30 November 2022

Half Year Results 2022/23

Susan Davy, Group Chief Executive, commented:

I'm pleased to report a resilient half year performance for Pennon. We're delivering robust fundamentals, executing our strategy and driving long-term sustainable growth.

In the first half of this year we've delivered record levels of investment to support a step change in environmental performance and build resilience for the longer term, having experienced the hottest, driest year since records began. Today we are announcing a further increase in investment in water resilience schemes of c.£45 million to repurpose ex-quarries and mines and introduce de-salination units to ensure our resilience to 2050 is in place now. Together with the investment announced earlier this month, this brings the total reinvestment in these initiatives to c.£75 million. Underpinning our investment is our sector-leading financial outperformance and strong balance sheet.

Our investments aren't just in places and infrastructure, they're in people and communities too. Given the current cost of living crisis, at Pennon, we believe every customer should benefit from what we do.

We are delivering over £78 million of benefits to customers, at a time when customers need it most; including our commitment to share the benefits of financial outperformance with customers through a second issuance of our unique Watershare plus scheme, with £40 million funded so far to give customers the option of a stake and a say in their water company, or money off their bill.

We are also announcing plans to double our apprenticeship and graduate schemes to 2030, and will offer 5,000 work placements to school children over the same period, supporting those in our region to live local and prosper.

ROBUST FUNDAMENTALS, DRIVING LONG-TERM SUSTAINABLE GROWTH

Improving environmental performance

- 100%[1] bathing water quality for the second consecutive year with 99% achieving good or excellent status
  - 9 bathing water investments completed in K7 to date to support water quality improvements
- c.50% reduction in storm overflow use during the bathing water season, supported by our WaterFit investments
  - On track to reduce releases from storm overflows to an average of 20 per year, per storm overflow by 2025, investing c.£20 million in additional storm storage at 58 sites across our network
- On track to reduce our impact on river water quality by one third by 2025 – extensive enhancement across the network including sewer separation at 9 sites, and progressing our bathing water pilots on the rivers Dart and Tavy
- Delivering continued reductions in wastewater pollution incidents – best performance in 10 years – on track in 2022 for continued reduction
  - Pollution Incident Reduction Plan activities accelerated to deliver maximum environmental benefit
  - Roll out of c.9,000 sewer depth monitors underway across the network
  - Focused on predictive modelling of pollution risks enabling early intervention
- Net Zero 2030 on track – supported by capturing carbon through peatland restoration, increasing our electric fleet and investing in renewable energy generation to support 50% self-generation ahead of 2030

Record c.30% increase in capital investment

- Investment of £142.5 million[2] in H1 2022/23 across our asset base to support the delivery of our environmental, water and wastewater service outcomes
  - c.80% of Outcome Delivery Incentives[^] (ODIs) on track or ahead of target for South West Water
  - c.75% of Outcome Delivery Incentives on track or ahead of target for Bristol Water
- c.95% of our capital programme under framework contracts

Supporting our customers

- Over 100,000 customers across our region benefiting from our affordability initiatives
  - c.12% increase in customers benefiting from our social tariff - targeting to double the number of customers benefiting by 2025
- c.£78 million of customer benefits announced to date in K7

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^ Measures with this symbol are defined in the Alternative Performance Measures (APMs) as outlined on pages 63 to 66.
[1] Based on our preliminary analysis of Environment Agency data ahead of the Environment Agency's formal publication of results
[2] Water business capital expenditure excludes c.£0.1 million other investment

- Second £20 million issuance of our unique customer sharing mechanism – WaterShare+, with Bristol Water customers also benefiting for the first time
- Keeping bills as low as possible – bill reduction in 2022/23 for South West Water, and significantly below inflation for 2023/24 across the Group

Innovating to deliver – water resources

- Investing c.£75 million to secure future resilience including re-purposing old quarries and mines and progressing de-salination
- Pioneering 'Stop the Drop' initiative launched – customers financially incentivised to reduce demand and support reservoir recovery

Double digit returns

- Sector-leading double-digit Return on Regulated Equity^ (RORE) – 13.4%[3]
    - Strong financing outperformance – strategic positioning enables the Group to continue to outperform in current macro-economic environment
- Cumulative K7 outperformance of c.£225 million enabling reinvestment in environmental and customer initiatives, including WaterFit, Green Recovery, WaterShare+ and additional accelerated water resilience investment
- Continuing to anticipate cumulative doubling of base returns over K7

Financial resilience

- Sustainable gearing – 58.4%[4], below Ofwat's notional gearing of 60%
- Responsible employer – pension scheme in surplus
- Headroom for investment of c.£500 million

Long-term growth – disciplined capital allocation

- Sustainable, profitable B2B retailer growth
- c.£160 million earmarked for investment in renewable energy generation
- Delivering on our twin track organic and acquisitive growth strategy, supported by Pennon's strong balance sheet capacity and agility
- Sector-leading Regulatory Capital Value (RCV) growth – c.50% over K7, benefiting from our acquisition of Bristol Water[5]

Dividend policy underpinned by continued RORE outperformance

- Growth of 10.8%[6] reflecting established policy of CPIH + 2%.

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[3] Group RORE for H1 2022/23
[4] Calculated using forecast RCV for 31 March 2023 and water business net debt as at 30 September 2022
[5] Bristol Water contributing c.19% RCV growth from acquisition to 2025
[6] Dividend policy of CPIH + 2%. The CPIH rate used is 8.8% as of 30 September 2022.

FINANCIAL PERFORMANCE

	H1 2022/23	H1 2021/22	Change
Underlying revenue^	£425.5m	£389.3m	+9.3%
Underlying profit before tax^	£22.5m	£90.4m	(75.1%)
Non-underlying items before tax[7]	(£1.6m)	(£10.5m)	-
Profit before tax	**£20.9m**	**£79.9m**	**(73.8%)**
Group RORE[8]	**13.4%**	**9.3%**	**+4.1%**
Earnings per share			
• Adjusted EPS^	7.9p	30.6p	(74.2%)
• Statutory EPS	7.0p	(6.3p)	+211.1%
Interim dividend per share[6] - dividend policy	12.96p	11.70p	+10.8%

- Underlying revenue up primarily due to growth in non-household demand both in and out of region, contract wins from Pennon Water Services[9], and a full six-month contribution from Bristol Water
- Underlying profit before tax - reduction reflecting the near-term pressures on earnings from inflation driven power pricing and financing costs, net of other cost efficiencies, as flagged
- Profit before tax of £20.9 million, down from £79.9 million in H1 2021/22
- Adjusted earnings per share of 7.9 pence, down from 30.6 pence
- Statutory earnings per share of 7.0 pence includes non-underlying items. Statutory earnings per share for H1 2021/22 were impacted by the significant non-underlying deferred tax charge in respect of the change in corporation tax rate
- Group RORE for H1 2022/23 of 13.4% reflecting an increase of 4.1% on H1 2021/22
- Sector-leading dividend growth with interim dividend per share up 10.8% (CPIH +2%) to 12.96 pence.

A full reconciliation to the statutory reported results is included in item (i) in the Alternative Performance Measures on pages 63 to 66 of this announcement.

[7] Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of financial performance
[8] Ofwat RORE - H1 2022/23 Group RORE, calculated on Ofwat basis
[9] 80:20 joint venture with South Staffs

OUTLOOK

Underpinning the Group is our strategically positioned, robust balance sheet, delivered through being disciplined with our financial investment and approach through the long term. This has enabled us to absorb the impact of elevated inflation on power and interest costs in this half, deliver record investment, and ensure that the pension scheme continues to be in surplus, whilst simultaneously reducing gearing at the water business to 58.4% and ensuring there is headroom capacity for growth of c.£500 million.

Robust financial and operational outcomes underpin our sector-leading RORE, with a Group RORE at H1 2022/23 of 13.4%. Outperformance delivered to date in K7 of c.£225 million is enabling reinvestment in this period – including our Green Recovery, WaterFit, additional water resources investments and our second WaterShare+ issuance.

Our underlying performance across all Environmental Performance Assessment (EPA) metrics is improving, however, with ratcheting targets we do not anticipate a change in the EPA metric for 2022. We remain on a trajectory that would result in achieving our target of 4* status for 2024.

To date in K7 we have announced c.£78 million of customer support. We continue to work hard to deliver quality services at an efficient cost, so that bills remain as low as possible. Over 100,000 customers are currently benefiting from our broad range of affordability initiatives – including delivering a c.12% increase in those benefiting from our social tariffs, which we are targeting to double by 2025.

Our B2B businesses[10], PWS and water2business continue to win contracts, driving strong financial performance and profits. With a combined market share of c.12% have some of the lowest customer attrition rates in the market, and excellent customer service scores as measured by TrustPilot.

The water business RCV is set to grow by a sector-leading c.50% over K7, with our two B2B retailers profitably growing in a competitive market and c.£160 million held for investment in value enhancing renewable energy generation projects across the UK, decreasing our reliance on volatile global power markets. Looking to K8 and beyond, we see the need for significant investment which will drive RCV growth as we deliver extensive environmental and resilience driven schemes.

Through the successful execution of our twin track strategy – driving both organic and acquisitive opportunities, underpinned by our disciplined capital allocation, we will continue to create long-term sustainable value.

[10] PWS: 80:20 joint venture with South Staffs, water2business: 30% share a joint venture with Wessex Water

Post our acquisition of Bristol Water in 2021 we are on track to integrate our water businesses, bringing together the best of the best to improve services for customers across the Group. The Licence change and Statutory Transfer is anticipated in early 2023 and we are deploying our integration blueprint ahead of that.

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.

The Group's dividend policy to 2025 of CPIH +2% delivers an interim dividend of 12.96 pence per share.

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 08:30am (GMT), today, 30 November 2022 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 09:00am (GMT):

United Kingdom:	0800 640 6441
United Kingdom (Local):	020 3936 2999
All other locations:	+44 20 3936 2999
Conference passcode:	282380

For further information, please contact:

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Harry Worthington		

PERFORMANCE REPORT

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.

We operate across a unique topography – with 860 miles of coastline, our infrastructure regularly flexes to accommodate a population that swells from 3.5 million to over 10 million through tourism in the summer months. Ensuring resilience to delivery in peak times across our network is critical.

We are well underway with the delivery of our largest environmental investment programme for 15 years, and have invested £142.5 million during H1 2022/23 across environmental, customer, water and wastewater outcomes – a record level of spend and a c.30% increase this half year.

This investment has supported the achievement of c.80% of our ODIs for South West Water and c.75% of ODIs for Bristol Water. Our leakage reduction plan is delivering sustainable results, utilising satellite technology and acoustic loggers to find and fix more leaks than ever. We continue to outperform our mains repair targets across the region, and investments in water quality – including granular activated carbon (GAC) and manganese removal, continue to deliver results.

Nine bathing water investments have been delivered to date to support water quality improvements and we have achieved 100% bathing water quality standards for the second consecutive year running. Our award winning ‘Upstream Thinking’ programme has driven an increase in biodiversity across the region, with c.100,000 hectares cumulatively improved to date.

We are investing c.£20 million in additional storm storage at 58 sites across the region, along with 15 increased treatment flow schemes – with one third on track for completion ahead of 2023/24. We are also replacing 36 rising mains during this regulatory period, with 8 completed in H1 2022/23, and our internal flooding performance continues to be sector-leading – delivering a c.80% reduction in K7 so far. Our Pollution Incident Reduction Plan continues to deliver results and we are on track to deliver our best ever performance this year, driven by the acceleration of initiatives from the plan to deliver maximum environmental benefit.

In line with our WaterFit plans announced earlier this year, we are underway with reinvesting c.£45 million over the next two years, targeting a reduction in the use of storm overflows. This year we have also seen a c.50% reduction in the use of storm overflows through the 2022 bathing season and we are on track to reduce releases from storm overflows to an average of 20 per year, per storm overflow by 2025.

We remain on track to deliver on our Net Zero 2030 commitments and have made progress across all three pillars of our strategy in H1 2022/23, including investing in an electric fleet and capturing carbon through our restoration of c.900 hectares of peatland. Alongside this we have ringfenced c.£160 million to expand our renewable energy generation capacity, whilst continuing our current roll out of solar at our operational sites – supporting our target of 50% of self-generation ahead of 2030.

We continue to work hard to deliver quality services at an efficient cost, so that bills remain as low as possible. We know that right now, given the pressure that household finances are under, this is more important than ever for our customers. On average, South West Water's customer bill in 2022/23 reduced by c.£10, and for 2023/24, bill increases are expected to be significantly below inflation across the Group.

We have an extensive package of affordability and vulnerability measures across the water businesses, including specific tariffs and income maximisation schemes, supporting over 100,000 customers to date. We also know that everyone is different, which is why the support we offer is different – customer benefits announced to date in K7 equate to c.£78 million[11].

Robust financial and operational outcomes underpin our sector-leading RORE, with a Group RORE at H1 2022/23 of 13.4%. Driving outperformance across the Group gives us the ability to deliver more within a regulatory delivery period. The outperformance delivered to date in K7 of c.£225 million is supporting reinvestment in this period, underpinning our Green Recovery, WaterFit, additional water resource investments and our second WaterShare+ issuance.

Innovating to deliver – water resources

2022 has been the driest, hottest year on record across the region, with record demand and visitors. Throughout this period, customers have received a continuous supply of clean, safe drinking water, despite the significant demand on the network and water sources across the region with river flows and reservoir levels in Cornwall reaching historically low levels this summer.

