30 November 2021

Half Year Results 2021/22

Bringing water to life

Building momentum, driving sustainable growth

Susan Davy, Group Chief Executive, commented:

We are reporting resilient performance across the group, we continue to build momentum, driving sustainable growth, and ensuring we are well positioned to help tackle climate change. This, together with an evolving environmental strategy will deliver the step change we all want to see for the health of our region now and for generations to come.

We continue to pursue a relentless approach to improving operational performance through innovative solutions that drive efficiency, and in turn keeping customer bills as low as possible, at a time when customers need supporting most.

I'd like to recognise the pioneering spirit of Pennon's c.2,500 employees, who live in our regions and love what they do, and are at the heart of our ambition in developing innovative and sustainable solutions for customers, communities and the environment.

Our sector leading dividend policy recognises the ongoing loyalty of our shareholders, many of whom are customers, charities, employees and pensioners in the UK, underpinned by the Group's confidence in our ongoing growth strategy, and building a sustainable future for all.

RESILIENT PERFORMANCE

South West Water

Delivering for our customers and communities

- c.60% reduction in all complaints and year on year improvement in CMeX[1] Performance
- Community funds providing c.£180,000 support to community groups since inception
- Bills lower than they were 10 years ago and £3.8million of affordability[2] support delivered for those customers most in need

Innovation helping to address wastewater challenges

- c.40% reduction in internal and c.20% reduction in external flooding, are both ahead of target and reflecting a step-change in performance

[1] Customer measure of experience
^ Measures with this symbol ^ are defined in the Alternative Performance Measures (APMs) as outlined on pages 61 to 65
[2] K7 cumulative performance, H1 2021/22 £1.4 million

- c.40% improvement in sewer collapses ahead of 2025 target, using automated sewer conditioning surveys and AI to proactively detect faults on our network
- Halving pollution incidents compared to last year, using technology to predict potential events. This pace of improvement needs to be sustained to meet our 2025 targets

Improving river and coastal water quality

- 100%[3] water quality standards achieved at our bathing beaches – our best ever performance
- Focused on reducing our impact on river quality by one third by 2025, pilot schemes underway on the Dart and Tavy for inland bathing water quality – proving the case for K8 step change investment
- c.5,000 hectares of land within our catchments improved during H1 2021/22, ahead of our target for K7

Innovation driving performance and efficiency in water

- c.30% reduction in mains repairs focusing on the resilience of our network
- Supply interruptions and unplanned outages ahead of target, maintaining our best ever performance
- Leakage reduction plan on track, using innovative technology to identify leaks resulting in increased repair

Consistent RORE delivery

- H1 2021/22 outperformance in all areas – cumulative K7 RORE^ 7.8%
- c.85% of our ODIs^ on track or ahead of target
- Sector leading effective interest rate – 2.9%^
- Driving efficient delivery through innovation and nature-based solutions

Bristol Water

- Financial performance ahead of expectations, contributing £7.2 million in profit and capital investment of £12.7 million
- Leakage ahead of target and CMeX[1] in upper quartile position for H1 2021/22

Well positioned for the future

Talented people delivering for customers and communities

- Investing in the next generation – new graduate programme underway, c.30% of our 500 2025 apprenticeships already underway and c.55% of Kickstarters retained in permanent roles
- Supporting diversity with the #10000BlackInterns initiative, increasing gender diversity to >30%

[3] Based on our preliminary analysis of Environment Agency sample data. The Environment Agency will publish formal results in January 2022

Evolving our environmental strategy

- Piloting innovative solutions to meet wastewater environmental challenges through Green Recovery – informing future investment plans
- First tranche of c.£80 million renewables investment programme underway to meet our Net Zero 2030 target
- Climate change resilience and adaptation a key focus for PR24

Driving sustainable growth

Delivering growth in Pennon Water Services

- Continued focus on securing sustainable business in the non-household market c.£9 million of contracts won in H1 2021/22
- Demand recovering near to pre-Covid-19 levels – cash collections remaining robust
- Working collaboratively to develop the market and customer experience

Investing sustainably, for the benefit of all

- >30% total RCV[4] growth to 2025 through organic investment and acquisitions
- Delivering our base plans and £82 million Green Recovery investments already underway
- Logical, accretive acquisition of Bristol Water, growing RCV by 16%.

FINANCIAL PERFORMANCE

Underlying^	**H1 2021/22**	**H1 2020/21**	**Change**
Revenue	£389.3m	£319.7m	+21.8%
EBITDA^	£199.4m	£174.5m	+14.3%
Operating profit	£127.4m	£114.8m	+11.0%
Profit before tax	£90.4m	£86.7m	+4.3%
Non-underlying items before tax[5]	(£10.5m)	(£24.8m)	-
Profit before tax	**£79.9m**	**£61.9m**	**+29.1%**
Underlying tax	(£5.2m)	(£16.3m)	+68.1%
Non-underlying tax	(£96.9m)	£4.8m	-
Discontinued operations	-	£1,720.0m	-
(Loss)/Profit for the year	**(£22.2m)**	**£1,770.4m**	**(101.3%)**
Earnings per share			
- Adjusted EPS^ – continuing operations (adjusted for share consolidation)[6]	30.6p	26.8p	+14.2%
- Statutory EPS	(6.3p)	420.9p	(101.5%)
Dividend per share[7] - dividend	11.70p	11.15p	+4.9%

[4] Regulatory Capital Value (RCV)
[5] Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of financial performance
[6] Adjusted earnings per share for H1 2021/22 and H1 2020/21 rebased to reflect impact of share consolidation. This calculation is outlined in the Alternative Performance Measures (APMs) on pages 61 to 65
[7] Dividend policy of CPIH + 2%. The CPIH rate used is 2.9% as of 30 September 2021. Base H1 2020/21 uplift for share consolidation and return of capital (from 6.77p to 10.15p), in addition 1.0 pence of 3.0 pence full dividend uplift announced at the 2020/21 Full Year Results in June 2021

Resilient financial performance

- Results in line with management expectations
- +21.8% underlying revenue^, with Bristol Water contributing £41.6 million
- +8.8% organic[8] underlying revenue^ primarily due to a recovery in non-household demand both in and out of region and contributing contract wins from Pennon Water Services
- +1.8% organic[8] underlying EBITDA^ growth with higher costs to serve driven by high levels of demand and cost pressures from macro-economic factors
- +14.3% underlying EBITDA^ growth with contribution from Bristol Water from 3 June 2021
- +29.1% increase in profit before tax
- +4.3% increase in underlying profit before tax^ with contribution from underlying EBITDA^ growth offsetting increased interest charges on index-linked debt
- +14.2% increase in adjusted earnings per share^ (adjusted for share consolidation)[6]
- Loss per share of 6.3 pence (H1 2020/21 earnings of 420.9 pence) reflecting non-underlying costs, primarily related to deferred tax charge (£96.9 million) for the future change in tax rate
- Sector-leading dividend growth of 4.9% with dividend per share up (CPIH +2%) to 11.70 pence[7]

A full reconciliation to the statutory reported results is included in item (i) in the Alternative Performance Measures on pages 61 to 65 of this announcement.

Presentation of results

A presentation of these results hosted by Susan Davy, Group Chief Executive and Paul Boote, Group Finance Director, will be available at 08:30am (GMT), today, 30 November 2021 and can be accessed here: https://pennon-group.connectid.cloud/register

The presentation will be followed by a live Q&A conference call at 09:15am (GMT). Details are included below:

United Kingdom:	0800 640 6441
United Kingdom (Local):	020 3936 2999
All other locations:	+44 203 936 2999
Conference passcode:	**198676**

[8] References to organic movements throughout this commentary refer to the performance of the business excluding the contribution from Bristol Water from 3 June 2021.

For further information, please contact:

Paul Boote	Group Finance Director	01392 443 168
Jennifer Cooke	Group Investor Relations Manager	
James Murgatroyd	Finsbury Glover Hering	020 7251 3801
Harry Worthington		

Final dividend payment information

27 January 2022	Ordinary shares quoted ex-dividend
28 January 2022	Record date for interim dividend
11 March 2022	Final date for receipt of DRIP applications
5 April 2022	Interim dividend payment date

Upcoming events

1 April 2022	Trading Statement
31 May 2022	Full Year Results 2021/22
21 July 2022	Annual General Meeting 2022
30 September 2022	Trading Statement
30 November 2022	Half Year Results 2022/23

OPERATIONAL PERFORMANCE

RESILIENT PERFORMANCE

Delivering for our customers and communities

Our focus on the priorities that matter most to customers has delivered tailored solutions to resolve issues first time, creating more meaningful connections. This has resulted in an improved customer experience and a significant reduction in all complaints of c.60% year on year, our best ever performance.

Our C-Mex performance has improved in comparison to the previous year, and we are on track to deliver our outstanding service Board pledge by 2025.

We recognise the importance of our role in the communities we serve, and we are committed to delivering more of what matters to them. Since inception, our dedicated funds have provided around £180,000 much needed support to community groups in our region.

Our Neighbourhood Fund builds on our work to support communities with funding available for community groups, which inspire physical activities, education, health and wellbeing and deliver positive environmental outcomes. Through our Neighbourhood Fund we supported a range of charitable funds during the period including Cornwall Air Ambulance, Axminster and Lyme Cancer Support and The Hollow Lane Club, which supports children and young people with complex disabilities with opportunities to socialise and engage with recreational activities.

Our Water-Saving Community Fund promotes ideas to help our customers and communities to get involved in water conservation projects, including support for organisations to create drought tolerant gardens, to install water butts in community allotments or provide educational training and displays in schools.

Innovation driving performance and efficiency across our operations

South West Water has again delivered resilient results across water and wastewater operations, with innovation driving performance and efficiency. Our pilot, test and deploy approach to innovation helps us to mitigate risk for customers, the environment and our stakeholders.

