand-side initiatives has supported a reduction in demand of 3.8% over the 2023 summer season. We have also seen a 65% increase in free leak repairs, and have issued almost 250,000 water saving devices over the last 18 months. Our Green Recovery smart metering pilot programme across our North Devon supply area is progressing well with smart meters now installed at one third of homes, helping customers to more effectively manage their water use and save money.

Leakage remains a key area of focus as we work to further reduce the volume of water lost across our network, and our leakage reduction plan remains on track. We have increased our use of network monitoring and artificial intelligence to help pinpoint areas of focus, and continue to repair around 2,000 leaks each month.

Prioritising water quality

Our teams continue to work around the clock to ensure that water quality is maintained, delivering on our 'Quality First' principles, ensuring customers receive a continuous supply of clean, safe drinking water. These principles have been embedded into our everyday operations across the water business. We continue to deliver rapid improvements under our 'Quality First' transformation programme, and following the merger completion earlier this year, we have extended the scope to the Bristol Water region. Improvements are focused on both embedding cultural changes through training, coaching and ongoing support, along with enhanced operational activities – including tank cleaning and inspection, maintenance and resilience of treatment facilities and water quality monitoring, control and investigations.

For South West Water, ensuring quality and compliance is a key underpin, and we have consolidated our top quartile water quality position for Devon, Cornwall and Bournemouth regions. Following the lifting of official drought status for the South West in October, we are enhancing our network flushing activity which was temporarily reduced as a result of the drought conditions. Alongside this, schemes to provide multiple water quality benefits at Stithians water treatment works will be completed in the spring of 2024, and at Littlehempston a similar scheme will be completed in the spring of 2025. These two major treatment upgrades will benefit around 200,000 consumers in West Cornwall and the South Hams. On the Isles of Scilly, we are delivering a step change in performance, and in the Bristol Water region robust action plans are in place to improve legacy water quality performance.

Alleviating storm overflows and eliminating pollutions

2023 marks the third consecutive year that South West Water has achieved 100% bathing water quality, as independently measured and reported by the Environment Agency. We launched our £100 million WaterFit programme in April 2022 and over the last 18 months we have made significant strides in delivering on our commitments, with over 70 interventions already underway or complete across 49 of the 151 bathing beaches in the South West. We have invested to upgrade works to enhance river water quality, deliver 100% bathing water quality all year round, and increased our network capacity to reduce storm overflow releases into waterways to achieve no more than 20 releases per asset, per year by 2025. Following the installation of monitors across 100% of our storm overflows in 2022, operability of these assets is now at 98% following our ongoing programme of calibration.

As a direct result of the interventions made to date c.10% of storm overflow releases have been avoided through investments including storm tanks, reducing ground water ingress and operational enhancements which have removed 43 of the top spilling sites from 2022. Following the drought in 2022, we have experienced a 45% increase in rainfall and therefore we anticipate an increase in the number of releases from storm overflows in 2023, however, we are forecasting an improvement on 2021, where a comparable level of rainfall was experienced.

We have an action plan in place to achieve our 2025 target of an average of 20 releases per asset, per year, and expect incremental improvements in performance as we head into 2024 where the full year benefit comes into effect for many of the interventions delivered to date. This includes:

- Adding over 6,000m^3 additional capacity to the network ahead of K8. Of the 58 schemes to deliver this, 19 are already complete, and a further 21 are scheduled for completion ahead of 31 March 2024
- Reducing and diverting groundwater ingress at 30 key wastewater treatment works and six sewer separation projects
- The delivery of 15 wastewater flow schemes in K7, with 6 delivered to date, as well as maximising flows at our smaller sites
- Delivering 43 bathing and shellfish water schemes across the region, with almost 90% of these interventions delivered to date, supporting the delivery of 100% bathing water quality.

We are committed to sharing information openly and undertaking transparent reporting with all our customers and stakeholders. Our WaterFit Live website already provides reporting on our storm overflows operating near bathing waters across our regions. We will be increasing our transparency by providing near real time information across all our storm overflows by the end of the year, not just on our coastal storm overflows, but also inland on our rivers, ensuring customers and stakeholders can access accurate, open data about the performance of our network.

Improving river water quality

Our teams are utilising extensive expertise in delivering coastal water improvements to shape the delivery of our river water improvements, including our 3-year bathing water quality pilots on the rivers Dart and Tavy. Monitors on these rivers have now been in place for the last 18 months, and we have supported applications on both rivers for bathing water status.

We are making good progress in reducing the impact that our assets have on river water quality by one third ahead of 2025, having improved RNAGs[17] from 19% to c.13%[18] over K7 to date. Alongside the benefits delivered through our wider WaterFit programme of interventions, we have delivered six schemes of a programme of 33 to reduce phosphorous levels.

Tackling pollution incidents

Since we launched our Pollution Incident Reduction Plan in 2020, we have delivered a reduction in wastewater pollutions of c.50%, and further improved our serious pollutions performance with only one event to date in 2023. We have delivered an 18% reduction in external sewer flooding incidents year on year, and achieved our lowest number of internal flooding incidents, supporting our continued sector-leading performance. Alongside this, performance on sewer collapses and sewer blockages is tracking ahead of our performance targets, but we still have further to go. Whilst total pollution numbers for 2023 are slightly elevated on 2022 performance, we have dynamic plans in place to deliver the trajectory of improvements required to achieve our 2024 target. Some of the key aspects of the plan to support this include:

- Investing to make improvements to wastewater pollution 'hotspots' – with a total of 355 interventions carried out to date in K7 on assets and areas identified as at risk
- Carrying out interventions on 36 rising mains across the region, with 60% of this programme now complete
- Rolling out 9,000 sewer depth monitors across c.23,000km of our sewer network in K7 – with 75% completed to date, providing visibility of network performance to reduce blockages, and enabling proactive identification and intervention
- Deployment of region-wide predictive network burst detection technology
- Rolling out telemetry across 100% of our pumping stations and improving alternative power supplies at 150 pumping stations
- Embracing the use of artificial intelligence and predictive technology to map catchments and target interventions, and utilising asset and weather data to predict potential pollution risks.

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[17] Rivers not achieving good ecological status

[18] Based on Environment Agency August 2022 data publication.

Through our innovative partnership with the University of Exeter, we continue to utilise the Centre for Resilience, Environment, Water and Waste (CREWW) for root cause analysis, with this insight helping to shape our plans now, and into the next regulatory period.

As reported in July 2023, we achieved an improved EPA rating from the Environment Agency for 2022, having moved from 1* to 2* status. We know that we still have further to go and remain committed to delivering on our extensive improvement plans in this area. For 2023, we are targeted to retain the EPA performance gains delivered in 2022 (EPA 2*), and we remain focused on achieving our target of 4* EPA status for 2024.

Driving environmental gains

Our Net Zero 2030 plan is well underway across the Group. We expect to reduce our carbon footprint by 50% in K7, and with c.40%[19] delivered to date we are making excellent progress towards this target. In line with our commitment to reducing carbon emissions across the Group, we have now submitted our Science Based Targets for external validation.

The Group's investment in renewable energy generation supports the achievement of our Net Zero strategy and is aligned with the Group's long-term sustainable growth strategy in UK environmental infrastructure. To date, investment of c.£145 million has been announced in four projects across the UK, generating up to 135 GWh, along with two hours battery storage providing 60 MWh. When combined with the smaller scale on-site solar generation roll out, this puts the Group on track to have secured c.50% of its energy from renewable sources from 2025.

This strategy will also benefit the Group by reducing our exposure to future volatility in wholesale power markets that we have experienced this year, and will provide commercial returns ahead of those earned from the regulatory water business. The sites, acquired by Pennon Power Limited, a direct subsidiary to Pennon Group plc, have the required consents in place and will see construction commence in 2024, with grid connection for the full portfolio in 2025.

Spotlight on catchment innovation

Our long-established partnership working approach across the region targets a range of environmental benefits through our nature-first approach to investment to enhance biodiversity and increase community engagement. This science-based approach is supported through significant in-house expertise alongside our partnership with the University of Exeter in the Centre for Resilience in Environment, Water and Waste (CREWW) – a beacon of innovation.