Over 90% of South West Water's supply comes from surface water sources – rivers and reservoirs, with the remainder coming from groundwater sources such as springs, wells and boreholes. In August, the Environment Agency officially declared a drought in the South West, bringing 11 out of the Environment Agency's 14 areas in England into drought status following the record dry spell.

South West Water has been doing more than ever to secure supplies, whilst adopting our 'Quality First' initiative across the business to continually improve production and distribution of water.

In line with our established drought plan we introduced a temporary use ban (also known as a TUB or hosepipe ban) for the first time in 26 years, in parts of Cornwall and North Devon. Alongside this, our operational response was agile and included flexing the network, maximising water efficiency campaigning, the provision of over 75,000 free water-saving devices to customers including more

[11] Reflects WaterShare+, customer support schemes and 'Stop the Drop' financial incentive

than 18,000 free water butts, and investing in the water grid to move water across the region to areas most in need. Educational and customer campaigns continue to focus on water saving initiatives and ideas to help both reduce customers' bills and to preserve our natural resources.

Leakage remains a key area of focus with elevated demand conditions causing higher pressures across the network, and the hot, dry weather driving greater ground movement. Greater use of network monitoring and artificial intelligence in addition to a targeted customer campaign, including offering free customer leak repairs, is helping to identify and fix leaks quicker than ever, with around c.2,500 leaks repaired each month on average.

Pioneering to make a difference – driving industry firsts

Earlier in November, South West Water launched a pioneering incentive scheme to help reservoir levels recover, as part of building longer term resilience. 'Stop the Drop' offers a financial incentive to customers in the Cornwall region to encourage them to reduce consumption. If Colliford reservoir, serving the majority of Cornwall, recovers to 30% capacity by 31 December 2022, customers in this region will receive a £30 rebate on their bill.

South West Water is investing c.£75 million[12] in water resilience, including accelerating initiatives to secure supplies across Cornwall. This includes investment at our new Hawkstor reservoir, purchased earlier in 2022, alongside work at three other water sources in Cornwall including re-purposing ex-quarries and mines, and progressing de-salination solutions. We are also pursuing a new reservoir in the Bristol region – Cheddar 2, which forms part of our longer-term strategy. We continue to work collaboratively with Defra, Environment Agency, Drinking Water Inspectorate and Ofwat.

Improving environmental performance

A key concern and priority of our customers and other stakeholders is protecting and enhancing the beautiful environment in the Great South West and we are determined to play our part, focusing on improving river and coastal water quality.

Our c.£1.4 billion environmental investment programme – our largest for over 15 years, is now well underway, and includes the delivery of accelerated environmental investments such as our Green Recovery initiative, and our WaterFit plan launched earlier this year – focused on protecting rivers and seas together.

Nurturing healthy rivers and seas

[12] Includes up to c.£10m financial incentive for customers associated with SWW's Stop the Drop initiative, c.£20m water resilience Totex – accelerating initiatives (capex/opex split roughly 50/50) and estimated c.£10m to progress de-salination and other water resource opportunities in Cornwall, including re-purposing ex-quarries and mines with c.£35 million anticipated in FY2023/24 to deliver these schemes

Having delivered capital improvements at 9 bathing waters to date in K7 – ahead of our commitment of 8 by 2025, we are pleased that our nine investments during K7 to date in our coastal bathing waters in recent years is anticipated to result in 100% of bathing waters in the region achieving stringent quality standards for a second year running – with 99% achieving good or excellent status – as measured by the Environment Agency. We are using our expertise in coastal water improvements learnt over many years to inform and guide our river water quality pilots that are underway as part of our Green Recovery initiatives, including pilot schemes on the Rivers Dart and Tavy.

Releases from storm overflows have reduced by c.30% this year to date, when compared to the same period last year, and are c.50% lower during the bathing season, and we are on track to reduce releases from storm overflows to an average of 20 per year, per storm overflow by 2025. Contributing to this reduction is our new 'Spillsure' system, enabling internal triaging of information, along with c.£20 million investment in additional storm storage identified at 58 sites and the establishment of a dedicated capital intervention team in addition to extensive enhancement and replacement across the wastewater network.

We are on track to reduce the impact of our own assets and processes on river water quality by one third by 2025, with extensive enhancement and replacement underway across the wastewater network, including sewer separation at 9 sites. We are investing in wastewater treatment processes to enhance river quality through reducing phosphate and ammonia at six sites.

Our award winning 'Upstream Thinking' programme has driven an increase in biodiversity across the region, with c.100,000 hectares cumulatively improved to date. We work 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 are also well on track to deliver our target of planting 250,000 trees by 2025, having planted c.150,000 to date.

Working with communities, open and transparent reporting

We are committed to sharing open and transparent reporting with our numerous stakeholders, including our wider customer base, particularly on our environmental impact. South West Water is on track to complete the installation of monitors at 100% of our c.1,600 storm overflows during 2022 - ahead of our 2023 target date, and as part of our WaterFit plans we will be launching our WaterFit Live app in early 2023 which will cover all beaches in our region – equating to one third of the nation's bathing beaches.

Central to our commitment to being open and transparent is our unique WaterShare+ scheme, which enables customers to hold the business to account on performance through a dedicated customer AGM and quarterly meetings in public, which is attended by the Group CEO.

Alongside this we work collaboratively with communities in areas where there are wider catchment issues in order to provide support and resolution for issues. Our in-depth analysis has shown that many incidents widely reported as sewage spills are caused by field run-off of mud and silt, highlighting that in many cases, what are seen as issues with storm overflows and drains are down to other factors. Through working with the community, we can explore ways in which we can work together to protect our natural environment through aspects such as our award-winning 'Upstream Thinking' initiative which protects our rivers by working with farmers and land-owners to improve water quality, and our Downstream Thinking programme explores how we can work with communities and partners to explore innovative ways to manage the amount of surface water that enters our sewer network.

In July 2022 we hosted the South West's first regional environmental forum. The forum provided an opportunity to raise awareness of the environmental work being delivered by the company and to engage partners in the strategies and plans being developed for the future. Discussions were held to identify shared goals and to explore potential opportunities for collaboration in the future. The forum was followed by online engagement sessions in September 2022 involving over 120 partners focusing on questions relevant to the future of drainage and wastewater management.

As part of its industry-wide ongoing investigation into how water and wastewater companies manage their wastewater treatment works, Ofwat announced in June 2022 that South West Water have been included alongside the five companies which received formal notices earlier in the year with regards to Flow to Full Treatment. We continue to work openly, constructively and transparently with Ofwat as part of this ongoing process.

Pollution Incident Reduction Plan – delivering improvements

South West Water's Pollution Incident Reduction Plan continues to deliver results. Since 2020 we have delivered a c.65%[13] reduction in wastewater (category 1-3) pollutions. We are on track to deliver our best ever performance this year – a further year on year reduction, having accelerated activities within our plan to deliver maximum environmental benefit.

Through sharing best practice from across the industry, our plans include a range of solutions, driven by the use of AI and predictive technology, such as Innovyze to map catchments and target interventions, and Meniscus, utilising asset and weather data to predict potential pollution risks, enabling early intervention.

The roll-out of c.9,000 sewer depth monitors is underway across our c.20,000km of sewer network in addition to the deployment of region-wide predictive network burst detection technology. We have

[13] Reduction to date from 2020 and reflecting 9 months of 2022 – wastewater pollutions are measured on a calendar year basis

also improved processes to rapidly investigate illegal connections to our network to minimise the impact of pollutions from these sources.

We have increased our supply chain resource by c.25% to support with our 24/7 response, along with delivering over 260 hotspot interventions since 2021. We are also utilising the Centre for Resilience, Environment, Water and Waste (CREWW), our innovative partnership with Exeter University, for root cause analysis, with this insight helping to shape our plans. Alongside this, our education programme also plays an important role in influencing customer behaviours, supporting the achievement of our sewer blockages ODI.

Our underlying performance across all Environmental Performance Assessment (EPA) metrics is improving, including a continuation of the trend in pollutions and other compliance metrics, however with ratcheting targets we do not anticipate a change in the EPA metric for 2022. We remain on a trajectory that would result in achieving our target of 4* status for 2024.

Investment driving operational performance

This regulatory period will see us investing over £1.4 billion across the Group and across the asset base. We are investing across water and wastewater assets and these investments alongside our innovative operational ways of working means we continue to deliver against our business plan ODI commitments.

The provision of quality drinking water is the cornerstone of the water business, and our dedicated teams continue to work around the clock to deliver on our commitments. During the half year we have been focusing on water quality with dedicated resources delivering targeted operational improvements, including investing in GAC and manganese removal at 4 sites to further improve the taste and appearance of water supplied – these improvements alone will deliver water quality improvements for >70% of Cornwall. Coupled with this, we have delivered a step change in service reservoir maintenance, doubling the frequency of inspection for our highest risk treated water tanks, and increasing the use of remote operated vehicle inspections for all treated water tanks to allow testing and assessment under pressure. This has enabled the Group to deliver a c.50% uplift in our tank cleaning programme. We also launched our 'Quality First' initiative to continually improve production and distribution of clean, safe drinking water.

Across the Group we have outperformed our mains repairs targets for K7 to date, driven by investment in proactive replacements and network calming measures.

At a time when resource levels are under pressure, delivering on leakage reduction plans is ever more important. We have been using satellite technology, investing in acoustic loggers, increasing our speed of response by c.60% to find and fix more leaks than ever before. Our leakage plan is yielding sustainable results, maintaining momentum from last year – keeping us on track to deliver a 15% reduction over the K7 period.

Our wastewater services, delivered by South West Water, continue to drive improvements through innovation by constantly seeking out new ideas, pioneering and piloting new technologies with a focus on nature-based solutions, where possible.

We are investing in storage schemes through our WaterFit investment, to hold back flows and reduce the use of storm overflow releases. Our planned approach to reduce the environmental impact from storm overflows is focused on additional telemetry deployment, reviewing and responding to new and existing data 24/7, alongside investment to reduce infiltration into our infrastructure. This includes our investment to increase storage and treatment capacity at 58 sites alongside increasing treatment flows at 15 sites across the region, and we remain on track to deliver one third of these ahead of 2023/24. Alongside this, we are replacing 36 rising mains to increase the resilience of our network, with eight completed in H1 2022/23.

Our internal flooding performance continues to be industry leading, having delivered a c.80% reduction to date in K7, driven by investment in network demand and customer education programmes.

Even though targets are ratcheting we are continuing to deliver on our ODI commitments with c.80% on track or ahead of target for South West Water and c.75% on track or ahead of target for Bristol Water and as we share best practice across both businesses, there are opportunities to achieve more.

Supporting all our customers, colleagues and communities

Reducing bills for all customers

We believe that nobody should worry about their water bill, which is why we have a range of help and support available for those that need it. We also know that everyone is different, which is why the support we offer is different – customer benefits announced to date in K7 equate to c.£78 million.

We continue to work hard to deliver quality services at an efficient cost, so that bills remain as low as possible. We know that right now, given the pressure that household finances are under, this is more important than ever. On average, South West Water's customer bill in 2022/23 reduced by c.£10, and for 2023/24, bill increases will stay significantly below inflation across the Group.

Building on the successful launch of our WaterShare+ initiative in 2020 which saw one in 16 households in the region become shareholders, we are delighted to be accelerating the next issuance of our unique WaterShare+ scheme in 2022/23. £20 million of outperformance will be used to underpin our commitment not just to South West Water and Bournemouth Water customers but now also to Bristol Water customers, equating to £13 per customer – enhancing the community contract already in place with them, and bringing the current WaterShare+ total to c.£40 million to date.

Addressing water poverty

We have an extensive package of affordability and vulnerability measures across the water businesses, including specific tariffs and income maximisation schemes, supporting over 100,000 customers to date. These initiatives include discounts to bills or a level of bill certainty to suit customers' circumstances, helping to support our Board pledge to address water poverty for our customers by 2025. We have increased the number of customers benefiting from one or more of our social tariffs by c.12%.

As a result of these initiatives, since the start of this regulatory period we have unlocked c.£28 million of support for customers across the Group. Alongside the financial support we provide, we work closely with a range of independent organisations and debt partners who continue to be key to promoting the range of help available to customers.

Playing our part in the communities we serve

As a Business for Societal Impact (B4SI), we are passionate about contributing positively to the communities in the regions we serve. We continue to support communities with funding available for community groups through both South West Water and Bristol Water, 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, with over 45,000 people benefiting directly from these projects to date in K7. Given the importance of our role in the communities we are proud to be providing c.£1 million to local charities and good causes over the period to 2030.

We are always looking at new and innovative ways to get our customers and communities involved in water conservation, and are delighted that in its first year, our Water Saving Community Fund has funded projects contributing to a saving of almost 60 million litres in one year. This has been achieved through projects both big and small, such as drought tolerant gardens, water butts in community allotments, educational displays in schools, or harnessing new technology to change behaviour towards water use.

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 7,000 pupils in K7 to date about where our clean water comes from and how wastewater is treated.

Supporting and developing our colleagues

At the heart of any great business are the people who work in it. With around 3,000 employees our people strategy is centred around talented people doing great things for customers and each other, and creating the best place to work.