Through our partnership with the University of Exeter, the Centre for Resilience in Environment, Water and Waste (CREWW), we will continue to benefit from their academic expertise and use of state-of-the-art field monitoring equipment to aid research excellence. We are also pleased to have been successful, working with our partners, in securing four Ofwat Innovation Fund projects totalling over £20 million, with these projects due to commence in January 2022.

Reliable wastewater services

We continue to target and drive improvements in wastewater services through innovation by constantly seeking out new ideas, pioneering and piloting new technologies with a focus on nature-based solutions such as i-Phyc, an algae-based solution to remove phosphorus and micro-pollutants.

Reducing flooding incidents

Internal sewer flooding can be caused by a number of factors including blockages in our network or when the network becomes overwhelmed as a result of rainfall during wet weather. These issues are also exacerbated when the population swells through tourism as we have seen in our region through the Covid pandemic. c.70% of blockages are caused by non-flushable waste including wet wipes. We continue to promote campaigns to educate customers to reduce such behaviours which has contributed to our H1 2021/22 performance being c.40% lower than the same period last year. This continues to be an area of excellence for South West Water, outperforming our 2025 target.

The number of external sewer flooding incidents has also reduced by c.20% year on year, our best ever performance. To mitigate surges in our network arising from the significant levels of tourism seen in 2021, we have been pioneering the use of HYBACS technology to help increase treatment capacity, quickly and efficiently. This technology is agile enough to be re-located to where it is needed most.

Reducing sewer collapses

The number of sewer collapses has reduced by c.40% compared to the same period last year and represents an area of excellence, with our performance already exceeding the 2025 stretching target. The downward trend in the number of collapses reflects a relentless drive to investigate, clean and repair sewers. We are using artificial intelligence to produce automated sewer condition surveys, and to detect and code faults accurately, resulting in faster proactive repairs, at a lower cost.

Sustainable step change in wastewater pollutions

We launched our Pollutions Incident Recovery Plan in 2020 following a disappointingly high level of pollutions. We are pleased to have made a significant step change in performance, more than halving the number of pollutions[9] compared to the same ten month period last year, and we acknowledge there remains much more to do. The reduction stems from a range of aspects in our Pollutions Incident Reduction Plan, including enhanced data modelling supported by root cause analysis. Innovative Meniscus technology is being used to model asset data in conjunction with

[9] per 10,000km

weather forecasts to predict potential pollution risks, and at identified high-risk areas, we are advancing asset-specific plans.

Focus is maintained on a daily basis with Executive led, 7 days a week, incident review calls. Enhanced service levels from key contractors, and greater local ownership for our people has been achieved through improving our environmental culture, and we have also been working to influence customer behaviours.

We are committed to maintaining our pace of improvement, delivering a step change in our performance in order to achieve the challenging targets set for K7.

Clean, safe and reliable drinking water

Our focus remains on ensuring the supply of clean, safe and reliable drinking water, whilst protecting the precious natural resources within our region. We seek to achieve this through pioneering for success, launching pilots and using new technologies to drive performance and increase efficiency. A recent example includes Zeta measurement – a device that allows for constant monitoring of particles in raw water supplies, so we can manage the treatment process efficiently, reducing the use of chemicals in the process.

Increasing resilience of our networks

South West Water continues to deploy EZ valves – the first company to use this new technology to repair bursts under pressure, ensuring supplies are maintained to customers. This technology has helped to improve the resilience of our network resulting in a c.30% reduction in mains repairs per 1,000km.

Minimising customer supply interruptions

Our underlying performance is consistently ahead of target[10] and the excellent performance from 2020/21 has been maintained in the current year, benefiting from previous investments in acoustic loggers and advanced telemetry to predict faults and allow them to be repaired before customers are impacted.

Unplanned outages

We have maintained our best ever performance in unplanned outages achieving our 2025 target four years ahead of schedule. An unplanned outage is an unforeseen or unavoidable event, typically resulting from an asset failure which prevents a works from reaching its maximum production

[10] Excluding potential impact of third-party event at Carland Cross, Cornwall. In late August a third-party utility company, performing work unconnected with South West Water, damaged mains supply pipes at Carland Cross in Cornwall, causing a localised loss of supply. Any impact from this event in terms of ODI mechanism is being evaluated

capability if required. We continue to invest in our treatment works to reduce the likelihood of failure alongside continued upgrades to telemetry and alarms to identify and resolve issues quicker.

Leakage

We launched our Leakage Reduction Plan in late 2020, which has already begun to deliver sustained improvements in our performance. This improvement reflects the continued focus on optimising pressure management with new control valves and improved network modelling and through working collaboratively with our partners, increasing our detection and repair activity. Satellite scanning and fixed acoustic loggers continue to enhance our leak detection capability and pin-point leaks more precisely, reducing dig and repair costs. Increased use of more agile acoustic logging enables greater flexibility and deployment in greater numbers for targeted locations of focus. We have also focused on customer leaks and reducing customer usage.

Improving river and coastal water quality

There's no doubt that improving river and coastal water quality has become centre stage in the minds of the public, especially in our region, as recreation, wild-swimming, and paddle boarding have become more popular, and the pandemic has strengthened the bond we want to have with open green and blue spaces and the places people love.

Record high bathing water quality

With a track record of developing solutions to improve bathing beaches in the South West since privatisation, our analysis shows for the first time ever, 100% of our regions' beaches have achieved stringent bathing water standards, making them some of the best in Europe, compared to c.28% in 1991.

We continue to deliver on our planned bathing water quality schemes ahead of schedule, championing efficient and sustainable solutions, on track to cumulatively complete 6 schemes by the end of 2021/22.

Key to the success of these schemes is a collaborative approach ensuring the best outcome for the local economy and the environment. This mainly includes implementing nature-based investments, rather than more engineering, tree-planting to reduce farmland run-off into rivers, whilst also absorbing carbon, as well as tackling sewer misuse and proactively identifying and fixing misconnections.

Driving river water quality improvements

In the South West, c.20% of rivers and waterways currently meet good ecological standards, compared to 16% across England.

By adopting similar approaches to care for our region's rivers as we have done for bathing waters, we are already on track to reduce our impact on river health by one third by 2025. At the same time, we have committed to installing 100% of event duration monitors by 2023.

In addition, our Green Recovery initiative includes pilots on the Rivers Dart and Tavy aimed at transforming inland bathing water quality by measuring the whole river health and this will be instrumental in helping the region to understand what more we can all do.

Most recently, the Environment Agency and Ofwat have announced an industry-wide investigation into sewage discharges. We will work transparently with the regulator to play our part. Ultimately, we all want the same thing, to better understand and reduce the impact on river health and the environment.

Pioneering catchment management for 15 years

With agricultural activity contributing one third of the water quality impact, we understand how critical it is to work with others including the Environment Agency, Catchment Sensitive Farming Partnership and the Devon Wildlife Trust to firstly locate potential sources of pollution from agricultural practices and then work together to mitigate the impacts.

South West Water's award winning catchment management programme, first introduced in 2006, has set the standard for innovation and incentivisation of good water quality outcomes. Catchment management is active in 80% of our catchments and working with around 1,700 farms have restored c.91,000 hectares date, and we have plans to do more.

Additionally, in support of the Government's 25-year environment plan, we are well underway to plant 250,000 trees by 2025, having achieved our original goal of 100,000 trees, four years early, in locking up carbon.

Living our values – sustainability at the heart of our business

Net zero 2030 – on track across our three pillars

Our Net Zero journey is underway with investment focused on delivering reduced carbon emissions and increasing renewable energy generation. Our carbon busting 2030 plan is driven by a combination of activities, structured through three key pillars – bringing wider benefits to the South West.

- Sustainable living – reducing emissions through operational practices, including our on-site water usage, increasing energy efficiency and using lower carbon fuel sources
- Championing renewables – investment is underway to support the achievement of 50% renewable energy generation at our sites by 2030

- Reversing carbon emissions – working in partnership to deliver natural carbon sequestration through peatland restoration and tree planting. We restored around 500 hectares of peatland in K7, and we are now targeting planting 250,000 trees by 2025 after having achieved our initial five year plan of 100,000 trees in 2021.

Responsible and sustainable business

We are committed to being a responsible business for all our stakeholders, achieving improved environmental, social and governance (ESG) performance, and we are building on the success of our pioneering sustainable financing framework – having now enabled c.£1 billion of green funding since its inception in 2018, using a diverse mix of sustainable financing with enhanced speed of execution and efficient financing costs. We were also pleased to have achieved the Fair Tax accreditation again this year, recognising our responsible approach to tax.

Understanding 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.

Consistent RORE^ delivery

South West Water's strong operational and financial performance has contributed to a consistent RORE of 7.8% with outperformance in all areas in H1 2021/22.

*Outcome Delivery Incentives^*

For H1 2021/22 South West Water has achieved c.85%[11] of its ODIs across a broad range of challenging bespoke, common and comparative measures. This is an increase from c.80% in FY 2020/21.

Seven ODIs continue to represent areas of excellence having achieved their 2025 target early, with a further nine outperforming their 2021/22 target, and 21 achieving their target or on track.

We have delivered a significant step change in pollutions performance in line with our Pollutions Incident Reduction Plan and whilst still an area of focus the financial penalty is substantially reduced.

Overall, ODI performance for the half year has resulted in a net reward of £3.5 million (H1 2020/21 net penalty of £1.5 million), reflecting an annual equivalent RORE^ outperformance of 0.6%.