To date, this approach has improved the management of over 115,000 hectares of land to date, equivalent to over 80% of our catchments being improved. We remain on track to improve 123,000

[19] From 130,000 tonnes (2021) to 80,000 tonnes (2023).

hectares by 2025, working closely with partners, including Natural England, National Trust and South West Lakes Trust to deliver initiatives across the South West including Exmoor, Dartmoor and Bodmin Moor. We have restored over 1,100 hectares of peatland to date, of which over 350 hectares contribute directly to of our Net Zero commitment to restore a further 1,000 by 2030, in addition to our existing plans. 220,000 trees have been planted so far in K7 towards our target of 250,000 by 2025. These benefits have been delivered alongside 20 businesses, charities and local authorities on over 2,000 farms to date. As a result of these initiatives, we have seen a 30% reduction in discolouration from peatland, increased the water table by the equivalent of over 100 Olympic sized swimming pools, and reduced phosphates in Drift reservoir by 40% in two years.

Underpinning our drive for continuous improvement is our work with CREWW. Catchment focused innovation currently being trialled includes the use of pioneering satellite data to understand habitat condition across the region, using local sheep wool to create bunds for peatland restoration and trialling new planting to improve soil health and water quality.

Supporting affordability

We continue to work hard to deliver quality services efficiently, so that bills remain as low as possible. In all the areas we serve, average bill increases for 2023/24 were kept well below the headline rates of inflation (South West Water – 0.8% and Bristol Water – 5.5%), and bill increases for 2024/25 will continue to be below inflation. We remain committed to eliminating water poverty in our region and are making excellent progress towards this with 97% of South West Water customers and 100% of Bristol Water customers citing their bills as being affordable.

Through our extensive package of affordability and vulnerability measures across the water businesses, including specific tariffs and income maximisation schemes, we have unlocked over £90 million[20] of customer support to date in K7, and have plans to further increase this over the remainder of the regulatory period. Over 120,000 customers are now benefiting from one or more of our support tariffs, and we have seen an increase of 35% in customers benefiting from our social tariffs, in comparison to H1 2022/23.

Alongside the financial support we provide, we work closely with a range of independent organisations and debt partners – with over 170 partnerships established to date who continue to be key in promoting the range of help available to customers.

To ensure our bills fairly reflect costs across our diverse customer base, and to ensure we keep bills as low as possible, we will be launching trials of new and innovative tariffs in the forthcoming year. This will enable us to work with customers to understand their concerns and views on how

[20] Includes c.£40m WaterShare+, c.£10m Stop The Drop, c.£40m customer support unlocked.

charges can be reflected fairly as well as to ensure that we support and incentivise efficient water usage.

Investing in our communities' future

We are passionate about contributing positively to the communities in the regions we serve. We continue to support community groups with funding available in all our regions including South West Water's Neighbourhood Fund and Water Saving Community Fund, and Bristol Water's Community Fund, supporting a range of initiatives across the Bristol region.

Our school education programme is focused on teaching school children the importance of water conservation and environmental protection, illustrating the part they can play through being careful with what is discarded through the wastewater network. Through this programme we have directly taught over 12,000 pupils in K7 to date about water conservation and environmental protection.

As the largest private employer in the South West with over 3,000 employees, we have an ambition to be both an employer of choice, and to create a great place to work. Over K7 we will have created an additional 500 jobs in the community and we anticipate a further 2,000 in K8. We believe in ensuring our employees are paid fairly and according to the cost of living as one of around 14,000 accredited Living Wage Foundation employers in the UK.

We are also passionate about creating a diverse and inclusive place to thrive, and are proud to have increased gender diversity across the Group. Our Board continue to be advocates of the #10000blackinterns initiative and the Change the Race Ratio, having supported both for over three years now. We are also one of a few FTSE businesses to have both a female CEO and Chair, and have more women on the Board than men for the first time in Pennon's history, and we continue to exceed the 40% target, and we were delighted to have retained first place in the FTSE250 Women Leaders Survey for Utilities.

We pride ourselves on training excellence, including our in-house state of the art network training facility which provides hands-on training of a pressurised network. As part of our continuous focus on the health and safety of our colleagues, over 23,000 hours of 'HomeSafe' in-person or online training has been completed this year to date.

Through our membership of 'The 5% Club' we are also investing in the next generation, embracing an 'earn and learn' culture. We are delighted to be the only water company to have been awarded Gold membership status for the second year running with 10% of our employees on development programmes. We launched our graduate programme in 2021 and our 2023 programme, our most diverse to date with two thirds female representation and 40% ethnic diversity, was 1700% over subscribed. We are committed to create 200 opportunities for graduates by 2030. Through our apprenticeship programme we have created over 300 apprenticeships to date in K7, and we remain on track to reach 500 apprenticeships by 2025. In recognition of our efforts, we were the only water company to be included in The Top 100 Apprenticeship Employers for 2023 which celebrates England's apprenticeship employers, recognising their commitment to creating new apprenticeships.

As Tier 1 funders of the Social Mobility Business Partnership we are also providing work experience programmes for 150 students to date from low income backgrounds across the South West and we have committed to support 5,000 young people across our region through work experience by 2030.

We have also been looking at our culture and values, the "golden thread" across the Group that focuses on not just what we do, but why and how we do it. Built from the inside out with employee forums, stakeholder interviews, leadership sessions, and sessions with our trade unions, we also undertook external and competitor desk research. Three themes emerged around trust, responsibility and being future-focused. We believe our new values are powerful - not only will they help us be the very best we can be, as individuals, teams and as a business, but there's an added dimension with an external focus in being rock solid in the way we act and build trust.

Delivering improved outcomes for customers

South West Water continues to target improved ODI performance, with c.75%[21] either on track, or ahead of target across a broad range of challenging bespoke, common and comparative measures. 9 ODIs continue to represent areas of excellence having achieved their 2025 target early, with a further 22 forecast to achieve or outperform their 2023/24 target. Bristol Water is on track to achieve c.70%[21] of its ODIs, with 3 ODIs representing areas of excellence and a further 18 forecast to achieve or outperform their target for 2023/24.

Areas of excellence for South West Water include bathing water quality where a further four sites have been delivered in addition to our target, biodiversity enhancement which has improved an additional 6,500 hectares, and internal sewer flooding which is currently 40% favourable to target.

Bristol Water consistently perform well on customer service, including properties at risk of low pressure, and C-MeX performance which has improved over each year of the regulatory period to date, and currently ranks Bristol Water as upper quartile. This presents an excellent opportunity to share best practice following the completion of the merger earlier this year.

For South West Water, key areas of focus include wastewater pollutions and the Environmental Performance Assessment (EPA) which are closely linked. Our published Pollution Incident Reduction Plan reports against the interventions we are taking to improve our performance as we target a further 50% reduction in pollutions to 2024. For Bristol Water, making improvements to

[21] ODIs on track or within regulatory tolerances.

address legacy water quality performance is key, along with increasing the number of metered customers.

South West Water's delivery on its published improvement plans is demonstrated in Ofwat's most recently published water company performance report, classifying South West Water as a relatively good performing company, demonstrating year on year improvement. We performed well when compared to our peers as a frontier company for internal sewer flooding and unplanned outage, as well as ranking in the top quartile for water quality and supply interruptions (when compared to water and sewerage companies) as well as meeting our leakage, mains repairs and sewer collapses targets again in 2022/23. For 2022, our treatment works compliance improved to 99.4%, however, performance over this summer was challenging and we are forecasting to fall short of our target for 2023, alongside a slight increase in wastewater pollution incidents. From a customer perspective, whilst we continue to outperform our priority services targets, C-MeX continues to be a key area of improvement, and we see opportunity to share best practise with Bristol – which rank in the top quartile for this measure.

Bristol Water was classified as lagging as a result of the impact on the water network due to the extreme cold conditions in late 2022, impacting leakage, mains repairs and supply interruptions. Investment in the Bristol Water region is focused on improving the consistency of performance and embedding best practice to provide a sustainable platform across the water business. We are focused on improving water quality in Bristol, applying our Quality First approach to improvements as well as investing in sustainable long-term improvements we have delivered in the Bournemouth and Isles of Scilly regions.

South West Water's ODI performance in K7 to date reflects an industry upper quartile position, with Bristol Water in line with the industry average, placing the Group in a robust position as we head into K8, where delivery is focused predominantly on industry common ODIs.

Continued doubling of base returns enabling reinvestment in additional initiatives

Driving outperformance gives us the flexibility to deliver more within a regulatory delivery period – with reinvestment supporting the delivery of additional initiatives. Our cumulative Group RORE performance for H1 2023/24 continues to be strong at 7.9% representing a doubling of base returns. This reflects cumulative RORE outperformance for South West Water of 8.1%, and 6.1% for Bristol Water.