We are passionate about creating a diverse and inclusive place to thrive and are proud to support the #10000blackinterns initiative and the Change The Race Ratio, as well as having increased gender diversity across the Group.

We are proud to be a member of 'The 5% Club'– investing in the next generation through embracing an 'earn and learn' culture. We are delighted to be the only water company awarded Gold membership status this year as we have exceeded the 5% target and have almost 10% of our employees on these development programmes – with over 300 apprenticeships and graduates.

As a recognised Living Wage Employer, we are committed to ensuring that every member of staff working for the Group is fairly paid. Pennon's commitment not only applies to directly employed staff but also to third party contracted staff.

We also plan to double our apprenticeship and graduate schemes to 1,000 by 2030, along with offering 5,000 work placement opportunities over the same period.

Double digit RORE - outperformance enabling investment

Continued RORE outperformance underpins the Group's sustainable dividend policy whilst enabling the reinvestment of efficiencies and keeping customer bills low, with a sector-leading Group RORE for H1 2022/23 of c.13.4%. During K7 to date we have delivered RORE outperformance of 9.5% cumulatively, equating to c.£225 million. This is made up of c.£87[14] million – Totex^, c.£148 million financing, net of c.£10 million ODI penalty[15]. This has enabled the funding of multiple initiatives including:

- WaterFit - c.£45 million reinvestment of efficiencies to enhance coastal and river water quality
- Green Recovery – c.£82 million accelerated and additional spend on initiatives including pilot schemes on the Rivers Dart and Tavy, accelerated investment in improving shellfish waters, rolling out over 70,000 smart meters by 2025, and replacing lead pipes – which will be reflected in RCV in K8
- WaterShare+ – acceleration of c.£20 million returns to customers through our second issuance in K7
- 'Stop the Drop' – c.£75 million additional and accelerated drought resilience investment.

[14] Includes c.£15 million tax
[15] Excludes the impact of the third-party Carland Cross event in 2021 which we are seeking to recover from the third-party

South West Water's strong operational and financial performance has contributed to a RORE of 14.7%[16] in H1 2022/23, with strong financing outperformance outweighing Totex contribution, and net ODI rewards.

Bristol Water has delivered a RORE of 5.5%[16] in H1 2022/23 – above its allowed base returns, with financing and Totex outperformance partially offset by a small ODI penalty.

South West Water continues to build on its strong ODI performance, with c.80%[17] either on track, or ahead of target across a broad range of challenging bespoke, common and comparative measures. 8 ODIs continue to represent areas of excellence having achieved their 2025 target early, with a further 28 outperforming their 2022/23 target or on track. ODI performance for South West Water during H1 2022/23 has resulted in a net reward of c.£2.1 million (H1 2021/22 net reward of c.£3.5 million), reflecting an H1 2022/23 equivalent RORE outperformance of 0.3%.

Bristol Water is on track to achieve c.75% of its ODIs, with 2 ODIs representing areas of excellence and a further 19 outperforming or on track with their 2022/23 target. ODI performance for Bristol Water for H1 2022/23 has resulted in a net financial penalty of c.£0.6 million, resulting in an H1 2022/23 equivalent RORE underperformance of 0.6%.

Financing

As a Group, we are strategically positioned to outperform in the current macro-economic environment. Our flexible financing strategy and the company's diverse debt portfolio, with a relatively lower level of index-linked debt compared to the industry average allows 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 5.1% (FY 2021/22 3.4%). Bristol Water's level of index-linked debt is in line with the industry average at around 50%, resulting in an effective interest rate^ of 10.0%.

Totex savings

Whilst the elevated inflationary environment is placing significant pressure on costs, including wholesale power, we continue to focus on efficient Totex delivery, supported by our pioneering approach to innovation across the Group. Our efficient delivery to date has enabled us to reinvest in environmental initiatives including WaterFit and Green Recovery and remain financially resilient.

Return on Regulated Equity

The table below summarises the H1 2022/23 RORE position for both South West Water and Bristol Water.

[16] Based on Ofwat's K7 approach to RORE, including total tax impacts and using actual average inflation for Totex and financing
[17] ODIs on track or within regulatory tolerances

	Ofwat RORE[16]		WaterShare RORE[18]	
	South West Water	**Bristol Water**	**South West Water**	**Bristol Water**
Base return	3.9%	4.5%	3.9%	4.4%
Totex	(1.7)%	0.4%	(1.0)%	(0.2)%
ODI	0.3%	(0.6)%	0.3%	(0.3)%
Tax	2.0%	-	N/A	N/A
Financing	10.2%	1.2%	6.0%	(1.0)%
Total RORE – H1 2022/23	**14.7%**	**5.5%**	**9.2%**	**2.9%**
K7 Cumulative RORE	**10.2%**	**5.1%**	**8.6%**	**5.2%**

Growing the business – bringing together the best of the best

Following clearance from the Competition and Markets Authority on the integration of Bristol Water with South West Water earlier this year, we have been working to deliver our programme to integrate the business.

Our proven integration blueprint consists of three phases, over 24 months. The first phase of this includes corporate and shared services, which are now well underway with organisational changes in progress – bringing together the best of best from both businesses. We are rolling out our Group-wide HomeSafe health and safety programme, and are well underway in developing a combined plan for PR24, as well as making headway with financial restructuring including the repayment of Bristol Water's 2041 bond in November 2022, providing c.£20 million benefit in H2 2022/23.

Changes to South West Water's Licence along with the statutory transfer are anticipated in early 2023, which once in place will enable us to unlock further phases of our blueprint. We remain on track to deliver synergies of c.£20 million per annum across the Group by 2024/25.

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.£8 million of new contracts during the period. Pennon Water Services' strategy is to engage proactively with its customer base, and to continue to win new, quality contracts.

Through a simple, transparent and competitive service offering, Pennon Water Services attracted businesses of all sizes and sectors during the period, including Hilton Foods, Places for People, Frasers Hospitality Group and Seachill. Pennon Water Services has one of the lowest customer attrition rates in the market, demonstrated through strategic water users such as Princes Foods,

[18] 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.

Exxon Mobil, Smurfit Kappa and Nuffield Health recognising the value from their relationship with Pennon Water Services and renewing their retail contracts.

Overall non-household demand which had been impacted due to covid restrictions on customer's operations in some sectors, has returned to pre-covid levels across the majority of sectors.

Pennon Water Services' customers continued to recognise the value and support provided. This is reflected through a Trustpilot rating of excellent – 4.8/5 and a c.13% reduction in complaints in comparison to last year, reflecting efforts to refine and improve customer service.

Through our acquisition of Bristol Water, we 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 96%. With a c.6% market share, water2business offers tailored water and wastewater management helping customers improve efficiency and deliver savings. Water2business delivered resilient financial performance during its financial year to 30 June 2022 of £1.5 million profit after tax[19], supported by the addition of c.3,000 new customers this year.

PR24 – delivering for now and the next generation

As we bring together the best of the best to support the development of our combined business plan for PR24, we remain focused on delivering the best outcomes for customers, communities and the environment.

Our plans include significant environmental investments, driven by new legislative requirements, and an increasing need for resilience informed by our long-term planning.

We will continue to challenge ourselves to develop innovative and sustainable solutions to deliver on our commitment to protect and enhance the natural environment we operate in, both now and for generations to come – driving significant RCV growth to 2050.

Robust fundamentals, driving sustainable growth

At Pennon, we are focused on delivering sustainable results for customers, communities, the environment, and for shareholders through the delivery our twin track growth strategy. The strength of our balance sheet, combined with our flexible financing strategy and diverse portfolio of debt, positions us well, meaning we can be agile in our response to pursuing both organic and acquisitive opportunities.

[19] Based on total company performance to 30 June 2022 included within consolidated financial statements of Wessex Water Limited. Accounted for under the equity method with share of any post acquisition profits recognised in Pennon Group's income statement to the extent these profits exceed losses previously unrecognised.

We are committed to being a responsible business for all our stakeholders, achieving improved environmental, social and governance (ESG) performance. Demonstrating our role in society is crucial in maximising the value we create for stakeholders, and we are proud that our ongoing commitment to do the right thing, in the right way, continues to deliver sustainable results, and is reflected in our strong and improving ESG performance metrics.

We have a proven track record in delivering shareholder value, supporting the delivery of long-term, sustainable returns. We are applying our integration blueprint to our most recent acquisition, Bristol Water, to ensure we are creating an organisation that fully embraces the best of the best – from people to processes and everything in between. Our planned investment in renewable energy generation will further complement our water assets, providing energy to them, whilst de-risking exposure to volatile global power markets in the longer term, and accelerating our journey to achieve net zero carbon by 2030. We are well underway with delivering on our plans to 2025, which when combined with our acquisition of Bristol Water will increase the Group's RCV by around 50% to 2025.

As we develop our plans for K8 and beyond our focus will remain on protecting and enhancing the natural environment in which we operate, and in delivering value for all.

FINANCIAL PERFORMANCE

During H1 2022/23, volatility in the global economy, reflecting the geopolitical situation and economic difficulties regarding the recovery from the global pandemic, has continued. We started to experience the impact of this in the second half of the financial year ended 31 March 2022 and, as expected, the impact of elevated inflation on power and interest costs has had an adverse impact on our near-term earnings.

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 March inflation, respectively.

Bristol Water has contributed to our financial results since 3 June 2021 with full clearance for the merger of the wholesale water businesses granted on 7 March 2022. The results in the comparative period for H1 2021/22 only include Bristol Water for four months from the date of acquisition.

Underlying^	**H1 2022/23**	**H1 2021/22**	**Change**
Revenue	£425.5m	£389.3m	+9.3%
Operating costs	(£250.9m)	(£189.9m)	(32.1%)
EBITDA^	£174.6m	£199.4m	(12.4%)
Depreciation and amortisation	(£77.4m)	(£72.0m)	(7.5%)
Operating profit	£97.2m	£127.4m	(23.7%)
Net interest charge	(£74.7m)	(£37.0m)	(101.9%)
Profit before tax	**£22.5m**	**£90.4m**	**(75.1%)**
Non-underlying items before tax[7]	(£1.6m)	(£10.5m)	-
Profit before tax	**£20.9m**	**£79.9m**	**(73.8%)**
Underlying tax^	(£2.7m)	(£5.2m)	+48.1%
Non-underlying tax	£0.3m	(£96.9m)	-
Profit / (loss) for the period	**£18.5m**	**(£22.2m)**	**+183.3%**
Earnings per share			
• Adjusted EPS^	7.9p	30.6p	(74.2%)
• Statutory EPS	7.0p	(6.3p)	+211.1%
Interim dividend per share[6]**Error! Bookmark not**	12.96p	11.70p	+10.8%
Capital investment	£142.6m	£111.5m	+27.9%
• South West Water	£118.1m	£98.7m	+19.7%
• Bristol Water	£24.4m	£12.7m	+92.1%
• Other	£0.1m	£0.1m	-
	30 September 2022	**30 September 2021**	
Total Group net debt	(£2,877.8m)	(£2,542.9m)	

As previously flagged, whilst the Group's revenues and RCV grow with inflation, offsetting cost increases over the long-term, near-term earnings are reduced through higher interest charges and operating costs such as power.

The Group's revenue has increased from £389.3 million to £425.5 million, an increase of c.9.3%, with the additional two months of revenue from Bristol Water in this half year contributing £22.5 million (5.8%). Excluding the impact of the additional two months of revenue from Bristol in this half year compared to last, revenues have increased by 3.5%.

In South West Water, elevated demand levels have continued, with non-household revenues returning to pre-pandemic levels. Inflationary price increases have been offset by the impact of regulatory adjustments resulting in an overall reduction in tariffs to our customers and a net reduction in revenues in H1 2022/23 compared to H1 2021/22, though noting that revenues will be rebalanced in future years given the revenue control mechanism.

In the Bristol Water region, demand levels have been relatively stable year on year with revenues benefiting from higher regulatory allowances in its business plan as determined by the Competition and Markets Authority (CMA).

Pennon Water Services continues to deliver further external revenue growth of c.£12 million in H1 2022/23 compared to H1 2021/22 with demand growth of c.£6 million and contract wins contributing c.£6 million of additional revenue.

Operating costs have been impacted by significant increases in power costs driven by the volatile global market prices and consequent higher associated transmission costs. Overall power costs across the Group of c.£49 million (H1 2021/22 £24 million) have increased on a like for like basis by c.£23 million (c.90%) in H1 2022/23 compared to H1 2021/22, with an additional two months of Bristol Water's power costs of c.£2 million contributing to the overall increase. Other operating costs are broadly flat period on period, with inflationary pressures largely offset by delivery of efficiencies.

As a Group, we recognise the pressure the cost of living crisis may pose to our customers and we are focused on providing a broad range of affordability measures to support those in need of support. Across all Group businesses, the potential impact of significant increases in the cost of living on affordability has been considered in assessing our credit loss charges.

Cash collections throughout the Group have remained robust during the first half of the financial year. Underlying expected credit loss charges for H1 2022/23 of £4.1 million for the water business (1.1% of revenue) are in line with previous levels (H1 2021/22 1.0%[20]). For Pennon Water Services,

[20] Includes full six-month Bristol Water performance during H1 2021/22

the expected credit loss charge of £0.3 million (0.3% of revenue) is also in line with previous levels (H1 2021/22 of 0.3% of revenue).