Financing

Our efficient financing strategy continues to drive outperformance with South West Water's effective interest rate^ at 2.9% (H1 2020/21 2.5%), significantly lower than Ofwat's nominal cost of debt of

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[11] On track or within regulatory tolerances

4.2%. While recent increases in RPI and CPI are driving an increase in finance costs of index-linked debt, we continue to outperform the nominal cost of debt through our flexible financing strategy and the company's diverse debt portfolio.

Total expenditure savings (Totex^)

South West Water's overall cumulative net savings in the regulatory period to date are c.£94 million driven through a pioneering approach to innovation.

These include consideration of nature-based solutions such as i-Phyc, improving the quality of treated wastewater with less harmful and costly chemicals, increased use of data and artificial intelligence to predict and target investments before more expensive reactive solutions are required, and through driving economics of scale in our capital programme, such as delivering multiple bathing water schemes simultaneously.

The table below summarises South West Water's RORE^ position:

RORE	**Cumulative**
Base return	3.9%
Totex performance	2.2%
ODI performance	(0.1%)
Financing performance	1.8%
WaterShare RORE[12]	**7.8%**
Ofwat RORE[13]	*8.3%*

Bristol Water – reinvesting in UK water

The acquisition of Bristol Water is a strong strategic fit for the Group, with financial performance since acquisition ahead of expectations. The CMA unconditionally cleared the non-household aspect of the acquisition earlier in November, and an update is expected in late December on the ongoing water merger review. Whilst the CMA review is ongoing, Bristol Water and South West Water will continue to be operated independently of each other.

Operationally for H1 2021/22, performance is balanced with some areas ahead of target and some requiring further focus. Areas where performance is ahead of target includes leakage, where Bristol Water holds an industry leading position, and C-Mex with Bristol Water's continued drive to put customers first, resulting in an upper quartile position.

Areas where performance is not on track and where improvements are being targeted includes water quality compliance, as measured by the Compliance Risk Index (CRI) and Per Capita Consumption

[12] Full year 2021/22 equivalent performance Watershare RORE. Financing outperformance is based on the outturn effective interest rate translated into an effective real interest rate using K7 forecast CPIH of 2.0% (consistent with the FD)
[13] Based on Ofwat's K7 approach to RORE, including total tax impacts and using actual average inflation for totex and financing

(PCC) performance, which was significantly impacted by Covid-19. Plans are in place to help customers to reduce water usage through supportive and voluntary measures, including the provision of free water efficiency equipment along with enhancing Bristol Water's existing schools education programme. These plans will sit alongside the continuation of community initiatives undertaken as part of Bristol Water's social contract.

Bristol Water's capital investment of £12.7 million has been focused on improving and renewing their asset base to increase resilience.

Bristol Water's RORE for H1 2021/22 at 4.9% (as measured by Ofwat), is delivering ahead of its allowed base returns[14].

WELL POSITIONED FOR THE FUTURE

Talented people delivering for customers and communities

At Pennon, we believe our people are our best asset and are delighted to have been recognised as a Great Place to Work. We are focused on doing everything we can to recruit, train, develop and support all our employees, whatever their background, experience or outlook.

Progressive organisation

We continue to build a progressive organisation, recruiting, training, developing and supporting all of our colleagues, whatever their background, experience or outlook – unlocking their potential now and into the long term.

Pennon is proud to be a member of 'The 5% Club', a dynamic movement of employer-members working to create a shared prosperity across the UK – investing in the next generation through embracing of an 'earn and learn' culture.

We've also focused on creating a diverse and inclusive place to thrive for our c.2,500 employees and the communities we support. We were the first water company to sign up to the Change the Race Ratio, campaigning to increase racial and ethnic participation in British Businesses. We are also proud to be a participant in the #10000blackinterns initiative and are pleased to have increased the proportion of female colleagues in our workforce to more than 30%. The acquisition of Bristol Water also provides the potential to expand our talent pool.

Our graduate programme is well underway with a new intake of 27 graduates, who represent our most diverse intake ever, whether that's race, ethnicity, gender, cultural heritage or background. The programme enables graduates to gain practical experience in our core business areas of

[14] Full year equivalent RORE performance - in line with Bristol Water's CMA Final Determination issued in March 2021

operations, engineering, project management, and customer service which will be vital in helping them find their ultimate leadership position.

We continue to create new apprenticeships and have added 135 apprenticeships since 2020, and we are ahead of schedule in reaching our 2025 target of 500 with c.30% complete to date. Pennon was one of the first companies to sign up to participate in the Government's Kickstart scheme, offering 16-24 years olds deemed at risk of long-term unemployment, six month paid work placements. Of the first cohort recruited, we are pleased to have retained c.55% of Kickstarters in permanent roles across the Group, following the end of their placement.

Tested through the pandemic

Great people are at the heart of any great organisation – and our talented colleagues who deliver for customers and communities every day epitomise this. Thanks to their continued hard work and commitment, the Group has continued to deliver resilient service through extreme variability and high levels of demand arising from the recovery of the non-household market and record numbers of tourists and second homeowners staying in the region. The rapid growth in population has maintained high levels of demand for our water and wastewater services, placing additional pressure on our assets and people.

Focused on customer affordability

We understand the financial strain that the pandemic has put on customers. As part of our New Deal business plan, we included a pledge to eliminate water poverty by 2025 by expanding our toolkit of affordability measures to support those who need it most. South West Water bills are now lower than they were 10 years ago, and we have unlocked c.£3.8 million of cumulative financial support by ensuring customers are receiving all eligible benefits.

Evolving our environmental strategy

Focused on climate change mitigation and adaptation

As a Group, we recognise the role we have to play in reducing emissions targeted at slowing climate change, and it is clear that investment to manage climate change risk will be a key feature of K8.

Climate change has multiple impacts on our operations – from the availability of secure water resources to flooding and resilience challenges in relation to our low-lying operational assets, and we continue to invest to ensure we remain a sustainable business, now and into the future.

Our robust water resources position is projected to be in water surplus in the medium to long term, and in the South West, this will be our 25th year without any water restrictions.

We are also on track with our commitment to achieve net zero carbon emissions by 2030, and are committed to the Science Based Targets Initiative. Our carbon-busting plan is underpinned by three pillars:

- Sustainable living – reducing our consumption of energy through being ever more efficient in the way we operate
- Championing renewables – further embracing the natural resources within our region to increase our own power generation to 50% of our usage, with the first tranche of our c.£80 million investment underway
- Reversing carbon emissions – building on our industry leading catchment management work, which we first embarked on 15 years ago. Whilst this work plays a role in improving raw water quality before it is treated to become drinking water, it also has the added benefit of capturing carbon in the land.

Piloting for success

Our Green Recovery initiative, developed with customers and stakeholders, has been designed to deliver benefits for customers, society and the environment – with innovative pilots informing our investment strategy including:

- Inland bathing water quality pilots on the Rivers Dart and Tavy aimed at informing future investment to enhancing our rivers for generations to come
- Expanding our nature-based solutions through increased peatland restoration, reducing the risk of flooding and improving biodiversity, plant life and habitats
- Smarter, healthier homes – customer focused initiatives reducing water consumption and leakage to cut down abstraction from the environment and our carbon footprint.

DRIVING SUSTAINABLE GROWTH

Delivering growth in Pennon Water Services

Pennon Water Services continues to demonstrate its resilience during the first half of 2021/22 as performance recovers following the Covid-19 related lockdowns in 2020 and 2021. Pennon Water Services' strategy is to engage proactively with its customer base, continue to win new contracts, and deliver against its priority of ensuring the safety of its employees, customers and the communities it serves. It continues to focus upon simple and transparent, retail services delivering low levels of customer attrition, contract wins and high levels of customer satisfaction.

Non-household demand which had been impacted by Covid-19 due to restrictions on customer's operations in some sectors, is starting to return to near pre-Covid levels. This recovery is predominantly in the hospitality, tourism and manufacturing sectors.

During the pandemic, Pennon Water Services took an active role in engaging constructively with the market operator - MOSL, regulators and other market stakeholders on measures designed to protect businesses and the water industry from the effects of Covid-19. The range of customer support mechanisms deployed alongside a fair but robust collections strategy enabled the business to assist its customers struggling to deal with the impacts of Covid-19, whilst balancing its own interests.

Ofwat has confirmed its decision to limit the potential risk of bad debt exposure to retailers in the market to a maximum of 2% of revenue and will publish its decision document in mid-February on allowed revenues for 2022/23 which will allow recovery of Covid-19 bad debt across the non-household customer base.

Our customer service operations and contact centre have continued to operate effectively through the first half of the year and we continue to focus on cash collections, which remain robust. Our customer centric approach continues to underpin the provision of outstanding service and remains a key differentiator in the market as recognised through an excellent Trustpilot score (4.9).

Despite a landscape of economic uncertainty Pennon Water Services continues to grow its revenue, with its strategy focused on high quality, sustainable customers. During the period to 30 September 2021, it has won national customers such as Birds Eye, Synthomer, Country Style Foods and Pepsico which will deliver c.£9 million in annualised revenue.

Investing sustainably for the benefit of all

As a purpose led business, we think differently about the relationship we have with our customers through our innovative and pioneering WaterShare+ scheme. We are maintaining our performance momentum from K6, continuing to deliver benefits for customers – with c.£47 million delivered to date in K7. With one in 16 households in the region now shareholders, we are planning a second WaterShare+ issuance in 2022, linked to our acquisition of Bristol Water.

We continue to pursue a relentless approach to driving performance and efficiency, ensuring we keep customer bills as low as possible, delivering more for less, innovating to deliver solutions for the things that matter most to customers, and building agility to be able to respond to both opportunities and challenges as they arise.

With 8 out of 9 of our customers wanting us to be an environmental leader, we're focused on accelerating plans for the future health of the planet. To do this, we need to demand less of our world and do it in a way that's innovative, pushing boundaries.