This performance is driven by the Group's agile financing strategy and diverse debt portfolio, with a comparatively lower level of index-linked debt relative to the industry average, allowing us to outperform the cost of debt allowances. Our efficient financing strategy continues to drive significant outperformance with South West Water's effective interest rate^ at 5.8% (H1 2022/23

5.8%). Given the current macro-environment, this strong financing outperformance has outweighed totex and net ODI penalty contributions.

Whilst ODI performance[22,23] across the Group in H1 2023/24 has improved from 2022/23, we anticipate a net financial penalty of c.£1.7million for South West Water, and a net financial penalty of c.£0.8 million for Bristol Water.

Cumulative RORE outperformance equates to c.£190[24] million in K7 to date, reflecting c.£250[25] million financing outperformance, net of c.£20 million ODI penalty, and c.£40[26] million totex underperformance. Total outperformance to date is being utilised to support reinvestment across the Group to deliver additional environmental initiatives, including our WaterFit programme, to improve coastal and river water quality, and water resource diversification investments to boost resilience and break the cycle of drought. In addition to this, c.£20 million funded the accelerated delivery of our second WaterShare+ issuance, earlier this year.

Return on Regulated Equity

The table below summarises the cumulative RORE position for both South West Water and Bristol Water:

	Ofwat RORE		**WaterShare RORE[27]**	
	South West Water	**Bristol Water**	**South West Water**	**Bristol Water**
Base return	3.9%	4.5%	3.9%	4.5%
Totex	(1.1)%	(0.1)%	(0.7)%	0.3%
ODI	(0.3)%	(0.9)%	(0.3)%	(1.0)%
Tax	0.7%	0.2%	N/A	N/A
Financing	4.9%	2.4%	3.3%	0.2%
Cumulative RORE	**8.1%**	**6.1%**	**6.2%**	**4.0%**

Investigations

There are two regulatory investigations outstanding for South West Water:

1) Following the announcement of the industry-wide investigations by Ofwat and the Environment Agency into all WASCs with regards to environmental performance of wastewater treatment works in November 2021. We have received a number of

[22] Performance as at HY2023/24, excluding PCC (end of AMP ODI) given the current industry wide review by Ofwat to understand the impact and enduring effects of Covid-19 on this measure
[23] H1 2023/24 reflects 50% of full year assumptions
[24] This is made up of c.£(40) million Totex^, c.£250 million financing, net of c.£20 million ODI penalty Outperformance is calculated on a regulatory post sharing basis for totex, and on a voluntary post sharing of embedded debt basis for financing.
[25] Calculated post the impact of embedded cost of debt (voluntary) sharing mechanism (WaterShare+)
[26] Calculated post the impact of regulatory totex sharing mechanism
[27] Watershare RORE - financing outperformance is based on the outturn effective interest rate translated into a real rate using a forecast average inflation assumption of 4.4% CPIH.

information requests from both regulators and continue to work openly and transparently in the provision of the information they require.

2) In May 2023 Ofwat announced investigation into South West Water's leakage and per capita consumption data. The focus of the investigation is the reduction in leakage experienced in 2021/22, following South West Water missing its leakage target in the previous year. We have openly and transparently discussed with Ofwat, and provided them with the information they have requested in relation to, the judgements made when calculating leakage and per capita consumption data in this complex area. We have commissioned work utilising the very latest calculation approaches in line with best practice, to further aid understanding of year-on-year performance.

At this stage of the investigations we are not sighted on timescales, next steps or outcomes from either Ofwat or the Environment Agency.

Growing a profitable, sustainable national platform for business retail

Pennon Water Services, with a market share of c.6% continues to deliver on its growth ambitions, winning c.£2.8 million of new contracts during the period, and through a simple, transparent and competitive service offering. Pennon Water Services attracted businesses of all sizes and sectors during the period, including Verdant Leisure, Borough Care Ltd, Agrial Fresh, and Esterchem. Pennon Water Services has one of the lowest customer attrition rates in the market, demonstrated through the retention of strategic water users such as Princes Foods, Asahi, Partingtons and Country Style Foods, recognising the value from their relationship with Pennon Water Services and renewing their retail contracts.

Pennon Water Services' customers continued to recognise the value and support provided, as reflected through a Trustpilot rating of excellent – 4.8/5 and a c.23% reduction in complaints in comparison to last year, reflecting efforts to refine and improve customer service.

Through our acquisition of Bristol Water, the Group acquired a 30% share in water2business – led by a strong team who are also focused on delivering an outstanding customer experience, with a Trustpilot score of 4.9/5 and a market performance score of 97%. With a c.6% market share, water2business offers tailored water and wastewater management helping customers improve efficiency and deliver savings.

Strong PR24 platform for delivery

As we look to the next regulatory period, we are confident in our ability to deliver on our commitments, given the strong platform we have created to date. We are making excellent progress in delivering against our key priorities – investing to deliver environmental improvements and innovating to deliver sustainable increases in water resource availability, whilst ensuring we keep bills as low as possible.

Our focus on efficient delivery to date means that bills are currently at their lowest point for ten years, at a time when many customers are struggling with the cost of living. This also means that we have been able to keep bill increases into K8 as low as possible.

South West Water's top quartile ODI performance creates a strong base from which to deliver further ODI improvements across both South West Water and Bristol Water, now the merger is complete, and we are confident in achieving our 2025 ODI targets in line with our published action and investment plans in place.

We are well positioned in our capital delivery capability across the South West. We have appointed six Tier 1 delivery partners with long-term contracts that can run out to ten years. Main construction partners appointed in the west of our region include BAM Nuttall, Clancy and Mott McDonald Bentley, and in the east, Tilbury Douglas, MWH Treatment and Network Plus Envolve.

Our socially responsible business model, WaterShare+, turns the monopoly water provider model on its head by giving customers a stake and a say in their local water company is growing and with around 90,000 customer shareholders, differentiates us from the rest of the sector.

Underpinning all of this is our balance sheet strength – demonstrated by our responsible gearing, which is well within our established gearing range of 55-65%.

Ambitious plan for PR24 – the 'Right Deal' for our regions

Our plan for 2025-2030 is a plan that continues to do what we said we would. It's a plan that goes further in tackling the biggest challenges in our region, as we invest to protect water quality and enhance resilience, tackle storm overflows at our beaches, eradicate pollutions and protect the environment from climate change. With a laser like focus on efficiency, it's also a plan that supports customer affordability – balancing an extensive investment plan, whilst keeping bill increases to 3-4%, per annum, across each of our regions. Our £2.8 billion investment plan is our most ambitious yet and we believe is the right plan, and the right deal for our region.

With a third of the nation's bathing beaches, 860 miles of coastline and a largely granite peninsula with adjacency to the western approaches of the Atlantic Ocean, climate change is already changing how we live. Drought, flooding, rising sea levels and coastal erosion are too frequently part of everyday lives. Last year, the South West experienced one of the hottest, driest summers since records began. Rising sea levels and coastal erosion presents one of the greatest risks to our region. Not only are some of our biggest cities, Exeter and Plymouth, vulnerable, but so too are the homes and livelihoods of thousands of people right across the South West. The majority of our population is concentrated around the coastline, and so are the majority of our assets.

Our £2.8 billion investment will further build on the progress made in K7 in tackling the biggest challenges head on. It is a plan grounded in extensive customer research, having engaged more than 30,000 customers and over 1,000 local stakeholders in its development. Our customers have shaped this plan, including key aspects including the investment priorities, below, and the profiling of customer bills. Overall, our plan has received strong support that we should invest more, with universal agreement that the priorities are the right ones.

Storm overflows and pollutions

- By 2030, we will have tackled all storm overflows at our bathing beaches, shellfish waters and high spilling sites – 20 years ahead of the government mandated target, given the importance of tourism to our region
- To restore confidence in our bathing waters, we will implement a first of its kind monitoring regime so everyone can enjoy being in the water at their favourite beach
- We will take a “Green First” approach to investment, working with nature to improve drainage and reduce storm overflows usage
- We will deliver a reduction in pollution levels to industry leading lows, with zero serious pollutions.

Water resilience and water quality

- Upgrading a third of water treatment works across our region and investing in two new treatment works in Bristol, alongside Bournemouth’s completion of state-of-the-art ceramic new treatment works
- Resurrecting plans for the Cheddar 2 reservoir to boost water resources in the Greater South West
- Creating a water grid to ensure all our strategic reservoirs are connected, ensuring we can move resources across the region
- Reducing leakage levels to less than 10% on our network and less than 4% on customers’ networks.