Excluding the impact of power increases, Bristol Water has contributed £14.5 million of additional EBITDA in comparison to H1 2021/22 with £12.5 million contributed from the additional two months of trading and £2 million from like for like growth. Overall, underlying EBITDA has reduced 12.4% from £199.4 million to £174.6 million reflecting the significant increase in power costs.

The Group's net interest charge has doubled in comparison to H1 2021/22 increasing from £37.0 million to £74.7 million. Whilst the Group benefits from a lower proportion of index-linked debt compared to the water industry average, 30% of Pennon's regulated water businesses' gross debt of £2.8 billion is index linked at 30 September 2022. Inflation remained relatively low in H1 2021/22 and has increased significantly throughout the calendar year 2022. The inflation element of the interest charge is c.£46 million, compared to c.£9 million in H1 2021/22.

Group underlying profit before tax decreased by 75.1% to £22.5 million compared with H1 2021/22 of £90.4 million. This outturn reflects the near-term pressures on earnings from elevated power pricing and financing costs.

Overall, our underlying results for the Group for the full year are expected to be weighted to the first half of the financial year, as a result of the impact of seasonally higher power usage and prices increasing inflationary impacts on costs, and the impact on revenues through lower customer demand as a result of continued water efficiency promotion and initiatives.

SOUTH WEST WATER

South West Water underlying	H1 2022/23	H1 2021/22	Change
Revenue[21]	£294.1m	£298.1m	(1.3%)
Operating Costs	(£154.5m)	(£119.8m)	(29.0%)
EBITDA^	£139.6m	£178.3m	(21.7%)
Depreciation and amortisation	(£60.3m)	(£60.4m)	+0.2%
Operating profit	£79.3m	£117.9m	(32.7%)
Net interest charge	(£58.8m)	(£33.2m)	(77.1%)
Profit before tax	£20.5m	£84.7m	(75.8%)

South West Water's underlying revenue for H1 2022/23 of £294.1 million has reduced by 1.3% (£4.0 million) compared with the prior year (H1 2021/22 £298.1 million) with continued elevated demand and the inflationary impact of tariffs, being more than offset by regulatory adjustments to revenue, including in-year ODI penalties from 2020/21.

[21] Includes wholesale revenue for non-household customers

Underlying operating costs of £154.5 million increased by £34.7 million (H1 2021/22 £119.8 million) principally reflecting:

- Inflationary and other macro-economic impacts on wholesale energy and chemical prices (£25.2 million)
- Responding to operational drivers including continued elevated demand prolonging high production volumes, supporting improvements to leakage and pollutions performance, and as a result of the recent dry weather driving additional customer communications, water efficiency initiatives and costs associated with ensuring water resilience
- Increased regulatory and compliance costs (£1.9 million) due to the introduction of Farming Rules for Water and costs relating to PR24
- Other operating costs changes of £2.1 million, net of ongoing efficiency initiatives.

South West Water's underlying EBITDA and underlying operating profit reduced by 21.7% and 32.7% respectively reflecting the impact of lower tariffs on revenue and additional cost pressures driven primarily by macro-economic factors.

The net interest charge of £58.8 million is £25.6 million higher than prior year (H1 2021/22, £33.2 million) primarily reflecting the impact of higher RPI and CPI rates on index-linked debt. The Group's efficient funding mix which includes a relatively low proportion of index-linked debt and hedging strategy minimises these market effects resulting in an effective interest rate of 5.1% (FY 2021/22 3.4%).

South West Water's capital expenditure in H1 2022/23 was £118.1 million, an increase of £19.4 million (19.7%) on the prior year (H1 2021/22 £98.7 million), primarily due to water resources investments to boost and protect supplies, water quality investment including GAC schemes to provide further resilience, and preliminary works at our new water treatment works in the Bournemouth region. Wastewater investments in H1 included the roll out of our WaterFit programme, targeted investments in wastewater pollutions hotspots and the installation of event duration monitors on our storm overflows to achieve 100% coverage in 2022.

BRISTOL WATER

Bristol Water underlying	H1 2022/23	H1 2021/22	Change
Revenue[21]	£69.7m	£41.6m	+67.5%
Operating Costs	(£36.7m)	(£19.9m)	(84.4%)
EBITDA^	£33.0m	£21.7m	+52.1%
Depreciation and amortisation	(£14.5m)	(£9.3m)	(55.9%)
Operating profit	£18.5m	£12.4m	+49.2%
Net interest charge	(£19.8m)	(£5.2m)	(280.8%)
(Loss) / profit before tax	£(1.3m)	£7.2m	(118.1%)

During H1 2022/23 Bristol Water has contributed underlying revenue of £69.7 million (H1 2021/22 £41.6 million), underlying EBITDA of £33.0 million (H1 2021/22 £21.7 million) and an underlying loss before tax of £1.3 million (H1 2021/22 profit before tax of £7.2 million). Performance has been impacted by inflationary impacts in the period, particularly through power and index-linked debt financing costs, with c.50% of Bristol Water's debt being index-linked at 30 September 2022.

Bristol Water has delivered increased revenues of c.11% in the half year to 30 September 2022, compared to the same six-month period last year. Overall household demand in the Bristol region has remained relatively stable with reductions in household demand being offset by increases as a result of the higher regulatory allowances in its business plan determined by the CMA. Non-household demand has continued to recover during the first half of the year, in addition to tariff increases through the regulatory mechanism.

Bristol Water's operating costs of £36.7 million were higher than the same period last year as a result of the increase in power costs in the year, which were around 90% hedged. In addition, the hot, dry summer resulted in action being taken to protect Bristol Water's Mendip water resources, which has led to the requirement for sourcing alternate water supplies, resulting in further power and chemical usage.

Bristol Water's capital programme totalled £24.4 million during the period to 30 September 2022 (H1 2021/22 £12.7 million) and includes resilience focused investment across the network, new development expenditure and initiatives to stabilise supply interruptions and leakage performance.

PENNON WATER SERVICES

Pennon Water Services underlying	**H1 2022/23**	**H1 2021/22**	**Change**
Revenue	£108.2m	£92.7m	+16.7%
Water segment wholesale elimination	*(£46.7m)*	*(£43.2m)*	*+8.1%*
Revenue excluding elimination	*£61.5m*	*£49.5m*	*+24.2%*
Operating Costs[22]	(£105.9m)	(£91.1m)	(16.2%)
Water segment wholesale elimination	*£46.7m*	*£43.2m*	*(8.1%)*
Operating costs excluding elimination	*(£59.2m)*	*(£47.9m)*	*(23.6%)*
EBITDA^	£2.3m	£1.6m	+43.8%
Depreciation and amortisation	(£0.4m)	(£0.4m)	-
Operating profit	£1.9m	£1.2m	+58.3%
Net interest charge	(£0.8m)	(£0.9m)	+11.1%
Profit before tax	£1.1m	£0.3m	+266.7%

[22] Includes wholesale costs for non-household customers

Pennon Water Services has performed strongly this financial year to date through its disciplined approach to winning new business and benefiting from business customers' covid recovery throughout the period.

Non-household demand has returned to higher pre-covid levels, with the recovery predominantly in the hospitality, tourism and manufacturing sectors. The growth rate in the first half of the year has continued at the same level seen in H1 2021/22.

The overall impact on underlying revenues for Pennon Water Services, including the impact of new contract wins is an increase of c.16.7% compared to the previous half year period. New contract wins have contributed £5.8 million of additional revenue compared to the same period last year. Underlying operating costs have grown marginally behind improving revenues and the business has improved its underlying EBITDA by 43.8% to £2.3 million (H1 2021/22 £1.6 million). This strong performance has resulted in the business reporting a profit before tax of £1.1 million (H1 2021/22 £0.3 million).

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.£8 million secured during the first half of the year.

Group net finance costs

Net finance costs for the Group of £74.7 million are £37.7 million higher than the same period last year (H1 2021/22 £37.0 million), driven largely by the current high levels of inflation impacting index-linked debt charges but also includes an additional two months' finance cost contribution from Bristol Water in H1 2022/23.

The Group has benefitted from the efficient financing that has been achieved through our diverse mix of fixed, floating and index-linked debt, including Pennon's relatively lower exposure to index-linked instruments in comparison to the water industry average.

The Group continues to secure funding for South West Water through its Sustainable Financing Framework and has efficiently secured funding, 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 and effective interest rate hedging, with a further element being index-linked. Prior to the acquisition of Bristol Water, the index-linked proportion of debt had been maintained at a relatively stable proportion of c.25%. Bristol Water has a higher proportion of index linked debt and, as a result of the acquisition, the water business index-linked debt proportion has increased but remains below Ofwat's notional assumption of 33%.

Since 30 September, the Group has reduced its proportion of index linked debt by repaying the Bristol Water plc index-linked bond due 2041 and has entered into £300 million of RPI to fixed rate swaps to fix the interest charge over the period to 2025. These changes, which have completed since 30 September 2022 will help to manage the Group's exposure to the current volatility in its finance costs.

Profit before tax

Group underlying profit before tax in the period is £22.5 million, compared with the prior half year of £90.4 million. This outturn reflects the significant impact of higher operating costs, notably from power and higher interest charges.

Non-underlying items and acquisition accounting

Non-underlying items for H1 2022/23 total a charge before tax of £1.6 million (H1 2021/22 charge of £10.5 million) and in both periods relate to costs incurred in connection with the acquisition and integration of Bristol Water. The Directors believe excluding non-underlying items provides a more useful comparison of business trends and performance.

The non-underlying charges in H1 2022/23 give rise to a current tax credit of £0.3 million. In H1 2021/22 a £96.9 million non-underlying deferred tax charge was recognised for the change in future tax rate which was substantively enacted during the period.

As part of the requirements of acquisition accounting, we have finalised the fair values of the acquired balance sheet of Bristol Water. The provisional values reported in the Group's results to 31 March 2022 have been revised to reflect the fair value of the acquired tax balances.

Goodwill arising from the acquisition of £121.6 million has been recorded in the Group consolidated balance sheet and is attributed to the synergies expected to be derived from the combination and the value of the workforce which cannot be recognised as a separately identifiable intangible asset.

Responsible approach to tax

The Group is pleased to confirm it has once again maintained the Fair Tax Mark accreditation for the year. This is the fifth year that the Group has been awarded the accreditation and is proud of our responsible approach to tax and that that we pay our fair share.

The overall H1 2022/23 tax charge for the Group is £2.4 million (H1 2021/22 charge of £102.1 million). On an underlying basis, the net tax charge for H1 2022/23 for the Group of £2.7 million (H1 2021/22 charge of £5.2 million) consists of:

- Current tax charge of £1.5 million, reflecting an effective tax rate of 6.7% (H1 2021/22 charge of £4.5 million, 5.0%). This increase reflects the tax effect on the Bristol Water accounting policy alignment which is subject to tax this year offset by an accelerated level of tax allowances as a result of super-deductions, along with relief for pension payments made during the year and in recent years. Around 40% of the group's capital additions qualify for super-deductions/first-year allowances.

- Deferred tax charge of £1.2 million (H1 2021/22 charge of £0.7 million) which primarily reflects the capital allowances across the Group in excess of depreciation charged largely due to super-deductions, together with relief on pension contributions. These are offset by a deferred tax credit as a result of the Bristol Water accounting policy alignment which becomes a current tax item in the period.
- There is also a non-underlying current tax credit of £0.3 million in H1 2022/23 relating to the cost of the ongoing integration of Bristol Water.

Despite the current tax charge in the period, we anticipate a current tax credit for the full year, as the full year effect of super-deductions flows through. There was no announcement on capital allowances in the Autumn statement, as such we expect capital allowance claims in future years to return to standard capital allowance rates. We therefore anticipate current tax charges in future years.

Earnings per share

The Group has recorded statutory earnings per share of 7.0 pence for the six months ended 30 September 2022 (H1 2021/22 loss of 6.3 pence per share). This includes a non-underlying charge before tax of £1.6 million and a net non-underlying tax credit of £0.3 million. Statutory earnings per share for H1 2021/22 were impacted by the significant non-underlying deferred tax charge in respect of the change in corporation tax rate and also the average number of shares used to derive the earnings per share were impacted by the share consolidation in July 2021.

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 2022/23 of 7.9 pence compared to 30.6 pence in H1 2021/22. This reduction in earnings reflects the significant near-term headwinds from higher power costs and the impacts of inflation on finance costs and operating costs more generally. The full year impact of the accounting policy alignments on the current tax charge is recognised in its entirety in H1 2022/23 reducing the adjusted earnings per share by 2.2 pence. There will be no further impact for this in the current tax charge in the second half of the year.

Sustainable net debt position

Cash collections have remained robust throughout H1 2022/23. The Group's cash generated from operations for H1 2022/23 was £160.2 million (H1 2021/22 £135.9 million). 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.

Net interest payments were a similar level to the same period last year at £41.8 million (H1 2021/22 £32.4 million). A significant element of the increased finance costs arising from our index-linked debt is non-cash as the indexation element accretes to the debt principal.

Our accelerated environmental investment programme has resulted in an increase in capital investment of £34.5 million to £155.4 million (H1 2021/22 £120.9 million).

In September 2022 we repaid one of our finance leases of c.£145 million, the funding for which primarily came from restricted cash funds of £120 million held against this lease.