It's this agility and innovative approach to driving efficiency that also positions us perfectly to be able to invest for sustainable growth, adopting a twin-track approach, pursuing both organic and acquisitive growth.

At Pennon, we believe, that in doing what's right – it leads to a 'right to grow' – and that's good for everyone. Doing the right thing, driving efficiency for the benefit of customer bills in turn gives us a right to grow both organically and through acquisition.

We are well underway with the delivery of South West Water's 2020-25 New Deal business plan which includes c.£1 billion investment allowance reflecting 11%[15] RCV growth to 2025, and our Green Recovery initiative. This initiative is an example of organic growth, earning base returns, with the added benefit of being able to pilot areas to help develop innovative solutions to key issues, and our incremental investment of £82 million represents a 2.5% increase on SWW's RCV, importantly with no impact on customer bills in K7.

Our logical and accretive water acquisitions have also delivered significant value underpinned by meaningful benefits for customers and shareholders. The £425 million acquisition of Bristol represents 16% RCV growth, with synergistic benefits expected to deliver further growth based on our previous track record. Alongside this, Bristol's Final Determination reflects growth of 9.3% to 2025.

Combining our base, organic and acquisitive investments outlined above reflects a total RCV growth to 2025 of more than 30%. This means we are able to deliver on our commitments to customers, shareholders and stakeholders, as our investments drive tangible, positive and sustainable growth, and through our innovative WaterShare+ scheme, it means customers get to share in these financial benefits in addition to keeping bills as low as possible.

[15] c.11% nominal growth in RCV over K7 opening position

FINANCIAL PERFORMANCE

During H1 2021/22, we have implemented our commitments to realise value for our shareholders and stakeholders following the sale of Viridor, having paid a special dividend of c.£1.5 billion, commenced a share buy-back programme of up to c.£400 million, and making further contributions to our principal pension scheme. We have extended our investment in UK water with the acquisition of Bristol Water and have committed further investment to fund our water businesses in support of our Green Recovery initiative.

Bristol Water has contributed to the financial results since 3 June 2021 and is performing ahead of management expectations. The CMA unconditionally cleared the non-household aspect of the acquisition earlier in November. An update is expected in late December on the ongoing water merger review. Whilst the CMA review is ongoing, Bristol Water and South West Water will continue to be operated independently of each other.

Underlying^	**H1 2021/22**	**H1 2020/21**	**Change**
Revenue	£389.3m	£319.7m	+21.8%
Operating costs	(£189.9m)	(£145.2m)	(30.8%)
EBITDA^	£199.4m	£174.5m	+14.3%
Depreciation and amortisation	(£72.0m)	(£59.7m)	(20.6%)
Operating profit	£127.4m	£114.8m	+11.0%
Net interest charge	(£37.0m)	(£28.1m)	(31.7%)
Profit before tax	**£90.4m**	**£86.7m**	**+4.3%**
Non-underlying items before tax[5]	(£10.5m)	(£24.8m)	-
Profit before tax	**£79.9m**	**£61.9m**	**+29.1%**
Underlying tax	(£5.2m)	(£16.3m)	+68.1%
Non-underlying tax	(£96.9m)	£4.8m	-
Discontinued operations	-	£1,720.0m	-
Profit for the period	**(£22.2m)**	**£1,770.4m**	**(101.3%)**
Earnings per share			
- Adjusted EPS^ – continuing operations (adjusted for share consolidation)[6]	30.6p	26.8p	+14.2%
- Statutory EPS	(6.3p)	420.9p	(101.5%)
Dividend per share[7] – dividend policy	11.70p	11.15p	+4.9%
Capital investment	£111.5m	£73.5m	+51.7%
- South West Water	£98.7m	£73.3m	+34.7%
- Bristol Water	£12.7m	-	-
- Other	£0.1m	£0.2m	(50.0%)
	30 September 2021	**30 September 2020**	
Total Group net (debt)/cash	(£2,542.9m)	£64.3m	

Resilient financial performance

Financial performance across the Group has been resilient and in line management expectations.

The Group's revenue has increased from £299.2 million to £389.3 million, with the prior period impacted by a £20.5 million WaterShare+ non-underlying reduction to revenue. The Group's underlying revenue^ has increased from £319.7 million to £389.3 million, an increase of c.22%, with Bristol Water contributing £41.6 million of the increase in the half year ended 30 September 2021.

Organically[8], underlying revenues^ have increased by 8.8%. The Covid-19 pandemic has led to a substantial population increase in the regions we serve with continued higher levels of household demand. Alongside this, as restrictions have eased, businesses have increased activity, resulting in increased water usage both in and out of our region, as well as growth in South West Water's developer services activities. The combined impact of growth from the Covid-19 recovery has resulted in increased revenues of c.£17 million. Pennon Water Services continues to deliver further revenue growth with new contract wins since 1 October 2020 contributing c.£10 million of additional revenue compared to H1 2020/21.

Cost pressures from the macro-economic environment, alongside the increased demand, which includes the impact of a sustained population increase in the region, have resulted in higher costs to serve.

Cash collections in both South West Water and Pennon Water Services have remained robust throughout the first half of the financial year. Underlying expected credit loss charges for H1 2021/22 of £1.8 million for South West Water (0.6% of revenue) and £0.3 million for Pennon Water Services (0.3% of revenue) are in line with previous years' levels for H1 2020/21 of 0.7% and 0.4%, respectively. The Group recognised a non-underlying charge for expected credit losses in relation to Covid-19 of £7.9 million in the year ended 31 March 2020. The majority of the expected credit loss provision that was created remains in place, with the full impact of the pandemic on collections not expected to be known until such point as the impact of relief measures being withdrawn is realised.

Overall, underlying EBITDA^ has increased by 14.3% from £174.5 million to £199.4 million including a contribution of £21.7 million from Bristol Water. Organically[8], underlying EBITDA^ has increased by 1.8%.

Group underlying profit before tax^ increased by 4.3% to £90.4 million compared with the prior year of £86.7 million. This outturn reflects the contribution from organic[8] underlying EBITDA^ growth and acquisitions offsetting increased interest charges on index-linked debt.

The results for the Group are expected to have an H1 weighting primarily due to the expected impacts of inflation on index linked debt in the second half of the year.

South West Water

South West Water underlying[16]	H1 2021/22	H1 2020/21	Change
Revenue[17]	£298.1m	£282.9m	+5.4%
Operating Costs	(£119.8m)	(£106.8m)	(12.2%)
EBITDA^	£178.3m	£176.1m	+1.2%
Depreciation and amortisation	(£60.4m)	(£59.3m)	(1.9%)
Operating profit	£117.9m	£116.8m	+0.9%
Net interest charge	(£33.2m)	(£28.3m)	(17.3%)
Profit before tax	£84.7m	£88.5m	(4.3%)

South West Water underlying revenue for H1 2021/22 of £298.1 million has increased by 5.4% (£15.2 million) compared with last year (H1 2020/21 £282.9 million). This increase reflects the recovery of the non-household market and developer services activity which were adversely impacted by Covid-19 in the prior period.

Underlying operating costs of £119.8 million increased by £13.0 million compared to £106.8 million in H1 2020/21. This increase principally reflects:

- Increased production volumes arising from the recovery of non-household demand driving increased power and chemical consumption of c.£2 million
- Additional operating costs of c.£2 million to enhance and accelerate our key areas of operational focus of pollutions and leakage
- Higher developer activity such as government road schemes of c.£3 million associated with higher developer revenue
- Other cost increases of c.£5 million, reflecting annual pay increases, higher insurance costs and annual inflationary increases, partly offset by continued efficient delivery.

South West Water's underlying EBITDA^ and underlying operating profit increased by 1.2% and 0.9%, respectively, reflecting the higher revenue from non-household demand more than offsetting higher operating costs.

Net interest costs of £33.2 million are £4.9 million higher than the prior period (H1 2020/21 £28.3 million) due to the impact of higher RPI and CPI on index-linked debt. The Group's efficient funding mix and hedging strategy minimises these market effects with active management of our portfolio and higher levels of fixed or swapped instruments continuing to deliver a sector leading effective interest rate^ of 2.9% (H1 2020/21 2.5%). South West Water has c.£800 million of interest rate swaps in place to manage its fixed, floating and index-linked ratios.

[16] Measures presented are before non-underlying items
[17] Includes wholesale revenue for non-household customers

South West Water's capital expenditure for H1 2021/22 was £98.7 million, compared to £73.3 million in H1 2020/21, reflecting the profile of the regulatory business plan and further advancement of expenditure in both water and wastewater operations, offset by efficient delivery of schemes in conjunction with key partners.

Drinking water capital expenditure of £50.3 million includes the commencement of Alderney water treatment works in Bournemouth, building a state-of-the-art facility following on from the successful construction of Mayflower water treatment works in Plymouth. We will again deploy cutting-edge treatment processes, designed to produce high quality drinking water and to be more sustainable than a traditional water treatment works.

Wastewater capital expenditure of £48.4 million includes continued advancement of pollutions related investments and bathing water improvements.

Bristol Water

Bristol Water underlying[16]	H1 2021/22
Revenue[17]	£41.6m
Operating Costs	(£19.9m)
EBITDA^	£21.7m
Depreciation and amortisation	(£9.3m)
Operating profit	£12.4m
Net interest charge	(£5.2m)
Profit before tax	£7.2m

Bristol Water has contributed to the financial results since 3 June 2021. The table above shows the contribution to the Group since that date, before any consolidation adjustments to depreciation and interest costs from the fair value exercise performed on the acquired balance sheet. In the period since acquisition, the business has performed ahead of our expectations, with its results having an H1 weighting primarily due to the inflationary impact on its index-linked debt.