Net zero and environmental gains

- Continue with our ‘Promise to the Planet’ to become Net Zero by 2030 by decarbonising our operations, and reducing emissions of Nitrous Oxide and repurposing methane
- Expanding our nature recovery programme - extending Upstream Thinking into new catchments, planting 300,000 trees and re-naturalising waterways for wildlife
- Transforming sludge treatment processes to protect rivers.

Addressing affordability and delivering for customers

- Extending our commitment to ensure zero customers in water poverty to 2030

- Delivering our largest ever package of support with over £200 million of affordability measures
- Expanding our unique WaterShare+ scheme to one in every 10 households
- Introducing a range of fair tariffs to help customers to use less and save more.

With a laser like focus on delivering efficiency our £4.5 billion totex plan reflects a 12% efficiency assumption. It is also a plan that supports customer affordability, with 3-4% bill increases across our regions, per annum. Our plan will also support the creation c.2,000 jobs in the region as we commit to providing 1,000 apprentice and graduate opportunities to 2030, and provide further security in the wider supply chain across the region.

Critically, it is also a financeable plan, benefiting from a strong balance sheet providing financial resilience. Our current gearing at 61.0%, is at a relatively low level compared to the sector, and as we move into the next regulatory period our gearing will average 63.3% over K7, which remains within our well-established 55-65% range. Our gearing will also benefit from regulatory true-up adjustments taking our K8 opening RCV to c.£5.4 billion, which includes c.£0.2 billion resulting from additional totex planned in the current regulatory period[28].

Over K8, we anticipate total RCV to increase to £7.4 billion by 2030, reflecting nominal RCV growth of 38% (real - 25%), through our long-term investments and the value being created for customers, the environment and our investors.

We are confident and well positioned in our capital delivery capability across the South West. We have appointed six Tier 1 delivery partners with long term contracts that can run out to 10 years. Advance planning for the transition to the plan's delivery model has been underway since September 2022, broadening our supply chain alliance, and Tier 2 & 3 partners will be ready for the start of the next financial year.

In summary, our 2025-2030 business plan is a plan building on the momentum we have today, that goes further in tackling the biggest challenges in our region, as we invest to protect water quality and resilience, tackle storm overflows at our beaches, eradicate pollutions and protect the environment from climate change.

The submission of our K8 business plan is just the first step, and over the coming months Ofwat will review and assess our plan in detail. As always, we will work collaboratively with Ofwat throughout this process to provide any further insight into our most ambitious plan to date. In line with Ofwat's current timetable we anticipate Draft Determinations in May / June 2024, and Final Determinations in December 2024.

[28] Including: additional amounts allocated for water resilience (c.£125 million), WaterFit investments (c.£45 million) in addition to c.£40 million reflecting the underlying totex position compared to the final determination. This underlying c.£40 million is used in our RORE metrics presented in this document to best reflect the true position compared to the original determination.

Outlook - technical Guidance – full year 2023/24

Pennon Group		FY 2022/23	Change
Revenue*	• Inflation reflected in 2023/24 tariffs in South West Water partially offset by in-year impact of regulatory adjustments and ODI penalties • Ongoing growth in our retail businesses, including growth external to our wholesale region	£825.0m	▲
Net debt	• Continued delivery of accelerated environmental capital investment across the Group • Accretion on index-linked debt	£2,965.4m	▲
Current tax	• 2022/23 current tax effective credit rate reflects prior year credit as a result of additional super-deductions and lower non-deductible expenditure following the submission of the 2022 corporate tax computations • Higher capital allowances from the Group's continued capital investment programme together with full expensing means that the Group anticipates generating tax losses in the remaining years of K7 resulting in effective tax rate around 0%	16.1% (credit rate)	▲
Operating costs*	• Growth in retail businesses leading to higher wholesale supply charges external to our regions increasing total Group operating costs • Ongoing inflationary increases on input costs • Power costs expected to be flat year on year[29]. We anticipate consumption to remain elevated while we recover from the drought conditions. • Pay increases between c.5-7% for 2023/24 • Continued delivery of efficiencies	£517.2m	▲
Depreciation*	• Expanded capital programme driving increases in depreciation	£154.7m	▲
Net interest*	• RPI swaps over K7 to smooth the impact of inflation • Increased variable rates on floating rate debt – c.65% of debt fixed • Increased levels of debt to support capital investment profile	£136.6m	▲
Capex	• Capital expenditure reflects K7 existing profile of investment along with additional and accelerated environmental investment	£358.3m	▲
RORE (Underlying Ofwat measure)	• Expected year on year reduction in line with lower inflation expectations – continued expectation of a doubling of cumulative base returns for the Group	10.5%	▼
RCV[30]	• Increase in line with K7 business plan levels of investment in addition to additional and accelerated investment, regulatory true-ups and inflationary impact - shadow RCV for March 2024 forecast £5.1bn	£4.7bn	▲

*All measures on an underlying basis

[29] Based on current market pricing and current hedged position of c.95% for 2023/24
[30] Based on South West Water (South West Water Limited group of companies including Bristol Water plc) net debt and shadow RCV.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal Risks

During the year the Board has reviewed the current and emerging principal risks in the context of the Group's strategic objectives and priorities, the Group's risk appetite and the external environment within which it operates. This includes the impact of changes to the external macro-economic, legal and regulatory environment within which the Group operates. The Group's principal risks are:

Law, Regulation and Finance

1. Changes in Government policy
2. Regulatory frameworks
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 avoidable health and safety incidents
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 deliver the Group's 2030 Net Zero Commitment to respond to the impact of climate change
9. Availability of sufficient water resources to meet current and future demand
10. Failure of operational water treatment assets and processes resulting in an inability to produce or supply clean drinking water
11. Failure of operational wastewater assets and processes resulting in an inability to remove and treat wastewater and potential environmental impacts, including pollutions
12. Non-delivery of customer and environmental commitments
13. Insufficient skills and resources to meet the current and future business needs and deliver the Group's strategic priorities

Business Systems and Capital Investment

14. Insufficient capacity and resilience of the supply chain to deliver the Group's operational and capital programmes
15. Cyber attack or inadequate technological security results in a breach of the Group's assets, systems and data

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 2023. 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 2023

		Unaudited					
	Notes	**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**	Before non-underlying items half year ended 30 September 2022 £m	Non-underlying items (note 5) half year ended 30 September 2022 £m	Total half year ended 30 September 2022 £m
Revenue	4	**448.6**	**-**	**448.6**	425.5	-	425.5
Operating costs							
Employment costs		**(61.3)**	**-**	**(61.3)**	(50.7)	-	(50.7)
Raw materials and consumables used		**(18.6)**	**-**	**(18.6)**	(15.9)	-	(15.9)
Other operating expenses		**(196.4)**	**(5.9)**	**(202.3)**	(180.0)	(1.6)	(181.6)
Trade receivables impairment		**(3.8)**	**-**	**(3.8)**	(4.3)	-	(4.3)
Earnings before interest, tax, depreciation and amortisation	4	**168.5**	**(5.9)**	**162.6**	174.6	(1.6)	173.0
Depreciation and amortisation		**(82.6)**	**-**	**(82.6)**	(77.4)	-	(77.4)
Operating Profit	4	**85.9**	**(5.9)**	**80.0**	97.2	(1.6)	95.6
Finance income	6	**5.7**	**-**	**5.7**	3.4	-	3.4
Finance costs	6	**(83.0)**	**-**	**(83.0)**	(78.1)	-	(78.1)
Net finance costs	6	**(77.3)**	**-**	**(77.3)**	(74.7)	-	(74.7)
Share of post-tax profit from associated companies		**0.5**	**-**	**0.5**	-	-	-
Profit before tax	4	**9.1**	**(5.9)**	**3.2**	22.5	(1.6)	20.9
Taxation	7	**(2.8)**	**1.4**	**(1.4)**	(2.7)	0.3	(2.4)
Profit for the period		**6.3**	**(4.5)**	**1.8**	19.8	(1.3)	18.5
Attributable to:							
Ordinary shareholders of the parent		**5.9**	**(4.5)**	**1.4**	19.6	(1.3)	18.3
Non-controlling interests		**0.4**	**-**	**0.4**	0.2	-	0.2
Earnings per ordinary share	8						
(pence per share)							
- Basic				**0.5**			7.0
- Diluted				**0.5**			6.9

The Group activities above are derived from continuing activities.