Other significant movements in net debt in H1 2022/23 include the final tranche of the share buy-back programme of c.£40 million, payment of our interim and final dividends for 2021/22 and other movements of £13.3 million (including £7.3 million of non-cash movements), primarily in respect of indexation on our loan instruments.

The Group's net debt at 30 September 2022 was £2,877.8 million (31 March 2022 £2,682.9 million). This includes fair value adjustments on acquired debt of £162.4 million[23] resulting from the Bournemouth Water and Bristol Water acquisitions, which are released over the life of the related debt instruments. The Group's net debt position excluding these adjustments is £2,715.4 million.

South West Water Group net debt at 30 September 2022 has increased to £2,322.6 million (31 March 2022 £2,233.8 million) this is due to an increase in capital expenditure and operational costs incurred during these volatile times.

Bristol Water Group net debt at 30 September 2022 has increased to £416.4 million (31 March 2022 £405.3 million) reflecting the higher costs and inflation accretion added to the debt during H1 2022/23.

Agile and efficient financing

The water business' cost of finance, with an effective rate^ in H1 2022/23 of 5.8% remains among the lowest in the industry, continuing to benefit from the diverse portfolio of debt.

The water business net debt is a mix of fixed / swapped (£1,403 million, 51%), floating (£500 million, 18%) and index-linked borrowings (£836 million, 31%). The debt has a maturity of up to 35 years with a weighted average maturity of c.15 years. New debt raised during this AMP 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.

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[23] Carrying value of fair value acquisition adjustments to net debt at 30 September 2022 - £38.2 million Bournemouth Water, £124.2 million Bristol Water

The gross debt position of the water business is a mix of fixed / swapped 50%, floating 20% and index-linked 30% as at 30 September 2022, which reflects our diverse debt portfolio and compares to an industry average[24] of fixed / swapped 42%, floating 4% and index linked 54%.

South West Water Ltd's gross debt at 30 September 2022 remains stable at £2,431 million (31 March 2022 £2,494 million). This is due to the repayment and restructuring of the lease portfolio to ensure its continued efficient and effective management with a further c.£145 million repaid in September 2022, offset by the drawing of new debt during the period. The lease portfolio will continue to deliver long term benefits as part of our diverse range of facilities as we look to further diversify our portfolio going forward, as part of our Sustainable Financing Framework.

As noted in the net finance costs section above, given that the level of the Group's inflation-linked debt is currently above the stable level historically maintained, and the current elevated inflationary environment, we have sought to manage this in the short-term by entering into c.£300 million of RPI to fixed rate swaps, reducing our overall exposure to inflation between now and 2025. This will allow the Group to maintain its financing flexibility, whilst remaining within our treasury policy of at least 60% fixed rate debt, and ahead of any changes to the Ofwat's notional company expectations in K8.

In addition, the Group has taken further steps to re-balance the proportion of index-linked debt to align with previously maintained levels for the longer-term. During October 2022, we reduced our index-linked debt proportion by giving notice on the £40 million Bristol Water plc index linked bond due 2041, which has subsequently been repaid in November 2022. This facility for Bristol Water plc has been temporarily replaced with an intercompany facility from Pennon Group plc ahead of the planned merger of the water businesses.

At 30 September 2022, the water business debt to RCV ratio stood at 58.4%[4,] (31 March 2022 62.7%). This is below Ofwat's notional structure of 60% and is lower than at March 2022 reflecting the inflationary increase forecast for RCV at March 2023.

Following the conclusion of the South West Water and Bristol Water licence merger consultation, the Group plans to obtain a credit rating by 2025.

The water business will require c.£600 million in new funding by 2025 and plans are in place to raise this over the remainder of AMP7 – maintaining c.£200 million per year run rate, and in line with the Ofwat notional new debt assumptions of 20% new debt over the period. As the Group continues to develop, and we see our funding requirement grow, we expect the Group to manage its portfolio with larger debt issuances, taking advantage of the public rating once established.

[24] UK water position as at 31 March 2022 – weighted average

Responsible and sustainable balance sheet

The Group has a strong liquidity and funding position with £583 million of cash and committed facilities as at 30 September 2022. This consists of cash and short-term loan receivables of £242 million (including £28 million of restricted funds representing deposits with lessors against lease obligations) and £341 million of undrawn facilities. £172 million of the cash holdings are held at the Pennon company level.

Following the continued success of our Sustainable Financing Framework, in September 2021 we issued our updated framework to incorporate the latest sustainable principles; in particular in respect of sustainability linked loans and bonds. The Group was the first UK corporate to issue sustainability linked loans in 2018 and the new principles have helped to develop this market further. Since March 2022, the Group has signed c.£275 million of new and renewed facilities across Pennon and South West Water.

Pensions

At 31 March 2022, the surplus on retirement obligations of £66.3 million comprised a surplus on the Group's principal pension scheme, Pennon Group Pension Scheme (PGPS) of £59.5 million and a surplus of £6.8 million in respect of Bristol Water's defined benefit pension obligations.

The surplus on PGPS has reduced to c.£44 million with the main elements of the reduction being:

- £17 million increase on surplus from movements in financial assumptions
- £33 million reduction adjusting for known pension increases.

The funding of PGPS has improved over recent years supported by the responsible payments made by the Group in the previous two financial years. As at 30 September 2022, the scheme is approximately 100% funded against its technical provisions.

As funding of PGPS has improved the investment portfolio has been de-risked through increasing the scheme's real gilts hedging position through LDIs (Liability Driven Investments), which are commonly used by UK pension schemes. As has been widely reported, the unprecedented increases in gilt yields in late September 2022 resulted in rapid reductions in collateral in LDI arrangements which schemes are required to increase or the hedging structure is unwound. As permitted by the scheme rules and legislation, Pennon approved a temporary loan facility to PGPS on 28 September 2022 to provide short-term liquidity to the scheme whilst investments were re-balanced. £25 million was provided on this date and this was fully repaid within 6 days.

Bristol Water's pension surplus relates to the Bristol Water Section of the Water Companies Pension Scheme (WCPS). The liabilities of the scheme are fully insured, securing the pension promises made to the benefit of members through a bulk annuity policy. Changes in actuarial assumptions have little impact on the surplus recognised as the change in liabilities is materially matched by the change in asset values through the bulk annuity policy as a result the net surplus of c.£7 million remains largely unchanged. The surplus recognised is restricted by a tax deduction of 35% under UK tax legislation.

Dividends

The Group continues to deliver on its commitments to customers, shareholders and stakeholders as our investments drive tangible, positive and sustainable results. Around half of Pennon's shareholders are UK pension funds, savings, charities and individuals with over half of the Group's employees, now including Bristol Water, also being shareholders.

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

For H1 2022/23 the Board has declared an interim dividend of 12.96 pence, representing an increase of 10.8% on (H1 2020/21 11.70 pence). The interim dividend will be paid on 5 April 2023 to shareholders on the register on 27 January 2023. Pennon offers shareholders the opportunity to invest their dividend in a Dividend Reinvestment Plan (DRIP).

Financial outlook

The global economy continues to be volatile reflecting the current geopolitical situation, including the ongoing conflict in Ukraine. The impacts on the supply chain, rising power prices and higher levels of inflation are affecting all businesses.

Overall, our underlying results for the Group for the full year are expected to be H1 weighted. The initiatives we announced earlier in November that are focused on helping reservoir levels recover in Cornwall, are expected to reduce underlying revenues through lower customer demand as a result of continued water efficiency promotion and initiatives. Operating costs in H2 2022/23 are anticipated to increase with seasonal increases in power usage and prices and increasing inflationary impacts on input costs. The impact of lower revenue and increased operating costs in H2 2022/23 are expected to be partially offset by anticipated lower levels of financing costs, achieved from the re-balancing of the proportion of our index-linked debt, which has been undertaken since 30 September.

A number of significant items are also expected in H2 2022/23:

- £20 million non-underlying revenue reduction for the second issuance of our pioneering WaterShare+ scheme, which now includes Bristol Water customers.
- c.£5 million of costs to integrate Bristol Water into the water business.

- c.£40 million investment in Cornwall resilience schemes[25]
- One-off benefit to net finance costs of c.£20 million arising on the settlement of Bristol Water's index-linked 2041 bond.

Looking beyond the current financial year, we recognise the pressure that inflationary pricing increases may pose to our customers, and customer bill affordability is 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.

We have taken decisive actions to reduce the level of volatility on our interest costs by reducing our exposure to index-linked debt, however finance costs will remain higher in comparison to previous levels seen in the relatively low interest rate environment.

In order to significantly accelerate the Group's pathway to c.50% self-generation[26] by 2030, and our wider environmental Net Zero 2030 commitment, we announced in September our plan to invest the remaining c.£160 million in renewable energy generation projects. We are currently engaging with multiple counterparties on solar development opportunities in the UK, ranging from 20-50MW capacity. These projects would supply power to our water businesses, and alongside the current rollout of solar at operational sites would decrease our reliance on global power markets.

We expect our earnings to continue to be impacted by the higher inflationary environment, in particular from power costs. For 2022/23, more than 95% of the Group's energy usage is hedged and we have previously announced that we anticipate total power costs across the Group will now increase by c.£50 million[27] for the financial year 2023. For 2023/24 and 2024/25 c.60% and c.33% of our power needs have been de-risked, respectively, reducing volatility. The hedging in place reflects c.30% lower cost than current forward market pricing.

However, 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 March outturn inflation, respectively. The elevated inflationary environment in this regulatory period is forecast to increase RCV by a further c.10% over K7, bringing total RCV growth in K7 to c.50%, more than offsetting the near-term headwinds.

[25] Includes usage – up to c.£10m financial incentive for customers associated with SWW's Stop the Drop initiative, c.£20m water resilience Totex – accelerating initiatives (capex/opex split roughly 50/50) and estimated c.£10m to progress de-salination and other water resource opportunities in Cornwall, including re-purposing ex-quarries and mines with c.£35 million anticipated in FY2023/24 to deliver these schemes
[26] Current electricity usage – c.400GWh, targeted generation – c.200GWh per annum
[27] Assuming a benefit of c.£10 million from the application of the Government's Energy Bill Relief Scheme.

Technical Guidance – full year 2022/23

Pennon Group		**FY 2021/22**	**Change**
Revenue	• Full year revenue contribution from Bristol Water • Pennon Water Services growth through contract wins and continued non-household demand recovery • Offset by impact of lower customer bills • Reduced demand from customer water saving incentive • Non-underlying impact of customer water saving financial incentives • WaterShare+ sharing of outperformance	£792.3m	▼
Net debt	• Share buy-back programme complete – c.£40 million deployed in H1 2022/23 • Continued acceleration of environmental capital investment across the Group • Accretion on index-linked debt	£2,682.9m	▲
Current tax	• 2021/22 effective rate reflects additional pension contributions made during the year • Continued super-deductions anticipated in 2022/23 • Net current tax credit expected	3.5%	▼
Water business		**FY 2021/22**	**Change**
Operating costs	• Operating cost increases due to increasing inflationary impact on input costs • Full year impact of Bristol Water • c.£50 million increase in power costs	£303.0m	▲
Net interest	• Elevated inflation increases in charges related to index-linked debt • Full year impact of Bristol Water • Minimised future volatility through reduced exposure to index-linked debt. Overall net finance costs expected of c. £130 million - £140 million	£98.0m	▲
Capex	• Capital expenditure reflects K7 existing profile of investment along with accelerated environmental investment • Full year impact of Bristol Water • Accelerated delivery of water resilience capital interventions • Overall capex expected in excess of £300 million	£240.4m	▲
Water business RORE^ (Ofwat K7 cumulative)	• Continued doubling of base returns for the water business – targeting improved net reward on ODIs, increasing level of financing outperformance more than offsetting increased cost pressures reflected in Totex	7.5%	▲
RCV	• Increase in line with K7 business plan levels of investment and inflationary impact	£4.2bn	▲
Pennon Water Services		**FY 2021/22**	**Change**
Operating costs	• Non-household recovery and contract wins leading to higher wholesale supply charges • Impact of increased inflationary environment	£191.9m	▲
Underlying EBITDA^	• Impact of increased non-household demand on margins • Focus on continued cost efficiency with strong collections	£3.4m	▲

Board Matters

On 18 November 2022 the Group was delighted to announce the appointments of new Non-Executive Directors Loraine Woodhouse and Dorothy Burwell to the Boards of Pennon Group plc, South West Water Limited and Bristol Water plc, effective 1 December 2022. Their appointments support building internal succession ahead of the planned departure of Neil Cooper, Senior Independent Director and Audit Chair, who will step down in 2023 after serving nine years on the Board.

Loraine is currently a Non-Executive Director of The Restaurant Group plc, and is also Non-Executive Director & Chair of the Audit Committee at British Land Company plc.

Dorothy is a Partner and Global Partnership Board Member of FGS Global, a Non-Executive Director of Post Holdings, Inc. and a Trustee of the charity the Consumers' Association.

In addition, the Company will be appointing Andrew Garard as Interim General Counsel and Group Company Secretary following the retirement of Simon Pugsley on 1 December 2022.