Similar to South West Water, Bristol Water has experienced increased revenues in the period to 30 September 2021, compared to the same period last year, as a result of ongoing higher levels of household demand and a recovery in non-household demand. Revenues have also benefitted from higher regulatory allowances in its business plan.

Pennon Water Services

Underlying[16]	**H1 2021/22**	**H1 2020/21**	**Change**
Revenue	£92.7m	£75.3m	+23.1%
Water segment wholesale elimination	*(£43.2m)*	*(£38.8m)*	*+11.3%*
Revenue excluding elimination	*£49.5m*	*£36.5m*	*+35.6%*
Operating Costs[18]	(£91.1m)	(£75.0m)	(21.5%)
Water segment wholesale elimination	*£43.2m*	*£38.8m*	*(11.3%)*
Operating costs excluding elimination	*(£47.9m)*	*(£36.2m)*	*(32.3%)*
EBITDA^	£1.6m	£0.3m	+433.3%
Depreciation and amortisation	(£0.4m)	(£0.4m)	-
Operating profit	£1.2m	(£0.1m)	+1,300.0%
Net interest charge	(£0.9m)	(£0.8m)	(12.5%)
Profit / (loss) before tax	£0.3m	(£0.9m)	+133.3%

Pennon Water Services demonstrated its resilience during a second year of significant economic uncertainty, by engaging proactively with its customer base whilst continuing to win new contracts and delivering against its strategic priorities, with results in line with management expectations. Non-household demand has returned to near pre-Covid-19 levels, with the recovery predominantly in the hospitality, tourism and manufacturing sectors.

The overall impact on revenues for Pennon Water Services, including the impact of new contract wins is an increase of c.23% compared to the prior half year. New business wins since 1 October 2020 have contributed c.£10 million of additional revenue compared to H1 2020/21. Underlying operating costs have grown in line with improving revenues and the business has more than quadrupled its underlying EBITDA^.

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.

Group net finance costs

Net finance costs for the Group of £37.0 million are £8.9 million higher than last year (H1 2020/21 £28.1 million) including the Bristol Water acquisition. The Group has benefitted from the efficient financing that has been achieved through our diverse mix of fixed, floating and index-linked debt, including a lower exposure to index-linked instruments than our peers.

[18] Includes wholesale costs for non-household customers

This increase is due to the current volatility in inflation which has seen the rates move significantly higher than in previous years. The full impact of inflationary increases has been minimised by the relatively low level of index-linked debt in our portfolio, compared to the rest of the water industry.

The Group continues to secure funding for South West Water through its Sustainable Financing Framework and has efficiently hedged c.55% of its interest rate risk through the K7 regulatory period and expect index-linked debt to remain below Ofwat's notional assumption of 33%.

Profit before tax before non-underlying items

Group underlying profit before tax^ is £90.4 million compared with the prior year of £86.7 million. This outturn reflects the contribution from organic underlying EBITDA^ growth and acquisitions being offset by increased interest charges on index-linked debt.

As part of the requirements of acquisition accounting, we have determined the provisional fair values of the acquired balance sheet of Bristol Water. These provisional values will continue to be reviewed and will be finalised for our financial year ending 31 March 2022. The most material areas of adjustment relate to the fair value of acquired property, plant and equipment, including the network infrastructure, and the fair value of Bristol Water's debt portfolio. The consequent adjustments to depreciation and interest costs are reflected within 'other' in our segmental reporting.

Non-underlying items

Non-underlying items for H1 2021/22 total a charge before tax of £10.5 million (H1 2020/21 charge of £24.8 million). The Directors believe excluding non-underlying items provides a more useful comparison of business trends and performance.

The non-underlying charge of £10.5 million consists of expenses in connection with the acquisition of Bristol Water and the related merger review by the CMA.

In addition, a £96.9 million non-underlying deferred tax charge has been recognised for the change in future tax rate which was enacted during this half year.

Responsible approach to tax

The overall tax charge for the Group is £102.1 million (H1 2020/21 £11.5 million). On an underlying^ basis, the net tax charge for H1 2021/22 for the Group of £5.2 million (H1 2020/21 £16.3 million) consists of:

- Current year current tax charge of £6.5 million, reflecting an effective tax rate of 7.2% (H1 2020/21 £12.4 million, 14.3%). This reduction is largely as a result of the introduction of super-deductions, along with tax relief on pension payments made during the year and in recent years

- Current year deferred tax charge of £10.2 million (H1 2020/21 £4.2 million) primarily reflects capital allowances across the Group in excess of depreciation charged together with relief on pension contributions. The increase mainly relates to super-deductions.
- In relation to prior years, amendments notified to HMRC result in:
  - Current tax credit of £2.0 million (H1 2020/21 £0.8 million credit)
  - Deferred tax credit of £9.5 million (H1 2020/21 £0.5 million charge).

The H1 2021/22 non-underlying items result in a £96.9 million charge (H1 2020/21 £4.8 million credit), reflecting the UK tax rate change, substantively enacted in the period. The UK tax rate increases to 25% from 1 April 2023, hence most deferred tax items will crystallise at a higher rate.

Earnings per share

The Group has recorded a loss per share of 6.3 pence in H1 2021/22. This reflects non-underlying deferred tax of £96.9 million and non-underlying acquisition costs relating to Bristol Water of £10.5 million. The reported loss per share compares to earnings per share of 420.9 pence in H1 2020/21 which included the significant profit on disposal of Viridor of c.£1.7 billion.

The comparability of our earnings per share is distorted by the significant one-off transactions that have been identified as non-underlying and the profit on the sale of Viridor reported in the last financial year. Furthermore, the average number of shares used to derive the earnings per share reflects the share consolidation in July 2021.

To facilitate comparison of performance, our adjusted earnings per share excludes the impact of deferred tax charges and non-underlying items. We have also adjusted the number of shares in issue to reflect the share consolidation as if it took place at the start of both this, and the last, financial year to aid comparability. For the Group, we have generated adjusted earnings per share^ (adjusted for share consolidation)[6] for H1 2021/22 of 30.6 pence compared to 26.8 pence in H1 2020/21, on a comparable basis. This represents an increase of 14.2%, reflecting the contribution from Bristol Water and the lower current tax charge from super-deductions.

Sustainable net debt position

Cash generation has remained robust throughout H1 2021/22. We continue to closely monitor cash collections as the full impact of the government's pandemic support measures being withdrawn is not fully known. The Group's total operational cash inflows^ in H1 2021/22 were £168.7 million (H1 2020/21 £156.6 million) including a £16.6 million contribution from Bristol Water.

These cashflows adequately support our effective finance structures with net interest paid of £32.4 million and capital investment programme of £120.9 million.

The acquisition of Bristol Water resulted in total cash outflows of £434.2 million including transaction costs, stamp duty and related costs incurred to date in connection with the merger review by the CMA, net of £12.8 million cash acquired. The Group's net debt is further increased by £391.4 million book value of Bristol Water's net debt and subsequent fair value adjustments of £134.8 million.

The cash outflow to 30 September 2021 arising from the share buy-back is £60.5 million. At 30 September, the value of the contractually committed buy-back programme which was underway was up to c.£120 million. The full value of this commitment has been reflected in reserves, with the outstanding element of this commitment at that time recognised in accruals. On 26 November 2021, the current phase of the buy-back programme has finished, and the total value of the buy-back programme completed to date is c.£110 million.

Other significant movements in net debt in H1 2021/22 include the special dividend of £1,498.5 million and £23.7 million contributions to the Group's principal pension scheme.

Following this, and the payment of our interim and final dividends for FY 2020/21, the Group's net debt at 30 September 2021 was £2,542.9 million (31 March 2021 net cash £64.3 million). This includes fair value adjustments on acquired debt of £173.9 million[19] 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 £2,369.0 million.

The movement in net debt reflects the restructuring of the Group's balance sheet following our responsible deployment of capital, including c.£0.5 billion reinvestment in UK water, c.£0.1 billion additional pension contributions and c.£1.2 billion[20] repayment of debt originally drawn to fund Viridor, that has taken place over the last 15 months since the sale of Viridor. The restructuring of the Group's balance sheet is now substantially complete, and the current levels of debt represent a sustainable position for the Group.

Agile and efficient financing

South West Water's cost of finance, with an effective rate^ of 2.9% remains among the lowest in the industry, continuing to benefit from the use of finance leasing as the main source of funding in the portfolio which provides long maturities at fixed margins, secured at the inception of each lease.

South West Water net debt is a mix of fixed / swapped (£1,367 million, 61%), floating (£295 million, 13%) and index-linked borrowings (£581 million, 26%). South West Water's debt has a maturity of up to 36 years with a weighted average maturity of c.17 years. New debt has been fixed to align to

[19] Carrying value of fair value acquisition adjustments to net debt at 30 September 2021 - £41.7 million Bournemouth Water, £132.2 million Bristol Water

[20] Including £0.1 billion of make-whole costs incurred on debt retirements

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.

The gross debt position of the water business (South West Water and Bristol Water) is a mix of fixed / swapped 52%, floating 22% and index-linked 26% as at 30 September 2021, which reflects our diverse debt portfolio and compares to an industry average[21] of fixed / swapped 43%, floating 8% and index linked 49%.

South West Water's index-linked debt is below Ofwat's notional assumption of 33%. This gives a comparative advantage through the regulatory transition from RPI to CPIH, given the uncertainty and volatility around pricing of the wedge between RPI and CPI. The CPI and CPIH markets have continued to develop further over the last year and we will seek to issue new index-linked instruments to maintain our position as required.