The notes on pages 48 to 64 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of comprehensive income for the half year ended 30 September 2023

	Unaudited					
	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**	Before non-underlying items half year ended 30 September 2022 £m	Non-underlying items (note 5) half year ended 30 September 2022 £m	Total half year ended 30 September 2022 £m
Profit for the period	**6.3**	**(4.5)**	**1.8**	19.8	(1.3)	18.5
Other comprehensive income						
Items that will not be reclassified to profit or loss						
Remeasurement of defined benefit obligations (note 16)	**(28.6)**	**-**	**(28.6)**	(15.6)	-	(15.6)
Income tax on items that will not be reclassified	**7.1**	**-**	**7.1**	3.6	-	3.6
Total items that will not be reclassified to profit or loss	**(21.5)**	**-**	**(21.5)**	(12.0)	-	(12.0)
Items that may be reclassified subsequently to profit or loss						
Cash flow hedges	**19.1**	**-**	**19.1**	64.6	-	64.6
Income tax on items that may be reclassified	**(4.7)**	**-**	**(4.7)**	(16.1)	-	(16.1)
Total items that may be reclassified subsequently to profit or loss	**14.4**	**-**	**14.4**	48.5	-	48.5
Other comprehensive (loss) / income for the period net of tax	**(7.1)**	**-**	**(7.1)**	36.5	-	36.5
Total comprehensive (loss) / income for the period	**(0.8)**	**(4.5)**	**(5.3)**	56.3	(1.3)	55.0
Total comprehensive (loss) / income attributable to:						
Ordinary shareholders of the parent	**(1.2)**	**(4.5)**	**(5.7)**	56.1	(1.3)	54.8
Non-controlling interests	**0.4**	**-**	**0.4**	0.2	-	0.2

The notes on pages 48 to 64 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated balance sheet at 30 September 2023

	Notes	**Unaudited 30 September 2023 £m**	Audited 31 March 2023 £m
ASSETS			
Non-current assets			
Goodwill		**163.9**	163.9
Other intangible assets	17	**40.4**	14.9
Property, plant and equipment	17	**4,640.3**	4,476.9
Other non-current assets		**14.8**	23.2
Financial assets at fair value through profit		**1.2**	1.3
Derivative financial instruments		**42.2**	33.2
Investments in associated companies		**0.8**	0.3
Retirement benefit assets	16	**0.3**	29.3
		4,903.9	4,743.0
Current assets			
Inventories		**9.9**	10.0
Trade and other receivables		**290.4**	238.0
Current tax receivable		**9.0**	8.4
Financial assets at fair value through profit and loss		**1.0**	-
Derivative financial instruments		**29.4**	20.7
Cash and cash deposits	14	**94.4**	165.4
		434.1	442.5
LIABILITIES			
Current liabilities			
Borrowings	14	**(129.1)**	(124.7)
Financial liabilities at fair value through profit and loss		**-**	(2.6)
Derivative financial instruments		**(1.5)**	(2.4)
Trade and other payables	18	**(210.9)**	(225.4)
Provisions		**-**	(0.4)
		(341.5)	(355.5)
Net current assets		**92.6**	87.0
Non-current liabilities			
Borrowings	14	**(3,292.1)**	(3,006.1)
Other non-current liabilities	18	**(152.7)**	(155.3)
Financial liabilities at fair value through profit and loss		**(36.4)**	(34.0)
Derivative financial instruments		**(1.5)**	(2.4)
Deferred tax liabilities		**(506.7)**	(507.0)
		(3,989.4)	(3,704.8)
Net assets		**1,007.1**	1,125.2
Shareholder's equity			
Share capital	10	**159.5**	159.5
Share premium account	11	**237.7**	237.6
Capital redemption reserve	12	**157.1**	157.1
Retained earnings and other reserves		**452.0**	570.6
Total shareholders' equity		**1,006.3**	1,124.8
Non-controlling interests		**0.8**	0.4
Total equity		**1,007.1**	1,125.2

The notes on pages 48 to 64 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 2023

	Unaudited					
	Share capital (note 10) £m	Share premium account (note 11) £m	Capital redemption reserve (note 12) £m	Retained earnings and other reserves £m	Non-controlling interests £m	Total equity £m
At 1 April 2022	161.7	235.5	154.7	722.6	0.1	1,274.6
Profit for the period	-	-	-	18.4	0.2	18.6
Other comprehensive income for the period	-	-	-	36.5	-	36.5
Total comprehensive income for the period	-	-	-	54.9	0.2	55.1
Transactions with equity shareholders:						
Dividends paid	-	-	-	(101.5)	-	(101.5)
Shares purchased for cancellation	-	-	-	(40.0)	-	(40.0)
Shares cancelled (note 10)	(2.4)	-	2.4	-	-	-
Adjustments in respect of share-based payments (net of tax)	-	-	-	0.8	-	0.8
Own shares acquired by the Pennon Employee Share Trust in respect of Share options	-	-	-	(4.7)	-	(4.7)
Proceeds from shares issued under the Sharesave Scheme	0.2	1.5	-	-	-	1.7
Total transactions with equity shareholders	(2.2)	1.5	2.4	(145.4)	-	(143.7)
At 30 September 2022	**159.5**	**237.0**	**157.1**	**632.1**	**0.3**	**1,186.0**

	Unaudited					
	Share capital (note 10) £m	Share premium account (note 11) £m	Capital redemption reserve (note 12) £m	Retained earnings and other reserves £m	Non-controlling interests £m	Total equity £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 income for the period	-	-	-	(7.1)	-	(7.1)
Total comprehensive income for the period	-	-	-	(5.7)	0.4	(5.3)
Transactions with equity shareholders:						
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**

The notes on pages 48 to 64 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of cash flows for the half year ended 30 September 2023

	Notes	**Unaudited** **Half year ended 30 September 2023** **£m**	Half year ended 30 September 2022 (restated*) £m
Cash flows from operating activities			
Cash generated from operations	13	**88.8**	160.2
Interest paid		**(49.3)**	(96.7)
Tax paid		**-**	(3.1)
Net cash generated from operating activities		**39.5**	60.4
Cash flows from investing activities			
Interest received		**3.8**	3.4
Purchase of property, plant and equipment		**(249.8)**	(153.0)
Purchase of intangible assets		**(20.7)**	(2.4)
Proceeds from sale of property, plant and equipment		**0.2**	-
Advance of short-term loan	14	**-**	(25.0)
Movement of restricted deposits		**-**	140.3
Net cash used in investing activities		**(266.5)**	(36.7)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**0.1**	1.7
Purchase of ordinary shares by the Pennon Employee Share Trust		**(1.4)**	(4.7)
Proceeds from new borrowings		**325.1**	108.0
Repayment of borrowings		**(70.2)**	(57.2)
Cash inflows from lease financing arrangements	13	**24.8**	5.0
Lease principal repayments (including net recoverable VAT)		**(10.7)**	(96.5)
Dividends paid	9	**(111.7)**	(101.5)
Repurchase of own shares		**-**	(40.0)
Net cash used in financing activities		**156.0**	(185.2)
Net decrease in cash and cash deposits		**(71.0)**	(161.5)
Cash and cash deposits at beginning of period	14	**143.7**	351.2
Cash and cash deposits at end of period	14	**72.7**	189.7

*See note 2

The notes on pages 48 to 64 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 64. Pennon Group's business is operated through two principal subsidiaries. South West Water Limited, providing 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. Following the statutory licence transfer from Bristol Water plc to South West Water Limited on 1 February 2023 the regulated water business of Bristol Water plc transferred to South West Water Limited. 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. In the first half of 2023/24, South West Water Limited completed its first syndicated private placement transaction, with the company receiving £300 million with an average maturity of 12 years and a fixed rate of interest, to support the ongoing K7 business plan projects.

This condensed half year financial information was approved by the Board of Directors on 28 November 2023.

The financial information for the period ended 30 September 2023 does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The statutory accounts for 31 March 2023 were approved by the Board of Directors on 31 May 2023 and have been delivered to the Registrar of Companies. The independent auditor's report on these financial statements was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

2. Basis of preparation

This condensed half year financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority, and 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 2023, 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 2023 the Group has access to undrawn committed funds and cash and cash deposits totalling £544 million, including cash and other short-term deposits of £94 million and £450 million of undrawn facilities. Cash and other short-term deposits include £22 million of restricted funds deposited with lessors which are available for access, subject to being replaced by an equivalent valued security.