Susan Davy

Group Chief Executive

29 November 2022

Financial Timetable

26 January 2023	Ordinary shares quoted ex-dividend
27 January 2023	Record date for interim dividend
10 March 2023	Final date for receipt of DRIP applications
31 March 2023	Trading Statement
05 April 2023	Interim dividend payment date
01 June 2023	Full Year Results 2022/23
June 2023	Annual Report and Accounts published
20 July 2023	Annual General Meeting
20 July 2023*	Ordinary shares quoted ex-dividend
21 July 2023*	Record date for final dividend
10 August 2023*	Final date for receipt of DRIP applications
04 September 2023*	Final dividend payment date
02 October 2023	Trading Statement
29 November 2023	Half Year Results 2023/24

* Subject to obtaining shareholder approval at the 2023 Annual General Meeting.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal Risks

The Board continues to regularly consider and review the principal risks of the Group within the context of its risk appetite. This includes the impact of changes to the external macro-economic, legal and regulatory environment within which the Group operates.

The Board have reviewed the Group's principal risks and consider them to be consistent with those reported within the Pennon 2022 Annual Report:

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 & increased costs to the Group should the defined benefit pension scheme deficit increase

Market and Economic Conditions

7. Non-recovery of customer debt
8. Macro-economic near-term risks impacting on inflation, interest rates and power prices

Operating Performance

9. The Group's operations and assets are impacted as a result of climate change and extreme weather events
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. Failure to maintain excellent service or effectively engage with our customers and wider stakeholders
13. Insufficient skills and resources to meet the current and future business needs and deliver the Group's strategic priorities
14. Non-delivery of Regulatory Outcomes and performance commitments

Business Systems and Capital Investment

15. Inefficient or ineffective delivery of capital projects
16. Inadequate technological security results in a breach of the Group's assets, systems and data
17. Failure to fully realise the strategic value arising from the acquisition of Bristol Water.

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 2022. 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 2022

	Notes	Unaudited					
		Before non-underlying items half year ended 30 September 2022	**Non-underlying items (note 5) half year ended 30 September 2022**	**Total half year ended 30 September 2022**	Before non-underlying items half year ended 30 September 2021	Non-underlying items (note 5) half year ended 30 September 2021	Total half year ended 30 September 2021
		£m	**£m**	**£m**	£m	£m	£m
Revenue	4	**425.5**	**-**	**425.5**	389.3	-	389.3
Operating costs							
Employment costs		**(50.7)**	**-**	**(50.7)**	(43.0)	-	(43.0)
Raw materials and consumables used		**(15.9)**	**-**	**(15.9)**	(9.8)	-	(9.8)
Other operating expenses		**(184.3)**	**(1.6)**	**(185.9)**	(137.1)	(10.5)	(147.6)
Earnings before interest, tax, depreciation and amortisation	4	**174.6**	**(1.6)**	**173.0**	199.4	(10.5)	188.9
Depreciation and amortisation		**(77.4)**	**-**	**(77.4)**	(72.0)	-	(72.0)
Operating Profit	4	**97.2**	**(1.6)**	**95.6**	127.4	(10.5)	116.9
Finance income	6	**3.4**	**-**	**3.4**	2.2	-	2.2
Finance costs	6	**(78.1)**	**-**	**(78.1)**	(39.2)	-	(39.2)
Net finance costs	6	**(74.7)**	**-**	**(74.7)**	(37.0)	-	(37.0)
Profit before tax	4	**22.5**	**(1.6)**	**20.9**	90.4	(10.5)	79.9
Taxation	7	**(2.7)**	**0.3**	**(2.4)**	(5.2)	(96.9)	(102.1)
Profit / (loss) for the period		**19.8**	**(1.3)**	**18.5**	85.2	(107.4)	(22.2)
Attributable to:							
Ordinary shareholders of the parent		**19.6**	**(1.3)**	**18.3**	85.1	(107.4)	(22.3)
Non-controlling interests		**0.2**	**-**	**0.2**	0.1	-	0.1
Earnings per ordinary share	8						
(pence per share)							
- Basic				**7.0**			(6.3)
- Diluted				**6.9**			(6.3)

The Group activities above are derived from continuing activities.

The notes on pages 44 to 60 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of comprehensive income for the half year ended 30 September 2022

	Unaudited					
	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**	Before non-underlying items half year ended 30 September 2021 £m	Non-underlying items (note 5) half year ended 30 September 2021 £m	Total half year ended 30 September 2021 £m
Profit / (loss) for the period	**19.8**	**(1.3)**	**18.5**	85.2	(107.4)	(22.2)
Other comprehensive income						
Items that will not be reclassified to profit or loss						
Remeasurement of defined benefit obligations (note 16)	**(15.6)**	**-**	**(15.6)**	15.9	-	15.9
Income tax on items that will not be reclassified	**3.6**	**-**	**3.6**	4.3	-	4.3
Total items that will not be reclassified to profit or loss	**(12.0)**	**-**	**(12.0)**	20.2	-	20.2
Items that may be reclassified subsequently to profit or loss						
Cash flow hedges	**64.6**	**-**	**64.6**	10.2	-	10.2
Income tax on items that may be reclassified	**(16.1)**	**-**	**(16.1)**	(0.7)	-	(0.7)
Total items that may be reclassified subsequently to profit or loss	**48.5**	**-**	**48.5**	9.5	-	9.5
Other comprehensive income for the period net of tax	**36.5**	**-**	**36.5**	29.7	-	29.7
Total comprehensive income for the period	**56.3**	**(1.3)**	**55.0**	114.9	(107.4)	7.5
Total comprehensive income attributable to:						
Ordinary shareholders of the parent	**56.1**	**(1.3)**	**54.8**	114.8	(107.4)	7.4
Non-controlling interests	**0.2**	**-**	**0.2**	0.1	-	0.1

The notes on pages 44 to 60 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated balance sheet at 30 September 2022

	Notes	Unaudited 30 September 2022 £m	31 March 2022* £m
ASSETS			
Non-current assets			
Goodwill		**163.9**	163.9
Other intangible assets		**14.5**	13.9
Property, plant and equipment	17	**4,328.3**	4,264.0
Derivative financial instruments		**57.6**	14.8
Retirement benefit assets	16	**51.0**	66.3
Trade and other receivables		**9.6**	9.6
		4,624.9	4,532.5
Current assets			
Inventories		**8.7**	7.7
Trade and other receivables		**288.6**	270.9
Current tax receivable		**3.4**	1.5
Derivative financial instruments		**26.9**	5.6
Short-term loan receivable	14	**25.0**	-
Cash and cash deposits	14	**217.2**	519.0
		569.8	804.7
LIABILITIES			
Current liabilities			
Borrowings	14	**(123.4)**	(240.2)
Financial liabilities at fair value through profit and loss		**(2.4)**	(2.5)
Trade and other payables	18	**(187.4)**	(171.5)
Provisions		**(0.7)**	(1.0)
		(313.9)	(415.2)
Net current assets		**255.9**	389.5
Non-current liabilities			
Borrowings	14	**(2,996.6)**	(2,961.7)
Other non-current liabilities	18	**(137.7)**	(137.2)
Financial liabilities at fair value through profit and loss		**(34.1)**	(36.1)
Deferred tax liabilities		**(526.4)**	(512.4)
		(3,694.8)	(3,647.4)
Net assets		**1,186.0**	1,274.6
Shareholder's equity			
Share capital	10	**159.5**	161.7
Share premium account	11	**237.0**	235.5
Capital redemption reserve	12	**157.1**	154.7
Retained earnings and other reserves		**632.1**	722.6
Total shareholders' equity		**1,185.7**	1,274.5
Non-controlling interests		**0.3**	0.1
Total equity		**1,186.0**	1,274.6

*An adjustment to the preliminary accounting for the Bristol Water acquisition has been made within the measurement period ending 2 June 2022, this adjustment is presented retrospectively and the 31 March 2022 balance sheet figures have been adjusted accordingly.

The notes on pages 44 to 60 form part of this condensed half year financial information.

Consolidated statement of changes in equity for the half year ended 30 September 2022

	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 2021	171.8	232.1	144.2	2,436.8	(0.1)	2,984.8
Loss for the period	-	-	-	(22.3)	0.1	(22.2)
Other comprehensive income for the period	-	-	-	29.7	-	29.7
Total comprehensive income for the period	-	-	-	7.4	0.1	7.5
Transactions with equity shareholders:						
Dividends paid	-	-	-	(1,590.3)	-	(1,590.3)
Shares purchased for cancellation	-	-	-	(121.4)	-	(121.4)
Shares cancelled (note 10)	(2.9)	-	2.9	-	-	-
Adjustments in respect of share-based payments (net of tax)	-	-	-	1.3	-	1.3
Own shares acquired by the Pennon Employee Share Trust in respect of Share options	-	-	-	(1.1)	-	(1.1)
Proceeds from shares issued under the Sharesave Scheme	0.3	2.8	-	-	-	3.1
Total transactions with equity shareholders	(2.6)	2.8	2.9	(1,711.5)	-	(1,708.4)
At 30 September 2021	**169.2**	**234.9**	**147.1**	**732.7**	-	**1,283.9**

	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**

The notes on pages 44 to 60 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of cash flows for the half year ended 30 September 2022

	Notes	**Unaudited Half year ended 30 September 2022 £m**	Half year ended 30 September 2021 £m
Cash flows from operating activities			
Cash generated from operations	13	**160.2**	135.9
Interest paid		**(45.2)**	(34.6)
Tax paid		**(3.1)**	(6.3)
Net cash generated from operating activities		**111.9**	95.0
Cash flows from investing activities			
Interest received		**3.4**	2.2
Purchase of property, plant and equipment		**(153.0)**	(119.9)
Purchase of intangible assets		**(2.4)**	(1.3)
Acquisition of subsidiaries, net of cash acquired	21	**-**	(412.3)
Proceeds on disposal of subsidiaries, net of cash disposed and transaction costs		**-**	9.2
Proceeds from sale of property, plant and equipment		**-**	0.3
Advance of short-term loan	14	**(25.0)**	-
Movement of restricted deposits		**140.3**	(3.0)
Net cash used in investing activities		**(36.7)**	(524.8)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**1.7**	3.1
Purchase of ordinary shares by the Pennon Employee Share Trust		**(4.7)**	(1.1)
Proceeds from new borrowings		**108.0**	50.9
Repayment of borrowings		**(57.2)**	(20.2)
Cash inflows from lease financing arrangements	13	**5.0**	15.0
Lease principal repayments (including net recoverable VAT)		**(148.0)**	(10.5)
Dividends paid	9	**(101.5)**	(1,590.3)
Repurchase of own shares		**(40.0)**	(60.5)
Net cash used in financing activities		**(236.7)**	(1,613.6)
Net decrease in cash and cash equivalents		**(161.5)**	(2,043.4)
Cash and cash equivalents at beginning of period	14	**351.2**	2,668.5
Cash and cash equivalents at end of period	14	**189.7**	625.1

The notes on pages 44 to 60 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 60. Pennon Group's business is operated through three principal subsidiaries. South West Water Limited includes the integrated water companies of South West Water and Bournemouth Water, providing water and wastewater services in Devon, Cornwall and parts of Dorset and Somerset and water only services in parts of Dorset, Hampshire, and Wiltshire. Bristol Water Group comprises Bristol Water plc, a regulated water only company serving a population of approximately 1.2 million customers in the Bristol region, and a 30% share in Water 2 Business Limited, a joint venture with Wessex Water. Pennon Group is also the majority shareholder of Pennon Water Services Limited, a company providing water and wastewater retail services to non-household customer accounts across Great Britain.

This condensed half year financial information was approved by the Board of Directors on 29 November 2022.

The financial information for the period ended 30 September 2022 does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The statutory accounts for 31 March 2022 were approved by the Board of Directors on 30 May 2022 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 2022, 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 2022, the Group has access to undrawn committed funds and cash and other short-term deposits totalling £583 million, including cash, other short-term deposits and short-term loan receivable of £242 million and £341 million of undrawn facilities. Cash and other short-term deposits include £28 million of restricted funds deposited with lessors which are available for access, subject to being replaced by an equivalent valued security. The Group has considered its strong funding position and prudent financial projections prepared to 30 November 2023 and beyond, which take into account a range of possible scenarios. These include the modelling of the impact of cost-of-living pressures on the ability of customers to pay amounts due through reduced cash inflows from increased customer bad debt levels and the impact of higher inflation on the Group's index-linked borrowings. As a result of this forecast scenario the Directors have a reasonable expectation that the Group will meet the requirements of its covenants and has adequate resources to continue in operational existence for the period to at least the end of the going concern assessment period of 30 November 2023, 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 2022.

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 2022 and are in accordance with IFRS and interpretations of the IFRS Interpretations Committee expected to be applicable for the year ending 31 March 2023 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 2022 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 2023 are not expected to have a material impact on the Group's net assets or results.

Notes to condensed half year financial information (continued)

4. Segmental information

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

The Group is organised into three operating segments. The water segment comprises the regulated water and wastewater services undertaken by South West Water and the regulated water services undertaken by Bristol Water. The aggregation of these two operating segments reflects, in the opinion of management, the similar economic characteristics, services offered, classes of customers and the regulatory environment that these businesses share. The non-household retail business reflects the services provided by Pennon Water Services.