As announced in June 2021, Pennon has planned to deploy £100 million investment into the water business, notionally split between South West Water (£45 million) and Bristol Water (£55 million). Including this planned investment, at 30 September 2021, water business (South West Water and Bristol Water) debt to RCV[22] ratio stood at 62.1%[23,24] (31 March 2021 64.8%). At the same date and on the same basis, gearing at South West Water was 62.4%[23,24], which is expected to fall during this regulatory period with a trajectory towards Ofwat's notional structure of 60% by 2025, and Bristol Water gearing at 30 September 2021 was 60.0%[24]. Prior to this planned investment, the debt to RCV ratios at 30 September 2021 for the water business, South West Water and Bristol Water stood at 64.5%, 63.7% and 69.7%, respectively.

Responsible and sustainable balance sheet

The Group has a strong liquidity and funding position with £1,139 million cash and committed facilities as at 30 September 2021. This position excludes Bristol Water which continues to be managed independently both financially and operationally. This consists of cash of £869 million (including £253 million of restricted funds representing deposits with lessors against lease obligations) and £270 million of undrawn facilities. £449 million of the cash holdings are held at the Pennon company level.

Given the current low interest rate environment, the Group's cash is being managed to provide flexibility and liquidity to meet any required cashflow needs whilst ensuring appropriate security and counterparty limits are observed.

[21] UK water position as at 31 March 2021

[22] RCV as published in South West Water's Final Determination (2020-25), recognising the omission of data not included by Ofwat in relation to IFRS16: *Leases*

[23] Based on RCV forecast at 31 March 2022 and South West Water Group net debt. Regulatory South West Water Limited gearing is 65.7% at 30 September 2021 (67.4% at 30 September 2020)

[24] Post planned Pennon deployment of £100 million into water business – split between South West Water (£45 million) and Bristol Water (£55 million)

South West Water net debt as at 30 September 2021 was £2,243 million, slightly higher than the previous year (31 March 2021 £2,199 million) as South West Water continues to deliver its capital programme. During the period to 30 September 2021, South West Water signed £50 million of new and renewed facilities. Following the continued success of our Sustainable Financing Framework, we have updated and reissued our framework to incorporate the latest sustainable principles, in particular the sustainability linked loan and bond principles. The Group was the first UK corporate to issue sustainability linked loans in 2018 and the new principles will help develop this market further.

Our 2021 Sustainable Financing Impact Report was published in September, detailing the progress we have made in this area and the allocation of funding to our sustainable projects in water and wastewater to support our communities.

In preparation for the cessation of LIBOR in December 2021, the Group is following current recommendations from Regulators and progressing our transition plans. Having completed our first LIBOR to SONIA amendment for a sustainable revolving credit facility in 2020, we have engaged with all our banking counterparties to ensure we are well placed for the transition to meet the December deadline.

Pensions

At 31 March 2021, the Group reported a surplus on retirement benefit obligations of £8.8 million relating to the Group's principal pension scheme, Pennon Group Pension Scheme (PGPS). At 30 September 2021, the surplus on retirement obligations of £56.5 million constitutes a surplus on PGPS of £48.8 million and a surplus of £7.7 million in respect of Bristol Water's defined benefit pension obligations.

The surplus on PGPS has increased by £40.0 million with the significant elements of the increase being:

- £23.0 million of additional contributions to the scheme being part of our package of returning capital to our investors and stakeholders
- £15.9 million increase in surplus from favourable movements in financial and other actuarial assumptions.

In total, following the Viridor disposal, the Group has contributed £59.0 million over and above the agreed deficit recovery payments from the 2019 actuarial valuation. This represents approximately 2% of the Viridor proceeds, after debt retirements. As at 30 September 2021, PGPS is approximately 107% funded against its technical provisions.

Bristol Water's pension surplus relates to the Bristol Water Section of the Water Companies Pension Scheme (WCPS). The liabilities of the scheme are insured through a bulk annuity policy and will fluctuate with changes in actuarial assumptions, however the scheme assets in the form of the bulk annuity policy materially match the value of the liabilities. The surplus recognised on acquisition reflects the fair value of the surplus to Pennon and is restricted by a tax deduction of 35% under UK tax legislation.

Recognising shareholder support

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

In June 2021, Pennon announced a proposed special dividend of £1.5 billion, which represents £3.55 per existing ordinary share, would be paid from the retained earnings arising from the Viridor disposal. This was approved by shareholders and paid in July 2021.

To maintain comparability, so far as possible, of the Company's share price before and after the special dividend, a share consolidation accompanied the special dividend which consolidated the Ordinary Share capital on the basis of two New Ordinary Shares in the capital of the Company for every three Existing Ordinary Shares. The effect of the share consolidation was that the existing shares were replaced by the new shares, reducing the number of shares in issue and reflecting the amount of cash to be returned to shareholders, thus being economically neutral.

As announced, following the special dividend and share consolidation, we have commenced a share buy-back programme of up to c.£400 million, with the first two tranches totalling c.£120 million being irrevocably committed prior to 30 September 2021. Further phases are expected to commence over the period to 30 September 2022, subject to our continued review of further growth opportunities in UK water, in line with our established financial disciplines.

Following the share consolidation, share buy-back and strategic acquisition of Bristol Water, the dividend per share has been rebased, with the interim dividend for H1 2020/21 being rebased to 11.15 pence, as shown in the table below. Pennon's dividend growth policy of CPIH + 2% per annum is applied to the adjusted base.

	H1 2021/22 interim dividend (pence)	Growth on dividend adjusted for consolidation
2020/21 interim dividend	6.77	
Base uplift for share consolidation and return of capital[25]	+4.38	
2020/21 interim dividend adjusted for return of capital	11.15	
Dividend growth on revised base (CPIH+2%)	+0.55	+4.9%
2021/22 interim dividend	11.70	

Pennon's sector-leading dividend policy reflects the Board's confidence in the Group's sustainable growth strategy and is underpinned by continued RORE^ outperformance in South West Water.

For H1 2021/22 the Board has declared an interim dividend of 11.70 pence, representing an increase of 4.9% on the adjusted base for H1 2020/21. The interim dividend will be paid on 5 April 2022 to shareholders on the register on 28 January 2022. Pennon offers shareholders the opportunity to invest their dividend in a Dividend Reinvestment Plan (DRIP).

Macro-economic outlook

As the UK economy starts to recover following the slowdown from the restrictions imposed through the Covid-19 pandemic, the impacts on the supply chain, rising power prices and overall higher levels of inflation are impacting all businesses.

The high current inflationary environment is anticipated to increase certain costs during 2021/22 and whilst finance costs for 2021/22 will increase above 2020/21 levels, the Group has a relatively lower proportion of index-linked debt in its debt portfolio compared to industry peers. In terms of a financial impact, a movement of 100 basis points on RPI inflation equates to an annual impact of c.£8 million for South West Water and Bristol Water combined. To offset operational and supply chain cost pressures, we continue to target efficiencies across the business.

The impact of inflation on the Group's operating and finance costs is expected to be outweighed by the increase in RCV driving future years revenues, with inflation linkage and regulatory true ups providing long-term protection[26].

[25] Base uplift for share consolidation and return of capital includes 1.0 pence of 3.0 pence full dividend uplift announced at the 2020/21 Full Year Results in June 2021

[26] Including revenue and RCV adjustments to reflect changes of totex allowances linked to changes in pay and wage indices (ASHE – average survey of hours and earnings), the true up for higher tax rates, changes in iboxx indices trueing up the cost of new debt, true ups for changes in volume related to bioresources, developer activity, land sales and customer numbers

100% of our expected power usage for FY 2021/22 has been de-risked through hedging and our own generation. c.50% of our expected power usage beyond H1 2021/22 through to the end of K7 has been de-risked through hedging and increasing our own generation capacity. c.10% of our underlying operating costs are linked to wholesale power costs. Our energy risk policies involve constant monitoring of forward power prices and we will continue to manage our exposure to pricing volatility in this area. As part of our target to achieve net zero carbon emissions by 2030, we have identified renewable energy generation investment opportunities of c.£60 million over the period to 2030, in addition to c.£20 million associated with projects within the envelope of regulatory allowances. These investments will help to decrease our reliance on wholesale power markets.

We recognise that inflationary pricing increases may pose challenges to our customers. South West Water's sector-leading bad debt charge of 0.6% of revenue (£1.8 million for H1 2021/22) reflects the enhancements to customer support measures that we have made with c.68,000 customers now benefitting from one or more of our social tariffs.

Technical Guidance – Full Year 2021/22

Pennon Group		**FY 2020/21**	**Change**	**Movement from guidance at FY 2020/21**
Revenue	• Increased non-household demand and other services as Covid-19 recovery continues • South West Water household demand reflects increased regional population due to staycations	£644.6m	▲	-
Bristol Water	• 10-month contribution – Profit before tax H1 weighted	£8.9m	▲	▲
Net (debt)/cash	• Return of capital to shareholders in July 2021 • Earnings accretive acquisition of Bristol Water including acquired net debt at fair value • Share buy-back programme deployment	£64.3m	▼	-
Current year current tax rate	• Underlying Group's effective current year current tax rate lower than UK headline rate of 19% reflecting super-deductions and relief on pension contributions	15.1%	▼	-
South West Water		**FY 2020/21**	**Change**	
Operating costs	• Operating cost increase due to sustained high levels of demand and inflationary pressures	£222.4m	▲	▲
Net interest	• Efficient financing impacted by inflationary increases in charges related to index-linked debt – H2 weighted	£57.7m	▲	-
Capex	• Capital expenditure reflects K7 profile of investment – H2 weighted	£168.2m	▲	-
RORE^	• Outperformance expected to continue	7.8%	-	-
RCV	• Increase in line with K7 business plan levels of investment, supported by inflation expectations	£3,393m	▲	-
Pennon Water Services		**FY 2020/21**	**Change**	
Operating costs	• Non-household recovery from Covid-19 and contract wins leading to higher wholesale supply charges	£161.4m	▲	-
Underlying EBITDA^	• Impact of increased non-household demand on margins • Focus on continued cost efficiency with strong collections offsetting potential bad debt impact of Covid-19	£1.4m	▲	-

Covid-19 assumptions are based on our ongoing assessment of the impact of the pandemic.