In making their assessment, the Directors reviewed the principal risks and considered which risks might threaten the Group's going concern status, to do this the Group's business plan has been stress-tested. Whilst the Group's risk management processes seek to mitigate the impact of principal risks, individual sensitivities against these risks have been identified. These sensitivities, which are ascribed a value with reference to risk weighting, factoring in the likelihood of occurrence and financial impact, were applied to the baseline financial forecast which uses the Group's annual budget for FY 2023/24 and longer-term strategic business plan for the remainder of the going concern period to 30 November 2024. Over the past year we also agreed updated covenant terms on the vast majority of our facilities and the Directors are confident that the full covenant update process will be successfully completed. For facilities where changes to covenant terms are not finalised at the date of approval of the financial statements, we have modelled the impact on the Group's solvency, using existing terms, under a stress-tested scenario, and concluded this does not compromise the going concern of the Group over the assessment period. The risks and sensitivities include consideration of; legislative impacts such as change in government policy and non-compliance with laws and regulations, macro-economic impacts such as inflation and interest rate increases, and operational impacts such as ensuring adequate water resources and failure of operational assets. A combined stress testing scenario has been performed to assess the overall impact of these individual scenarios impacting the Group collectively. The combined weighted impact of the risks occurring is c.£87m, this value is considered equivalent to an extreme one-off event that could occur within a year, the probability of such an event happening is deemed unlikely.

Notes to condensed half year financial information (continued)

2. Basis of preparation (continued)

Through this testing, it has been determined that none of the individual principal risks would in isolation, or in aggregate, compromise the going concern of the Group over the going concern period, the assessment has been considered by reviewing the impact on the solvency position as well as debt and interest covenants. In the combined scenario to ensure that the Group was able to continue as a going concern, additional mitigations could be deployed to reduce gearing and increase covenant headroom. Examples of mitigations could include; controllable measures such as a reduction in discretionary operational expenditure, deferral of capital expenditure and / or cancellation of non-essential capital expenditure, reduction in the amount of dividend payable, and other measures such as raising additional funding.

In addition, we have modelled a reverse engineered scenario that could possibly compromise the Group's solvency over the going concern assessment period. This scenario builds on the factors above and additionally assumes all the Group's principal risks are incurred within the going concern period, with no probability weightings attached. The Board considered the likelihood of this scenario on the Group's solvency over the going concern period, as remote, given this would require all of the principal risks to be incurred at maximum impact within the same time frame, without implementing controllable mitigations, as noted above, or raising additional funding.

Having considered the Group's funding position, status of updates to covenant terms, and financial projections, which take into account a range of possible impacts, as described in this report, the Directors have a reasonable expectation that that the Group will meet the requirements of its covenants and has adequate resources to continue in operational existence for the period to the end of the going concern assessment period of 30 November 2024, and that there are no material uncertainties to disclose. For this reason, they continue to adopt the going concern basis in preparing the interim accounts.

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

The preparation of the half year financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are consistent with those that applied to the consolidated financial statements for the year ended 31 March 2023.

Prior period restatement

Following a review of the Consolidated statement of cash flow, the Group has identified that £51.5 million of interest accreted on certain leases was incorrectly included within "Lease principal repayments (including net recoverable VAT)" in the cash flows from financing activities, instead of the "Interest paid" in Cash flows from operating activities. As such the prior period consolidated statement of cash flow in respect of the "Lease principal repayments (including net recoverable VAT)" has been restated from £148.0 million to £96.5 million within the cash flows from financing activities, and the "Interest paid" in the cash flows from operating activities has been restated from £45.2 million to £96.7 million. The revised classification, as a result of this restatement, is consistent with how these amounts were classified at year end in the 2023 Annual Report and Accounts. There is no other impact on consolidated income statement, statement of comprehensive income, balance sheet or statement of changes in equity.

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 2023 and are in accordance with IFRS and interpretations of the IFRS Interpretations Committee expected to be applicable for the year ending 31 March 2024 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 2023 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 2024 are not expected to have a material impact on the Group's net assets or results.

4. Segmental information

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

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

	Unaudited	
	Half year ended 30 September 2023	Half year ended 30 September 2022
Revenue	**£m**	£m
Water total	**377.8**	363.8
Non-household retail	**117.6**	108.2
Other	**1.2**	1.1
Less intra-segment trading	**(48.0)**	(47.6)
Total revenue	**448.6**	425.5
Segment result		
Operating profit before depreciation, amortisation and non-underlying items (Underlying EBITDA)		
Water total	**167.1**	172.6
Non-household retail	**3.1**	2.3
Other	**(1.7)**	(0.3)
	168.5	174.6
Operating profit before non-underlying items		
Water total	**87.5**	97.8
Non-household retail	**2.8**	1.9
Other	**(4.4)**	(2.5)
	85.9	97.2
Profit before tax before non-underlying items		
Water total	**6.6**	19.2
Non-household retail	**1.7**	1.1
Other	**0.8**	2.2
	9.1	22.5
Profit before tax		
Water total	**1.2**	19.2
Non-household retail	**1.7**	1.1
Other	**0.3**	0.6
	3.2	20.9

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:

PENNON GROUP PLC
Notes to condensed half year financial information (continued)
4. Segmental information (continued)

Six months ended 30 September 2022	Water	Unaudited UK total Non-household retail	Other	Total
	£m	£m	£m	£m
Segment revenue	363.8	108.2	1.1	473.1
Inter-segment revenue	(46.7)	-	(0.9)	(47.6)
Revenue from external customers	317.1	108.2	0.2	425.5
Significant service lines				
Water	317.1	-	-	317.1
Non-household retail	-	108.2	-	108.2
Other	-	-	0.2	0.2
	317.1	108.2	0.2	425.5

Six months ended 30 September 2023	**Water**	**Unaudited** **UK total** **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**
Other	**-**	**-**	**-**	**-**
	331.1	**117.5**	**-**	**448.6**

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 2023 £m	Half year ended 30 September 2022 £m
Operating Costs		
Restructuring / transformation(1)	(3.6)	-
Drought(2)	(1.8)	-
Renewables acquisition(3)	(0.5)	-
Bristol Water integration(4)	-	(1.6)
Earnings before interest, tax, depreciation and amortisation	(5.9)	(1.6)
Non-underlying tax credit	1.4	0.3
Net non-underlying charges	(4.5)	(1.3)

(1) £3.6 million of costs in connection with the business transformation of South West Water following the merger of Bristol Water into South West Water. Further costs of c. £10 million are expected to be incurred in the second half of this financial year.

(2) 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 issued 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 has instigated a series of mitigating measures and one-off expenditure to address the situation. c.£17 million of customer incentives and costs to address the severe drought conditions were recognised in the second half of 2022/23. In H1 2023/24, a further £1.8 million of specifically identifiable costs have been incurred to address these specific issues.

(3) £0.5 million of expenses in connection with the acquisition of four renewable power generation investments.

(4) The Group incurred expenses of £1.6 million in the half year ended 30 September 2022 in relation to the costs of integration of Bristol Water.

6. Net finance costs

	Unaudited					
	Half year ended 30 September 2023			Half year ended 30 September 2022		
	Finance costs £m	**Finance income £m**	**Total £m**	Finance costs £m	Finance income £m	Total £m
Cost of servicing debt						
Bank borrowings and overdrafts	**(58.0)**	**-**	**(58.0)**	(60.1)	-	(60.1)
Interest element of lease payments	**(22.9)**	**-**	**(22.9)**	(16.3)	-	(16.3)
Other finance costs	**(2.1)**	**-**	**(2.1)**	(1.7)	-	(1.7)
Interest receivable	**-**	**5.0**	**5.0**	-	2.4	2.4
	(83.0)	**5.0**	**(78.0)**	(78.1)	2.4	(75.7)
Notional interest						
Retirement benefit obligations	**-**	**0.7**	**0.7**	-	1.0	1.0
Net finance costs	**(83.0)**	**5.7**	**(77.3)**	(78.1)	3.4	(74.7)

In addition to the above, finance costs of £4.1 million have been capitalised on qualifying assets included in property, plant and equipment (H1 2022/23 £1.6 million).

7. Taxation

	Unaudited					
	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**	Before non-underlying items half year ended 30 September 2022 £m	Non-underlying items (note 5) half year ended 30 September 2022 £m	Total half year ended 30 September 2022 £m
Analysis of charge						
Current tax charge / (credit)	**(0.6)**	**-**	**(0.6)**	1.5	(0.3)	1.2
Deferred tax charge / (credit)	**3.4**	**(1.4)**	**2.0**	1.2	-	1.2
Tax charge for the period	**2.8**	**(1.4)**	**1.4**	2.7	(0.3)	2.4

UK corporation tax is calculated at 25% (H1 2022/23 19%) of the estimated assessable profit for the year. The tax charge for September 2023 and September 2022 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 30.8% (H1 2022/23 charge of 12%).