	Unaudited	
	Half year ended 30 September 2022	Half year ended 30 September 2021
Revenue	**£m**	£m
Water total	**363.8**	339.7
Non-household retail	**108.2**	92.7
Other	**1.1**	1.0
Less intra-segment trading	**(47.6)**	(44.1)
Total revenue	**425.5**	389.3
Segment result		
Operating profit before depreciation, amortisation and non-underlying items (Underlying EBITDA)		
Water total	**172.6**	200.0
Non-household retail	**2.3**	1.6
Other	**(0.3)**	(2.2)
	174.6	199.4
Operating profit before non-underlying items		
Water total	**97.8**	130.3
Non-household retail	**1.9**	1.2
Other	**(2.5)**	(4.1)
	97.2	127.4
Profit before tax before non-underlying items		
Water total	**19.2**	91.9
Non-household retail	**1.1**	0.3
Other	**2.2**	(1.8)
	22.5	90.4
Profit before tax		
Water total	**19.2**	91.9
Non-household retail	**1.1**	0.3
Other	**0.6**	(12.3)
	20.9	79.9

Notes to condensed half year financial information (continued)

4. Segmental information (continued)

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.

The grouping of revenue streams by how they are affected by economic factors, as required by IFRS 15, is as follows:

	Unaudited			
Six months ended 30 September 2021	Water	UK total Non-household retail	Other	Total
	£m	£m	£m	£m
Segment revenue	339.7	92.7	1.0	433.4
Inter-segment revenue	(43.6)	(0.1)	(0.4)	(44.1)
Revenue from external customers	296.1	92.6	0.6	389.3
Significant service lines				
Water	296.1	-	-	296.1
Non-household retail	-	92.6	-	92.6
Other	-	-	0.6	0.6
	296.1	92.6	0.6	389.3

Six months ended 30 September 2022	**Water**	**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**

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.

	Unaudited	
	Half year ended 30 September 2022 £m	Half year ended 30 September 2021 £m
Operating Costs		
Bristol Water integration (1)	**(1.6)**	-
Bristol Water acquisition (2)	**-**	(10.5)
Non-underlying tax credit/(charge) (3)	**0.3**	(96.9)
Net non-underlying charges	**(1.3)**	(107.4)

(1) 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.

(2) The Group incurred expenses of £10.5 million in the half year ended 30 September 2021 in connection with the acquisition of Bristol Water and the related review by the CMA.

(3) The non-underlying tax credit of £0.3 million for the half year ended 30 September 2022 represents the tax impact of the Bristol Water integration costs.

The non-underlying tax charge of £96.9 million for the half year ended 30 September 2021 represents the impact on the Group's deferred taxation balances of changes to UK legislation which became substantively enacted in the half year period. These changes were the increase in the UK main corporation tax rate to 25% with effect from 1 April 2023 and the increased level of capital allowances available for the period from April 2021 to March 2023.

6. Net finance costs

	Unaudited					
	Half year ended 30 September 2022			Half year ended 30 September 2021		
	Finance costs £m	**Finance income £m**	**Total £m**	Finance costs £m	Finance income £m	Total £m
Cost of servicing debt						
Bank borrowings and overdrafts	**(60.1)**	**-**	**(60.1)**	(26.4)	-	(26.4)
Interest element of lease payments	**(16.3)**	**-**	**(16.3)**	(11.4)	-	(11.4)
Other finance costs	**(1.7)**	**-**	**(1.7)**	(0.5)	-	(0.5)
Interest receivable	**-**	**2.4**	**2.4**	-	1.0	1.0
	(78.1)	**2.4**	**(75.7)**	(38.3)	1.0	(37.3)
Notional interest						
Retirement benefit obligations	**-**	**1.0**	**1.0**	(0.9)	1.2	0.3
Net finance costs	**(78.1)**	**3.4**	**(74.7)**	(39.2)	2.2	(37.0)

In addition to the above, finance costs of £1.6 million have been capitalised on qualifying assets included in property, plant and equipment (H1 2021/22 £0.3 million).

Notes to condensed half year financial information (continued)

7. Taxation

	Unaudited					
	Before non-underlying items half year ended 30 September 2022	**Non-underlying items (note 5) half year ended 30 September 2022**	**Total half year ended 30 September 2022**	Before non-underlying items half year ended 30 September 2021	Non-underlying items (note 5) half year ended 30 September 2021	Total half year ended 30 September 2021
	£m	**£m**	**£m**	£m	£m	£m
Analysis of charge						
Current tax charge / (credit)	**1.5**	**(0.3)**	**1.2**	4.5	-	4.5
Deferred tax charge	**1.2**	**-**	**1.2**	0.7	96.9	97.6
Tax charge for the period	**2.7**	**(0.3)**	**2.4**	5.2	96.9	102.1

UK corporation tax is calculated at 19% (H1 2021/22 19%) of the estimated assessable profit for the year. The tax charge for September 2022 and September 2021 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 12% (H1 2021/22 charge of 6%).

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 11% (H1 2021/22 charge of 128%).

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 2022	Half year ended 30 September 2021
Number of shares (millions)		
For basic earnings per share	**262.6**	353.3
Effect of dilutive potential ordinary shares from share options	**1.1**	1.9
For diluted earnings per share	**263.7**	355.2

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:

Notes to condensed half year financial information (continued)

8. Earnings per share (continued)

	Unaudited					
	Half year ended 30 September 2022			Half year ended 30 September 2021		
	Profit after tax £m	**Earnings per share Basic p**	**Diluted p**	Profit after tax £m	Earnings per share Basic p	Diluted p
Statutory earnings	**18.3**	**7.0**	**6.9**	(22.3)	(6.3)	(6.3)
Deferred tax before non-underlying items	**1.2**	**0.4**	**0.4**	0.7	0.2	0.2
Non-underlying items (net of tax)	**1.3**	**0.5**	**0.5**	107.4	30.4	30.3
Adjusted earnings before non-underlying items and deferred tax	**20.8**	**7.9**	**7.8**	85.8	24.3	24.2

9. Dividends

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

	Unaudited	
	Half year ended 30 September 2022 £m	Half year ended 30 September 2021 £m
Interim dividend paid for the year ended 31 March 2022: 11.70 pence (2021: 6.77 pence) per share	**31.5**	28.6
Final dividend paid for the year ended 31 March 2022: 26.83 pence (2021: 14.97 pence) per share	**70.0**	63.2
Special dividend paid for the year ended 31 March 2022: nil pence (2021: 355.00 pence) per share	**-**	1,498.5
	101.5	1,590.3

In the six months to 30 September 2022 the 2021/22 interim and final dividends were paid resulting in a cash outflow of £101.5 million.

	Unaudited	
	Half year ended 30 September 2022 £m	Half year ended 30 September 2021 £m
Proposed interim dividend for the year ended 31 March 2023: 12.96 pence per share (31 March 2022: 11.70 pence)	**33.9**	32.4

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 2023 will be paid on 5 April 2023 to shareholders on the register on 27 January 2023.

Notes to condensed half year financial information (continued)

10. Share capital

Allotted, called up and fully paid:

1 April 2021 to 30 September 2021

	Unaudited		
	Number of shares		
	Treasury shares	Ordinary shares	£m
At 1 April 2021 ordinary shares of 40.7 pence each	8,443	422,120,181	171.8
Share consolidation*	(2,815)	(140,706,727)	-
For consideration of £3.1 million, shares issued in respect of the Company's Sharesave Scheme	-	413,271	0.3
Cancelled Shares (acquired via share buy-back)**	-	(4,718,932)	(2.9)
At 30 September 2021 ordinary shares of 61.05 pence each	5,628	277,107,793	169.2

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**

* On 16 July 2021, the Group paid a special dividend of £1.5 billion to shareholders in relation to the return of capital to shareholders announced on 3 June 2021. In order to maintain the comparability of the Company's share price before and after the special dividend, a share consolidation was approved at the General Meeting held on 28 June 2021. Shareholders received 2 New Ordinary shares of 61.05 pence each for every 3 Existing Ordinary shares of 40.7 pence each.

** During the period to 30 September 2021, the Group announced and began a process to purchase ordinary shares at an aggregate cost of up to £400 million by September 2022 (the 'Buy-back programme'). The Group purchased £59.7 million of ordinary shares from the market at an average ordinary share price of 1,266 pence during H1 2021/22. The shares acquired under the tender offer were immediately cancelled, creating a capital redemption reserve of £2.9 million.

*** 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 941 pence (H1 2021/22 1,236 pence).

Notes to condensed half year financial information (continued)

11. Share premium account

	Unaudited £m
1 April 2021 to 30 September 2021	
At 1 April 2021	232.1
Shares issued under the Sharesave Scheme	2.8
At 30 September 2021	234.9
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**

12. Capital redemption reserve

	Unaudited £m
1 April 2021 to 30 September 2021	
At 1 April 2021	144.2
Share capital redeemed	2.9
At 30 September 2021	147.1
1 April 2022 to 30 September 2022	
At 1 April 2022	154.7
Share capital redeemed	2.4
At 30 September 2022	**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 2022 £m	Half year ended 30 September 2021 £m
Cash generated from operations		
Profit / (loss) for the period	**18.5**	(22.2)
Adjustments for:		
Share-based payments	**1.2**	1.1
Loss / (profit) on disposal of property, plant and equipment	**0.1**	(0.3)
Depreciation charge	**75.6**	70.7
Amortisation of intangible assets	**1.8**	1.3
Non-underlying Bristol Water integration costs	**1.6**	-
Finance income	**(3.4)**	(2.2)
Finance costs	**78.1**	39.2
Taxation charge	**2.4**	102.1
Changes in working capital:		
Increase in inventories	**(1.0)**	(0.1)
Increase in trade and other receivables	**(14.5)**	(20.5)
Decrease in trade and other payables	**(0.6)**	(8.9)
Increase / (decrease) in retirement benefit obligations from contributions	**0.7**	(23.7)
Decrease in provisions	**(0.3)**	(0.6)
Cash generated from operations	**160.2**	135.9

	Unaudited	
Total interest paid	**Half year ended 30 September 2022 £m**	Half year ended 30 September 2021 £m
Interest paid in operating activities	**45.2**	34.6
Interest paid in investing activities	**1.6**	0.3
Total interest paid	**46.8**	34.9

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 £5.0 million (H1 2021/22 £15.0 million) were received. These assets are primarily being leased back over an initial 10-year lease term at market rentals.

PENNON GROUP PLC

Notes to condensed half year financial information (continued)

14. Net borrowings

	Unaudited Half year ended 30 September 2022 £m	Year ended 31 March 2022 £m
Cash and cash deposits	**217.2**	519.0
Short-term loan receivable	**25.0**	-
Borrowings – current		
Bank and other current borrowings	**(89.9)**	(70.0)
Lease obligations	**(33.5)**	(170.2)
Total current borrowings	**(123.4)**	(240.2)
Borrowings – non-current		
Bank and other non-current borrowings	**(1,949.4)**	(1,907.4)
Listed preference shares	**(12.5)**	(12.5)
Lease obligations	**(1,034.7)**	(1,041.8)
Total non-current borrowings	**(2,996.6)**	(2,961.7)
Total net borrowings	**(2,877.8)**	(2,682.9)

The short-term loan receivable, as described in more detail in note 20, is included within net borrowings. This temporary facility was provided to the pension scheme to provide short-term liquidity and was repaid within 6 days, it is therefore appropriate to include this balance within net borrowings to aid comparison to previous periods.

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

	Unaudited Half year ended 30 September 2022 £m	Year ended 31 March 2022 £m
Cash and cash deposits as above	**217.2**	519.0
Less: deposits with a maturity of three months or more (restricted funds)	**(27.5)**	(167.8)
	189.7	351.2

Restricted funds of £27.5 million (31 March 2022 £167.8 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 2021 £m	Cash flows £m	Transfer between non-current and current £m	Other non-cash movements £m	Bristol Water acquisition* £m	Net cash/ (borrowings) at 30 September 2021 £m
Cash and cash deposits	2,919.3	(2,040.4)	-	-	6.1	885.0
Bank and other current borrowings	(40.1)	20.2	(50.2)	-	(8.4)	(78.5)
Current lease obligations	(48.2)	10.5	(53.1)	(1.6)	(0.2)	(92.6)
Bank and other non-current borrowings	(1,375.7)	(50.9)	50.2	3.6	(517.3)	(1,890.1)
Listed preference shares	-	-	-	-	(12.5)	(12.5)
Non-current lease obligations	(1,391.0)	(15.0)	53.1	(0.1)	(1.2)	(1,354.2)
Net cash / (borrowings)	**64.3**	**(2,075.6)**	**-**	**1.9**	**(533.5)**	**(2,542.9)**

*Net debt acquired as part of the Bristol Water acquisition includes £134.8 million fair value adjustments.

	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)**

In the Annual Report and Accounts for the year ended 31 March 2022, European Investment Bank loans, which were previously included as a separate line item in the table above, were aggregated with Bank and other borrowings. This change was made as EIB loans are less significant now and share similar characteristics to bank loans. The presentation at 30 September 2022 is consistent with 31 March 2022.

The comparative table at 30 September 2021, has been restated for consistency, with the line items “Bank and other current borrowings” and “Bank and other non-current borrowings” increasing, but the overall net borrowings total remaining unchanged. There is no change in the figures reported in the balance sheet for the relevant comparative periods.

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.