Financial Timetable

27 January 2022	Ordinary shares quoted ex-dividend
28 January 2022	Record date for interim dividend
11 March 2022	Final date for receipt of DRIP applications
1 April 2022	Trading Statement
5 April 2022	Interim dividend payment date
31 May 2022	Full Year Results 2021/22
June 2022	Annual Report and Accounts published
21 July 2022	Annual General Meeting
21 July 2022*	Ordinary shares quoted ex-dividend
22 July 2022*	Record date for final dividend
11 August 2022*	Final date for receipt of DRIP applications
5 September 2022*	Final Dividend payment date
30 September 2022	Trading Statement
30 November 2022	Half Year Results 2022/23

* Subject to obtaining shareholder approval at the 2022 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.

Specifically, the current inflationary environment is expected to result in increased operational and finance costs in 2021/22. However, the impacts of these costs are expected to be outweighed by the increase in Regulated Capital Value (RCV) driving revenue in future years.

The Board have reviewed the Group's principal risks and consider them to be consistent with those reported within the 2020/21 Annual Report:

Law, Regulation and Finance

1. Changes in Government Policy
2. Regulatory reform
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 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 2021. 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 2021

	Notes	Unaudited 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	Before non-underlying items half year ended 30 September 2020 £m	Non-underlying items (note 5) half year ended 30 September 2020 £m	Total half year ended 30 September 2020 £m
Continuing operations							
Revenue	4	**389.3**	**-**	**389.3**	319.7	(20.5)	299.2
Operating costs							
Employment costs		**(43.0)**	**-**	**(43.0)**	(37.6)	-	(37.6)
Raw materials and consumables used		**(9.8)**	**-**	**(9.8)**	(8.7)	-	(8.7)
Other operating expenses		**(137.1)**	**(10.5)**	**(147.6)**	(98.9)	(4.3)	(103.2)
Earnings before interest, tax, depreciation and amortisation	4	**199.4**	**(10.5)**	**188.9**	174.5	(24.8)	149.7
Depreciation and amortisation		**(72.0)**	**-**	**(72.0)**	(59.7)	-	(59.7)
Operating Profit	4	**127.4**	**(10.5)**	**116.9**	114.8	(24.8)	90.0
Finance income	6	**2.2**	**-**	**2.2**	2.3	-	2.3
Finance costs	6	**(39.2)**	**-**	**(39.2)**	(30.4)	-	(30.4)
Net finance costs	6	**(37.0)**	**-**	**(37.0)**	(28.1)	-	(28.1)
Profit before tax	4	**90.4**	**(10.5)**	**79.9**	86.7	(24.8)	61.9
Taxation	7	**(5.2)**	**(96.9)**	**(102.1)**	(16.3)	4.8	(11.5)
(Loss) / profit for the period from continuing operations		**85.2**	**(107.4)**	**(22.2)**	70.4	(20.0)	50.4
Discontinued operations							
Profit for the period from discontinued operations	22	**-**	**-**	**-**	39.2	1,680.8	1,720.0
(Loss) / profit for the period		**85.2**	**(107.4)**	**(22.2)**	109.6	1,660.8	1,770.4
Attributable to:							
Ordinary shareholders of the parent		**85.1**	**(107.4)**	**(22.3)**	109.8	1,660.8	1,770.6
Non-controlling interests		**0.1**	**-**	**0.1**	(0.2)	-	(0.2)
Earnings per ordinary share (pence per share)	8						
From continuing operations							
- Basic				**(6.3)**			12.0
- Diluted				**(6.3)**			12.0
From continuing and discontinued operations							
- Basic				**(6.3)**			420.9
- Diluted				**(6.3)**			418.8

The notes on pages 41 to 58 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of comprehensive income for the half year ended 30 September 2021

	Unaudited					
	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**	Before non-underlying items half year ended 30 September 2020 £m	Non-underlying items (note 5) half year ended 30 September 2020 £m	Total half year ended 30 September 2020 £m
(Loss) / profit for the period	**85.2**	**(107.4)**	**(22.2)**	109.6	1,660.8	1,770.4
Other comprehensive income						
Items that will not be reclassified to profit or loss						
Remeasurement of defined benefit obligations (note 16)	**15.9**	**-**	**15.9**	(87.8)	-	(87.8)
Income tax on items that will not be reclassified	**4.3**	**-**	**4.3**	16.7	-	16.7
Total items that will not be reclassified to profit or loss	**20.2**	**-**	**20.2**	(71.1)	-	(71.1)
Items that may be reclassified subsequently to profit or loss						
Cash flow hedges	**10.2**	**-**	**10.2**	(6.4)	-	(6.4)
Income tax on items that may be reclassified	**(0.7)**	**-**	**(0.7)**	1.5	-	1.5
Total items that may be reclassified subsequently to profit or loss	**9.5**	**-**	**9.5**	(4.9)	-	(4.9)
Other comprehensive income/ (expense) for the period net of tax	**29.7**	**-**	**29.7**	(76.0)	-	(76.0)
Total comprehensive income for the period	**114.9**	**(107.4)**	**7.5**	33.6	1,660.8	1,694.4
Total comprehensive income attributable to:						
Ordinary shareholders of the parent	**114.8**	**(107.4)**	**7.4**	33.8	1,660.8	1,694.6
Non-controlling interests	**0.1**	**-**	**0.1**	(0.2)	-	(0.2)

The notes on pages 41 to 58 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated balance sheet at 30 September 2021

	Notes	Unaudited 30 September 2021 £m	31 March 2021 £m
ASSETS			
Non-current assets			
Goodwill	21	**160.7**	42.3
Other intangible assets		**14.0**	1.2
Property, plant and equipment	17	**4,206.8**	3,221.0
Derivative financial instruments		**2.3**	3.8
Retirement benefit assets	16	**56.5**	8.8
Trade and other receivables		**9.9**	-
		4,450.2	3,277.1
Current assets			
Inventories		**7.2**	5.4
Trade and other receivables		**250.8**	216.8
Current tax receivable		**2.5**	0.1
Derivative financial instruments		**3.4**	1.3
Cash and cash deposits		**885.0**	2,919.3
		1,148.9	3,142.9
LIABILITIES			
Current liabilities			
Borrowings	14	**(171.1)**	(88.3)
Financial liabilities at fair value through profit and loss		**(2.8)**	(2.8)
Derivative financial instruments		**(6.7)**	(6.3)
Trade and other payables	18	**(206.7)**	(126.1)
Provisions		**-**	(0.3)
		(387.3)	(223.8)
Net current assets		**761.6**	2,919.1
Non-current liabilities			
Borrowings	14	**(3,256.8)**	(2,766.7)
Other non-current liabilities	18	**(131.7)**	(128.3)
Financial liabilities at fair value through profit and loss		**(38.2)**	(39.4)
Derivative financial instruments		**(7.5)**	(17.4)
Deferred tax liabilities		**(493.7)**	(259.6)
		(3,927.9)	(3,211.4)
Net assets		**1,283.9**	2,984.8
Shareholder's equity			
Share capital		**169.2**	171.8
Share premium account		**234.9**	232.1
Capital redemption reserve		**147.1**	144.2
Retained earnings and other reserves		**732.7**	2,436.8
Total shareholders' equity		**1,283.9**	2,984.9
Non-controlling interests		**-**	(0.1)
Total equity		**1,283.9**	2,984.8

The notes on pages 41 to 58 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of changes in equity for the half year ended 30 September 2021

	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	Perpetual capital securities £m	Total equity £m
At 1 April 2020	171.3	227.0	144.2	872.8	0.1	296.7	1,712.1
Profit for the period	-	-	-	1,770.6	(0.2)	-	1,770.4
Other comprehensive income for the period	-	-	-	(75.9)	-	-	(75.9)
Total comprehensive income for the period	-	-	-	1,694.7	(0.2)	-	1,694.5
Transactions with equity shareholders:							
Dividends paid	-	-	-	(184.3)	-	-	(184.3)
Adjustments in respect of share-based payments (net of tax)	-	-	-	2.1	-	-	2.1
Distributions due to perpetual capital security holders	-	-	-	(3.3)	-	(296.7)	(300.0)
Own shares acquired by the Pennon Employee Share Trust in respect of Share options	-	-	-	(1.3)	-	-	(1.3)
Proceeds from shares issued under the Sharesave Scheme	0.4	3.4	-	-	-	-	3.8
Total transactions with equity shareholders	0.4	3.4	-	(186.8)	-	(296.7)	(479.7)
At 30 September 2020	171.7	230.4	144.2	2,380.7	(0.1)	-	2,926.9

	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	Perpetual capital securities £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**

The notes on pages 41 to 58 form part of this condensed half year financial information.