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 43.8% (H1 2022/23 charge of 11%).

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 2023	Half year ended 30 September 2022
Number of shares (millions)		
For basic earnings per share	**261.2**	262.6
Effect of dilutive potential ordinary shares from share options	**0.7**	1.1
For diluted earnings per share	**261.9**	263.7

Adjusted basic and diluted earnings per ordinary share

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

	Unaudited					
	Half year ended 30 September 2023			Half year ended 30 September 2022		
	Profit after tax £m	**Earnings per share Basic p**	**Earnings per share Diluted p**	Profit after tax £m	Earnings per share Basic p	Earnings per share Diluted p
Statutory earnings	**1.4**	**0.5**	**0.5**	18.3	7.0	6.9
Deferred tax before non-underlying items	**3.4**	**1.4**	**1.4**	1.2	0.4	0.4
Non-underlying items (net of tax)	**4.5**	**1.7**	**1.7**	1.3	0.5	0.5
Adjusted earnings before non-underlying items and deferred tax	**9.3**	**3.6**	**3.6**	20.8	7.9	7.8

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 2023 £m	Half year ended 30 September 2022 £m
Interim dividend paid for the year ended 31 March 2023: 12.96 pence (2022: 11.70 pence) per share	**33.9**	31.5
Final dividend paid for the year ended 31 March 2023: 29.77 pence (2022: 26.83 pence) per share	**77.8**	70.0
	111.7	101.5

In the six months to 30 September 2023 the 2022/23 interim and final dividends were paid resulting in a cash outflow of £111.7 million.

	Unaudited	
	Half year ended 30 September 2023 £m	Half year ended 30 September 2022 £m
Proposed interim dividend for the year ended 31 March 2024: 14.04 pence per share (31 March 2023: 12.96 pence)	**36.7**	33.9

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 2024 will be paid on 5 April 2024 to shareholders on the register on 26 January 2024.

Notes to condensed half year financial information (continued)

10. Share capital

Allotted, called up and fully paid:

1 April 2022 to 30 September 2022	**Unaudited**		
	Number of shares		
	Treasury shares	Ordinary shares	£m
At 1 April 2022 ordinary shares of 61.05 pence each	5,628	264,841,320	161.7
For consideration of £1.7 million, shares issued in respect of the Company's Sharesave Scheme	-	280,605	0.2
Cancelled Shares (acquired via share buy-back)*	-	(3,910,503)	(2.4)
At 30 September 2022 ordinary shares of 61.05 pence each	5,628	261,211,422	159.5

1 April 2023 to 30 September 2023	**Unaudited**		
	Number of shares		
	Treasury shares	Ordinary shares	£m
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**

* During the period to 30 September 2022, the Group concluded the Buy-back programme, with the total aggregate cost of the programme being £239.5 million. The Group purchased £39.9 million of ordinary shares from the market at an average ordinary share price of 1,022 pence during H1 2022/23. The shares acquired under the tender offer were immediately cancelled, creating a capital redemption reserve of £2.4 million.

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 631 pence (H1 2022/23 941 pence).

Notes to condensed half year financial information (continued)

11. Share premium account

	Unaudited £m
1 April 2022 to 30 September 2022	
At 1 April 2022	235.5
Shares issued under the Sharesave Scheme	1.5
At 30 September 2022	237.0
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	**237.7**

12. Capital redemption reserve

	Unaudited £m
1 April 2022 to 30 September 2022	
At 1 April 2022	154.7
Share capital redeemed	2.4
At 30 September 2022	157.1
1 April 2023 to 30 September 2023	
At 1 April 2023	157.1
Share capital redeemed	-
At 30 September 2023	**157.1**

Notes to condensed half year financial information (continued)

13. Cash flow from operating activities

Reconciliation of profit for the period to net cash inflow from operations:

	Unaudited	
	Half year ended 30 September 2023 £m	Half year ended 30 September 2022 £m
Cash generated from operations		
Profit for the period	**1.8**	18.5
Adjustments for:		
Share-based payments	**0.3**	1.2
(Profit) / loss on disposal of property, plant and equipment	**(0.1)**	0.1
Depreciation charge	**80.8**	75.6
Amortisation of intangible assets	**1.7**	1.8
Non-underlying costs	**5.9**	1.6
Share of post-tax profit from associated companies	**(0.5)**	-
Finance income	**(5.7)**	(3.4)
Finance costs	**83.0**	78.1
Taxation charge	**1.4**	2.4
Changes in working capital:		
Decrease / (increase) in inventories	**0.1**	(1.0)
Increase in trade and other receivables	**(45.8)**	(14.5)
(Decrease) / increase in trade and other payables	**(31.0)**	0.1
Cash impact of non-underlying costs	**(2.7)**	-
Decrease in provisions	**(0.4)**	(0.3)
Cash generated from operations	**88.8**	160.2

	Unaudited	
Total interest paid	**Half year ended 30 September 2023 £m**	Half year ended 30 September 2022 £m
Interest paid in operating activities	**49.3**	45.2
Interest paid in investing activities	**4.1**	1.6
Total interest paid	**53.4**	46.8

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 £24.8 million (H1 2022/23 £5.0 million) were received and a gain of £nil (H1 2022/23 £nil). These assets are being leased back at market rates varying lease terms from 8.5 to 9 years.

PENNON GROUP PLC

Notes to condensed half year financial information (continued)

14. Net borrowings

	Unaudited **Half year ended 30 September 2023** **£m**	Year ended 31 March 2023 £m
Cash and cash deposits	**94.4**	165.4
Borrowings – current		
Bank and other current borrowings	**(83.6)**	(92.7)
Lease obligations	**(45.5)**	(32.0)
Total current borrowings	**(129.1)**	(124.7)
Borrowings – non-current		
Bank and other non-current borrowings	**(2,232.9)**	(1,960.9)
Listed preference shares	**(12.5)**	(12.5)
Lease obligations	**(1,046.7)**	(1,032.7)
Total non-current borrowings	**(3,292.1)**	(3,006.1)
Total net borrowings	**(3,326.8)**	(2,965.4)

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

	Unaudited **Half year ended 30 September 2023** **£m**	Year ended 31 March 2023 £m
Cash and cash deposits as above	**94.4**	165.4
Less: deposits with a maturity of three months or more (restricted funds)	**(21.7)**	(21.7)
	72.7	143.7

Restricted funds of £21.7 million (31 March 2023 £21.7 million) are deposited with lessors which are available for access, subject to being replaced by an equivalent valued security.

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 2022 £m	Cash flows £m	Transfer between non-current and current £m	Other non-cash movements £m	Net cash/ (borrowings) at 30 September 2022 £m
Cash and cash deposits	519.0	(301.8)	-	-	217.2
Short-term loan receivable	-	25.0	-	-	25.0
Bank and other current borrowings	(70.0)	0.2	(20.2)	0.1	(89.9)
Current lease obligations	(170.2)	145.0	(11.7)	3.4	(33.5)
Bank and other non-current borrowings	(1,907.4)	(51.0)	20.2	(11.2)	(1,949.4)
Listed preference shares	(12.5)	-	-	-	(12.5)
Non-current lease obligations	(1,041.8)	(5.0)	11.7	0.4	(1,034.7)
Net borrowings	**(2,682.9)**	**(187.6)**	**-**	**(7.3)**	**(2,877.8)**

	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)	9.0	(44.0)	21.5	(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)	44.0	(33.2)	(1,046.7)
Net borrowings	**(2,965.4)**	**(341.7)**	**-**	**(19.7)**	**(3,326.8)**

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.

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			
	Half year ended 30 September 2023		Year ended 31 March 2023	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Non-current borrowings:				
Bank and other loans	**2,232.9**	**1,986.4**	1,960.9	1,791.4
Other non-current borrowings	**12.5**	**18.9**	12.5	21.5
Non-current borrowings excluding leases	**2,245.4**	**2,005.3**	1,973.4	1,812.9

Valuation hierarchy of financial instruments carried at fair value

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

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

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

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

	Unaudited	
	Half year ended 30 September 2023 £m	Year ended 31 March 2023 £m
Level 2 inputs		
Assets		
Derivatives used for cash flow hedging	**71.5**	53.5
Derivatives used for fair value hedging	**0.1**	0.4
Total assets	**71.6**	53.9
Liabilities		
Derivatives used for cash flow hedging	**(3.0)**	(4.8)
Derivative not in a hedge accounting relationship	**-**	-
Total liabilities	**(3.0)**	(4.8)

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 5.5% (March 2023 4.70%) and the inflation assumption of 3.3% (March 2023 3.3%).