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 2022		Year ended 31 March 2022	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Non-current borrowings:				
Bank and other loans	**1,949.4**	**1,768.1**	1,907.4	2,065.1
Other non-current borrowings	**12.5**	**20.2**	12.5	24.9
Non-current borrowings excluding leases	**1,961.9**	**1,788.3**	1,919.9	2,090.0

Valuation hierarchy of financial instruments carried at fair value

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

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

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

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

	Unaudited	
	Half year ended 30 September 2022 £m	Year ended 31 March 2022 £m
Level 2 inputs		
Assets		
Derivatives used for cash flow hedging	**84.1**	19.2
Derivatives used for fair value hedging	**0.4**	1.2
Total assets	**84.5**	20.4

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 5.15% (March 2022 2.75%) and the inflation assumption of 3.65% (March 2022 3.6%).

	Unaudited					
	Half year ended 30 September 2022			Year ended 31 March 2022		
	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	**(985.9)**	**1,052.2**	**66.3**	(901.7)	910.5	8.8
Amounts recognised in the income statement	**(13.7)**	**14.1**	**0.4**	(23.8)	20.8	(3.0)
Remeasurements through other comprehensive income	**281.7**	**(297.3)**	**(15.6)**	57.5	(32.6)	24.9
Company contributions	**-**	**-**	**-**	-	27.8	27.8
Benefits and expenses paid	**22.5**	**(22.6)**	**(0.1)**	57.5	(57.5)	-
Acquisition of Bristol Water Group	**-**	**-**	**-**	(175.4)	183.2	7.8
At end of period	**(695.4)**	**746.4**	**51.0**	(985.9)	1,052.2	66.3

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 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.

Acquisition of Bristol Water

The value of obligations and plan assets acquired with Bristol Water were measured in accordance with IAS 19 at the date of acquisition. The Group believes that it has an unconditional right to a refund of surplus and that the gross pension surplus can be recognised. This benefit is only available as a refund as no additional defined pension benefits are being earned. Under UK tax legislation a tax deduction of 35% is applied to a refund from a UK pension scheme, before it is passed to the employer. This tax deduction has been applied to restrict the value of the surplus recognised for this scheme.

Temporary loan facility

Pennon approved a temporary loan facility to its principal scheme on 28 September 2022. This is classified in the balance sheet as a short-term loan receivable and is disclosed further in note 20.

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Notes to condensed half year financial information (continued)

17. Capital expenditure

	Unaudited Half year ended 30 September 2022 £m	Year ended 31 March 2022 £m
Property, plant and equipment		
Additions	**140.2**	237.3
Net book value of disposals	**-**	0.3
Assets acquired with Bristol Water Group	**-**	944.8
Capital commitments		
Contracted but not provided for the Group	**86.8**	59.5

Assets acquired with Bristol Water Group are stated at their fair value at the date of acquisition.

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

	Unaudited Half year ended 30 September 2022 £m	Year ended 31 March 2022 £m
Trade and other payables – current		
Trade payables	**92.3**	107.5
Contract liabilities	**5.9**	3.3
Other tax and social security	**4.4**	4.3
Accruals	**34.7**	29.5
Other payables	**48.4**	25.1
Amounts owed to joint ventures	**1.7**	1.8
	187.4	171.5
Other non-current liabilities		
Other liabilities	**0.3**	-
Contract liabilities	**137.4**	137.2

19. Contingencies

	Unaudited Half year ended 30 September 2022 £m	Year ended 31 March 2022 £m
Performance bonds	**9.7**	9.7

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

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.

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 2022 £m	Half year ended 30 September 2021 £m
Sales to Water 2 Business	8.9	5.7
Purchases from BWBSL	1.4	0.8

Balances with joint ventures	**Unaudited**	
	Half year ended 30 September 2022 £m	Year ended 31 March 2022 £m
Trade and other receivables - current		
Water 2 Business (including loan receivable of £9.6m)	11.1	11.1
BWBSL	0.6	0.9
Trade and other payables - current		
Water 2 Business	-	0.4
BWBSL	1.7	1.4

As funding of our principal pension scheme has improved the investment portfolio has been de-risked through increasing the scheme's real gilts hedging position through LDIs (Liability Driven Investments), which are commonly used by UK pension schemes. As has been widely reported, the unprecedented increases in gilt yields in late September 2022 resulted in rapid reductions in collateral in LDI arrangements which schemes are required to increase or the hedging structure is unwound. As permitted by the scheme rules and legislation, Pennon approved a temporary loan facility on 28 September 2022 to provide short-term liquidity to the scheme whilst investments were re-balanced. £25 million was provided on this date and this was fully repaid within 6 days. The temporary loan was outstanding as at 30 September 2022 and the balance is included as a short-term loan receivable within the Group's balance sheet.

21. Acquisition of Bristol Water Group

On 2 June 2021, the Company acquired 100% of the issued share capital and voting rights of Bristol Water Holdings UK Limited, the holding company of the Bristol Water Group. Bristol Water Group comprises Bristol Water plc, a regulated water only company and a 30% share in water2business Limited, a joint venture with Wessex Water. The purpose of the acquisition was to grow the Group's core water business by expanding into a geographically contiguous region. The acquisition of the Bristol Water Group was reviewed by the Competition and Markets Authority and given full clearance on 7 March 2022. The Bristol Water Group is consolidated in Pennon's accounts with effect from the completion of acquisition at midnight on 2 June 2021.

The net assets recognised in the 31 March 2022 financial statements were based on a provisional assessment of their fair value. The Group had not completed a full tax review by the date the 2022 financial statements were approved for issue by the Board of Directors. In early June 2022 the final review of tax balances was completed, this has led to an increase in the deferred tax liability with an offsetting increase in the total value of goodwill recognised on acquisition of £5.5 million, the amortisation of this deferred tax liability to 30 September 2022 is immaterial. Final fair values on acquisition are shown in the table below. Corresponding amounts for the financial year ended 31 March 2022 have also been restated.

The goodwill that arose on the acquisition can be attributed to synergies expected to be derived from the combination and the value of the workforce which cannot be recognised as a separately identifiable intangible asset. Goodwill has been allocated to the water segment. The goodwill arising is not expected to be tax deductible.

The details of the business combination are as follows:	**Unaudited** **£m**
Fair value of consideration transferred	
Amount settled in cash	**419.6**
Recognised amounts of identifiable net assets	
Property, plant and equipment	**944.8**
Intangible assets	**12.8**
Other non-current assets	**9.9**
Inventories	**1.7**
Trade and other receivables	**22.3**
Cash and cash deposits (including restricted cash of £6.1 million)	**18.9**
Current tax liability	**(2.2)**
Borrowings	**(545.1)**
Trade and other payables	**(32.2)**
Provisions	**(0.3)**
Retirement benefit obligations	**7.8**
Deferred tax liabilities	**(140.4)**
Identifiable net assets	**298.0**
Goodwill on acquisition	**121.6**
Consideration for equity settled in cash	419.6
Payment to acquire loan to former parent	5.5
Cash and cash equivalents acquired (excluding restricted cash)	(12.8)
Net cash outflow on acquisition	**412.3**

Notes to condensed half year financial information (continued)

22. Post balance sheet events

On 11 November 2022 South West Water Limited announced a new customer incentive scheme. "Stop the Drop" will see customers offered a financial incentive to encourage them to reduce consumption in exchange for a rebate on their bill. If Colliford reservoir recovers to 30% by 31 December 2022, customers in Cornwall will receive a £30 rebate on their bill. The payment of the financial incentive to customers would result in a reduction to (non-underlying) revenue of up to c.£10 million in H2 2022/23. In addition, we would also anticipate lower customer demand which would be reflected in underlying revenue as customer behaviour changes.

On 14 November 2022, the Group offered an extension of its WaterShare+ scheme to its customers whereby customers could choose to accept a credit on their bill or take shares in Pennon Group plc. The value of the rebate equates to £13 per customer and the total value of c.£20 million will be recognised in full as a non-underlying reduction to revenue during H2 2022/23.

On 17 October 2022 Bristol Water plc gave notice of redemption of the £40m bonds due to be repaid in March 2041, the Group carrying value of the bonds at 30 September 2022 was £91.3 million. The bonds were redeemed on 17 November 2022 for £72.3 million, the difference arising on early settlement will be credited to non-underlying interest in the second half of the financial year.

The Group has entered into interest rate swaps on £300 million of index linked debt to fix the interest charge over the period to 2025. The RPI used to calculate the interest charge on the debt is set on a future date and therefore the financial effect of this swap cannot be reliably estimated.

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Registered in England: 2366640

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
Neil Cooper
Iain Evans
Claire Ighodaro
Jonathan Butterworth
Susan Davy
Paul Boote

For and on behalf of the Board of Directors who approved this half year report on 29 November 2022.

S J Davy	P M Boote
Group Chief Executive Officer	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 consolidated set of financial statements in the half-yearly financial report for the six months ended 30 September 2022 which comprises the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated statement of changes in equity, the Consolidated statement of cash flows and related notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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 2022 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 and Ireland), "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 of 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 and Ireland) "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
Leeds
29 November 2022

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.
- Operational cash inflows and other movements are no longer presented. The Group's statutory operating cash flows, as presented in note 13, adequately reflect the Group's performance in the period following the completion of Pennon's pension deficit recovery contributions in 2021.

(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 2022	**Underlying £m**	**Non-underlying items Bristol integration costs £m**	**Statutory results £m**	**Earnings per share 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**

Underlying earnings reconciliation 30 September 2021	Underlying £m	Non-underlying items: Deferred tax change of rate £m	Non-underlying items: Acquisition related costs £m	Statutory results £m	Earnings per share p
EBITDA (see below)	199.4	-	(10.5)	188.9	
Operating profit	127.4	-	(10.5)	116.9	
Profit before tax	90.4	-	(10.5)	79.9	
Taxation	(5.2)	(96.9)	-	(102.1)	
Profit after tax	85.2	(96.9)	(10.5)	(22.2)	
Non-controlling interests				(0.1)	
Profit after tax attributable to shareholders				(22.3)	(6.3)

PENNON GROUP PLC

Alternative performance measures (continued)

(ii) Underlying EBITDA

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

(iii) Basic adjusted earnings per share (adjusted for share consolidation)

	H1 2023	H1 2022
Basic weighted average number of shares		
Basic weighted average number of shares (millions) (note 8)	**262.6**	353.3
Adjustment to reflect the post-consolidation share base as if it had been in place from the start of the previous financial year (millions)	**-**	(73.0)
Adjusted basic weighted average number of shares (adjusted for share consolidation) (millions)	**262.6**	280.3
Basic adjusted earnings per share before exceptional items and deferred tax (pence) (note 8)	**7.9**	24.3
Adjustment to reflect the post-consolidation share base as if it had been in place from the start of the previous financial year (pence)	**-**	6.3
Basic adjusted earnings per share before exceptional items and deferred tax (adjusted for share consolidation) (pence)	**7.9**	30.6

(iv) Effective interest rate

A measure of the mean average interest rate payable on net debt, 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 Limited, Bristol Water Group and together the water business.

South West Water Limited

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

	H1 2023	H1 2022
	£m	£m
Net finance costs after non-underlying items	**58.3**	32.7
Net interest on retirement benefit obligations	**0.8**	0.2
Capitalised interest	**1.1**	0.3
Net finance costs for effective interest rate calculation	**60.2**	33.2
Opening net debt	**2,305.2**	2,273.5
Closing net debt	**2,391.6**	2,314.6
Average net debt (opening net debt + closing net debt divided by 2)	**2,348.4**	2,294.1
Effective interest rate (%)	**5.1**	2.9

Alternative performance measures (continued)

(iv) Effective interest rate (continued)

Bristol Water Group

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

	H1 2023
	£m
Net finance costs after non-underlying items	**19.8**
Net interest on retirement benefit obligations	**0.2**
Capitalised interest	**0.5**
Net finance costs for effective interest rate calculation	**20.5**
Opening net debt	**405.3**
Closing net debt	**416.4**
Average net debt (opening net debt + closing net debt divided by 2)	**410.9**
Effective interest rate (%)	**10.0**

Water business

A combined measure reflecting the mean average interest rate payable on the water business' net debt, which excludes interest costs not directly associated with water business net debt. This measure is presented to assess and monitor the combined relative cost of financing for the water business.

	H1 2023
	£m
Net finance costs for effective interest rate calculation	**80.7**
Opening net debt	**2,710.5**
Closing net debt	**2,808.0**
Average net debt (opening net debt + closing net debt divided by 2)	**2,759.3**
Effective interest rate (%)	**5.8**

(v) Underlying interest cover

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

	H1 2023	H1 2022
	£m	£m
Net finance costs after non-underlying items	**74.7**	37.0
Net interest on retirement benefit obligations	**1.0**	0.3
Net finance costs for interest cover calculation	**75.7**	37.3
Operating profit before non-underlying items	**97.2**	127.4
Interest cover (times)	**1.3**	2.2

(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 2023	H1 2022
	£m	£m
Additions to property, plant and equipment	**140.2**	110.3
Additions to intangible assets	**2.4**	1.2
Capital investment	**142.6**	111.5

Alternative performance measures (continued)

(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 2023	H1 2022
	£m	£m
Cash flow statements: purchase of property, plant and equipment	**153.0**	119.9
Cash flow statements: purchase of intangible assets	**2.4**	1.3
Cash flow statements: proceeds from sale of property, plant and equipment	**-**	(0.3)
Capital payments	**155.4**	120.9

(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 and Bristol 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.