	Unaudited					
	Half year ended 30 September 2023			Year ended 31 March 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	**(719.5)**	**748.8**	**29.3**	(985.9)	1,052.2	66.3
Amounts recognised in the income statement	**(17.4)**	**17.0**	**(0.4)**	(27.5)	27.9	0.4
Remeasurements through other comprehensive income	**43.5**	**(72.1)**	**(28.6)**	249.8	(288.8)	(39.0)
Company contributions	**-**	**-**	**-**	-	1.6	1.6
Benefits and expenses paid	**21.2**	**(21.2)**	**-**	44.1	(44.1)	-
At end of period	**(672.2)**	**672.5**	**0.3**	(719.5)	748.8	29.3

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, the surplus in the prior year 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. The overall surplus includes a net surplus of c.£7 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 trustee of WCPS is in working through the process to wind up the Bristol Water section of WCPS and has indicated its intention to return the surplus to the Company. The surplus recognised is restricted by a tax deduction of 35% under UK tax legislation.

17. Capital expenditure

	Unaudited	
	Half year ended 30 September 2023 £m	Year ended 31 March 2023 £m
Property, plant and equipment		
Additions	**239.1**	353.7
Assets adopted at fair value	**7.2**	2.8
Net book value of disposals	**(0.1)**	0.3
Intangible assets		
Additions	**27.2**	4.6
Net book value of disposals	**-**	-
Capital commitments		
Contracted but not provided for the Group	**115.2**	72.0

Notes to condensed half year financial information (continued)

17. Capital expenditure (continued)

Additions to intangible assets during the period include £26.1m as a result of acquiring renewable energy sites with rights to generate energy in the future. The sites acquired have been accounted for under “asset purchase” accounting as opposed to “business combination” accounting, having considered the facts and circumstances surrounding the sites acquired. The identifiable assets and liabilities in this transaction, initially measured at an amount other than cost, have been measured at the amounts specified in the relevant accounting standards. The residual transaction price has then been allocated to the remaining identifiable assets and liabilities based on their relative fair values at the date of the acquisition, including the £26.1m of intangible assets as stated above. The intangible assets acquired relate to energy generation rights on all three sites purchased and a battery energy storage system on a single site, these assets will be amortised over periods expected to be between 35 to 45 years in line with the rights acquired.

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

	Unaudited	
	Half year ended 30 September 2023 £m	Year ended 31 March 2023 £m
Trade and other payables – current		
Trade payables	**125.3**	150.7
Contract liabilities	**7.8**	3.7
Other tax and social security	**4.0**	3.4
Accruals	**23.3**	44.3
Other payables	**50.5**	23.3
	210.9	225.4
Other non-current liabilities		
Contract liabilities	**152.7**	155.3

19. Contingencies and Financial Guarantee

Financial Guarantee

	Unaudited	
	Half year ended 30 September 2023 £m	Year ended 31 March 2023 £m
Performance bonds	9.7	9.7

Guarantees in respect of performance bonds are entered into in the normal course of business. No liability has arisen and is not expected to arise in respect of these guarantees.

Contingency

Other contractual and litigation uncertainties

Ofwat and the Environment Agency announced an industry-wide investigation into sewage treatment works on 18 November 2021. On 27 June 2022, as part of its ongoing investigation, Ofwat announced enforcement action against South West Water Limited, the company is now included alongside the five companies which received enforcement notices in March 2022. The company will continue to work openly with Ofwat to comply with the notice as part of this ongoing investigation. The potential outcome of these investigations continues to be unknown.

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. The company will work openly and constructively with Ofwat to comply with the formal notice issued to South West Water as part of this investigation. The potential outcome of this investigation is currently unknown.

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 2023 £m	Half year ended 30 September 2022 £m
Sales to Water 2 Business	**9.6**	8.9
Purchases from BWBSL	**2.0**	1.4

Balances with joint ventures	**Unaudited**	
	Half year ended 30 September 2023 £m	Year ended 31 March 2023 £m
Trade and other receivables		
Water 2 Business (including loan receivable of £9.0m, 2022: £9.6m)	**10.6**	10.8
BWBSL	**3.5**	1.6
Trade and other payables		
BWBSL	**1.6**	-

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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:

Gill Rider
Iain Evans
Claire Ighodaro
Jonathan Butterworth
Dorothy Burwell
Loraine Woodhouse
Susan Davy
Paul Boote
Steven Buck

For and on behalf of the Board of Directors who approved this half year report on 28 November 2023.

S J Davy
Group Chief Executive Officer

P M Boote
Group Chief Financial Officer

PENNON GROUP PLC

INDEPENDENT REVIEW REPORT TO PENNON GROUP PLC

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2023 which comprises Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated statement of changes in equity, the Consolidated statement of cash flows and related notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2023 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE) issued by the Financial Reporting Council. 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.

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

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 management have inappropriately adopted the going concern basis of accounting or that management 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 this ISRE, however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

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

In preparing the half-yearly financial report, the directors are responsible for assessing the Company'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 company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

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

Ernst & Young LLP
London
28 November 2023

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.
- 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.

(i) Underlying earnings

Underlying earnings are presented alongside statutory results as the Directors believe they provide a more useful comparison on business trends and performance. Note 5 in the 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 2023	**Underlying**	**Non-underlying items: Restructuring / transformation costs**	**Non-underlying items: Drought**	**Non-underlying items: Renewables acquisition**	**Statutory results**	**Earnings per share**
	£m	**£m**			**£m**	**p**
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**

Underlying earnings reconciliation 30 September 2022	Underlying	Non-underlying items: Bristol integration costs	Statutory results	Earnings per share
	£m	£m	£m	p
EBITDA (see below)	174.6	(1.6)	173.0	
Operating profit	97.2	(1.6)	95.6	
Profit before tax	22.5	(1.6)	20.9	
Taxation	(2.7)	0.3	(2.4)	
Profit after tax	19.8	(1.3)	18.5	
Non-controlling interests			(0.2)	
Profit after tax attributable to shareholders			18.3	7.0

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 2024 £m	H1 2023 £m
Net finance costs before non-underlying items (note 6)	77.3	74.7
Remove: net finance income before non-underlying items not associated with South West Water Limited's group of companies	3.6	3.4
Net finance costs before non-underlying items associated with South West Water Limited's group of companies	**80.9**	**78.1**
Net interest on retirement benefit obligations associated with South West Water Limited's group of companies	0.7	1.0
Capitalised interest (note 6)	4.1	1.6
Net finance costs for effective interest rate calculation	**85.7**	**80.7**
Group net debt (opening) (note 14)	2,965.4	2,682.9
Remove: opening net debt not associated with South West Water Limited's group of companies	(100.1)	27.6
Opening net debt for calculation	**2,865.3**	**2,710.5**
Group net debt (closing) (note 14)	3,326.8	2,877.8
Remove: closing net debt not associated with South West Water Limited's group of companies	(235.4)	(69.8)
Closing net debt for calculation	**3,091.4**	**2,808.0**
Average net debt (opening net debt + closing net debt divided by 2)	**2,978.4**	**2,759.3**
Effective interest rate (%)	**5.8**	**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 2024 £m	H1 2023 £m
Net finance costs for effective interest rate calculation (as above)	**85.7**	80.7
Remove non-cash interest accrued (income statement indexation charge)	**(28.7)**	(38.8)
Net finance costs for effective cash cost of interest calculation	**57.0**	41.9
Opening net debt (as above)	**2,865.3**	2,710.5
Closing net debt (as above)	**3,091.4**	2,808.0
Average net debt (opening net debt + closing net debt divided by 2)	**2,978.4**	2,759.3
Effective cash cost of interest (%)	**3.8**	3.0

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 2024	H1 2023
	£m	£m
Net finance costs after non-underlying items	**77.3**	74.7
Net interest on retirement benefit obligations	**0.7**	1.0
Net finance costs for interest cover calculation	**78.0**	75.7
Operating profit before non-underlying items	**85.9**	97.2
Interest cover (times)	**1.1**	1.3

(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 2024	H1 2023
	£m	£m
Additions to property, plant and equipment	**239.1**	140.2
Additions to intangible assets	**27.2**	2.4
Capital investment	**266.3**	142.6

(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 2024	H1 2023
	£m	£m
Cash flow statements: purchase of property, plant and equipment	**249.8**	153.0
Cash flow statements: purchase of intangible assets	**20.7**	2.4
Cash flow statements: proceeds from sale of property, plant and equipment	**(0.2)**	-
Capital payments	**270.3**	155.4

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.