PENNON GROUP PLC

Consolidated statement of cash flows for the half year ended 30 September 2021

	Notes	Unaudited Half year ended 30 September 2021 £m	Half year ended 30 September 2020 £m
Cash flows from operating activities			
Cash generated from operations	13	**135.9**	126.6
Interest paid		**(34.6)**	(45.4)
Tax paid		**(6.3)**	(11.5)
Net cash generated from operating activities		**95.0**	69.7
Cash flows from investing activities			
Interest received		**2.2**	2.5
Loan repayments received from joint ventures		**-**	4.0
Purchase of property, plant and equipment		**(119.9)**	(113.1)
Purchase of intangible assets		**(1.3)**	(0.1)
Acquisition of subsidiaries, net of cash acquired	21	**(412.3)**	-
Proceeds on disposal of subsidiaries, net of cash disposed and transaction costs		**9.2**	3,652.2
Proceeds from sale of property, plant and equipment		**0.3**	0.1
Investment in short-term deposits		**-**	(650.5)
Deposit of restricted cash		**(3.0)**	(3.8)
Net cash (used in)/received from investing activities		**(524.8)**	2,891.3
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**3.1**	3.8
Purchase of ordinary shares by the Pennon Employee Share Trust		**(1.1)**	(1.3)
Proceeds from new borrowings		**50.9**	200.0
Repayment of borrowings		**(20.2)**	(941.6)
Cash inflows from lease financing arrangements	13	**15.0**	5.0
Lease principal repayments		**(10.5)**	(16.9)
Dividends paid	9	**(1,590.3)**	(184.3)
Repurchase of own shares		**(60.5)**	-
Redemption of perpetual capital security		**-**	(300.0)
Perpetual capital securities periodic return		**-**	(8.6)
Net cash used in financing activities		**(1,613.6)**	(1,243.9)
Net (decrease)/increase in cash and cash equivalents		**(2,043.4)**	1,717.1
Cash and cash equivalents at beginning of period	14	**2,668.5**	472.0
Cash and cash equivalents at end of period	14	**625.1**	2,189.1

The cash flow statement above includes the entire Group, including cashflows relating to discontinued operations for H1 2020/21. The notes on pages 41 to 58 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 58. 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. 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.

On 2 June 2021, the Company approved the acquisition of the Bristol Water Group, which was completed on 3 June 2021. 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. The acquisition of the Bristol Water Group is currently under review by the Competition and Markets Authority, and the Bristol Water Group is consolidated in Pennon's accounts with effect from midnight on 2 June 2021.

On 8 July 2020, Pennon completed the sale of Viridor Limited, a recycling, energy recovery and waste management business. The net results for Viridor are presented within discontinued operations in the comparative figures for the Group income statement for the six months ended 30 September 2020.

This condensed half year financial information was approved by the Board of Directors on 29 November 2021.

The financial information for the period ended 30 September 2021 does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The statutory accounts for 31 March 2021 were approved by the Board of Directors on 2 June 2021 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 2021, which were prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applied in the European Union.

The going concern basis has been adopted in preparing the condensed half year financial information (interim accounts). At 30 September 2021, the Group has access to undrawn committed funds and cash and other short-term deposits totalling £1,155 million, including cash and other short-term deposits of £885 million and £270 million of undrawn facilities. Cash and other short-term deposits include £260 million of restricted funds deposited with lessors which are available for access, subject to being replaced by an equivalent valued security. Having considered the Group's strong funding position and prudent financial projections prepared to 31 March 2023, which take into account a range of possible impacts, including from the Covid-19 pandemic, the Directors have a reasonable expectation that the Group has adequate resource to continue in operational existence for the period to at least the end of the detailed forecasting period of 31 March 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 2021.

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 2021 and are in accordance with IFRS and interpretations of the IFRS Interpretations Committee expected to be applicable for the year ending 31 March 2022 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 2021 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 2022 are not expected to have a material impact on the Group's net assets or results.

Share buy-back scheme and tender offer

Shares purchased for cancellation are deducted from retained earnings at the total consideration paid or payable, including any related expenses. Where the Group has an irrevocable commitment to purchase shares for cancellation at the balance sheet date, a liability is recognised in other creditors based on the share price at the balance sheet date and retained earnings reduced by the amount of the liability.

Shares purchased and held by the Group (treasury shares) are deducted from the treasury reserve at the total consideration paid or payable. On cancellation of treasury shares, the cost is transferred from the treasury reserve to retained earnings.

When treasury shares are issued at below cost, an amount representing the difference between the cost of those shares and issue proceeds is transferred to retained earnings. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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. The profit recognised on disposal of the Viridor business is provided in note 22. The Bristol Water Group forms part of the Water segment. Separate disclosures for Bristol Water Group on a stand-alone basis are also provided below as additional information.

	Unaudited	
	Half year ended 30 September 2021	Half year ended 30 September 2020
Revenue from continuing operations	**£m**	£m
Water – South West Water	**298.1**	282.9
Water – Bristol Water	**41.6**	-
Water total	**339.7**	282.9
Non-household retail	**92.7**	75.3
Other	**1.0**	3.7
Less intra-segment trading	**(44.1)**	(42.2)
Total underlying revenue	**389.3**	319.7
Water non-underlying revenue	**-**	(20.5)
	389.3	299.2
Segment result		
Operating profit before depreciation, amortisation and non-underlying items (Underlying EBITDA)		
Water – South West Water	**178.3**	176.1
Water – Bristol Water	**21.7**	-
Water total	**200.0**	176.1
Non-household retail	**1.6**	0.3
Other	**(2.2)**	(1.9)
	199.4	174.5

Notes to condensed half year financial information (continued)

4. Segmental information (continued)

	Unaudited Half year ended 30 September 2021 £m	Half year ended 30 September 2020 £m
Operating profit before non-underlying items		
Water – South West Water	**117.9**	116.8
Water – Bristol Water	**12.4**	-
Water total	**130.3**	116.8
Non-household retail	**1.2**	(0.1)
Other	**(4.1)**	(1.9)
	127.4	114.8
Profit before tax before non-underlying items		
Water – South West Water	**84.7**	88.5
Water – Bristol Water	**7.2**	-
Water total	**91.9**	88.5
Non-household retail	**0.3**	(0.9)
Other	**(1.8)**	(0.9)
	90.4	86.7
Profit before tax		
Water – South West Water	**84.7**	64.5
Water – Bristol Water	**7.2**	-
Water total	**91.9**	64.5
Non-household retail	**0.3**	(0.9)
Other	**(12.3)**	(1.7)
	79.9	61.9

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

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

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

Six months ended 30 September 2020	Unaudited			
	UK total			
	Water £m	Non-household retail £m	Other £m	Total £m
Segment revenue (underlying)	282.9	75.3	3.7	361.9
Inter-segment revenue (underlying)	(38.8)	-	(3.4)	(42.2)
Underlying revenue from external customers	244.1	75.3	0.3	319.7
Non-underlying revenue	(20.5)	-	-	(20.5)
	223.6	75.3	0.3	299.2
Significant service lines				
Water	223.6	-	-	223.6
Non-household retail	-	75.3	-	75.3
Other	-	-	0.3	0.3
	223.6	75.3	0.3	299.2

4. Segmental information (continued)

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

Amounts included in the Water segment in respect of Bristol Water Group	**Unaudited Half year ended 30 September 2021 £m**
Revenue from continuing operations	**41.4**
Operating profit before depreciation, amortisation and non-underlying items (Underlying EBITDA)	**21.7**
Operating profit before non-underlying items	**12.4**
Profit before tax before non-underlying items	**7.2**
Profit before tax	**7.2**
Segment revenue	**41.6**
Inter-segment revenue	**(0.2)**
Revenue from external customers	**41.4**

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 2021 £m	Half year ended 30 September 2020 £m
Revenue		
WaterShare+ (1)	**-**	(20.5)
Operating Costs		
Bristol Water acquisition (2)	**(10.5)**	-
Pension curtailment charge (3)	**-**	(4.3)
Non-underlying tax (charge) / credit (4)	**(96.9)**	4.8
Net non-underlying charge related to the Continuing Group	**(107.4)**	(20.0)

5. Non-underlying items (continued)

(1) In September 2020, the Group offered 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 equated to £20 per customer and the total value of £20.5 million was recognised in full as a non-underlying reduction to revenue. This item was non-underlying in nature given its individual size and its non-recurring nature.

(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 Group completed its employee consultation to modernise its ongoing pension arrangements. The outcome of the consultation resulted in a decision to close Pennon's principal defined benefit pension scheme to future accrual with effect from 30 June 2021. This resulted in a curtailment charge of £4.3 million.

(4) 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.

The non-underlying tax charge for the half year ended 30 September 2020 represented the tax effect of the non-underlying revenue and operating cost items. The non-underlying operating costs for the half year ended 30 September 2021 had no related tax impact.

6. Net finance costs

	Unaudited					
	Half year ended 30 September 2021			Half year ended 30 September 2020		
	Finance costs £m	**Finance income £m**	**Total £m**	Finance costs £m	Finance income £m	Total £m
Cost of servicing debt						
Bank borrowings and overdrafts	**(26.4)**	**-**	**(26.4)**	(15.2)	-	(15.2)
Interest element of lease payments	**(11.4)**	**-**	**(11.4)**	(13.6)	-	(13.6)
Other finance costs	**(0.5)**	**-**	**(0.5)**	(1.0)	-	(1.0)
Interest receivable	**-**	**1.0**	**1.0**	-	2.3	2.3
	(38.3)	**1.0**	**(37.3)**	(29.8)	2.3	(27.5)
Notional interest						
Retirement benefit obligations	**(0.9)**	**1.2**	**0.3**	(0.6)	-	(0.6)
Net finance costs	**(39.2)**	**2.2**	**(37.0)**	(30.4)	2.3	(28.1)

In addition to the above, finance costs of £0.3 million have been capitalised on qualifying assets included in property, plant and equipment (H1 2020/21 £0.6 million). Excluded from the amounts above are net finance costs relating to discontinued operations of £Nil (H1 2020/21 £11.2 million), consisting of finance income of £Nil (H1 2020/21 £6.0 million) and finance costs of £Nil (H1 2020/21 £17.2 million). In addition, non-underlying finance costs of £Nil (H1 2020/21 £55.2 million) are included within discontinued operations in respect of the retirement of debt relating to the discontinued operations, including early settlement payments.

Notes to condensed half year financial information (continued)

7. Taxation

	Unaudited					
	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**	Before non-underlying items half year ended 30 September 2020 £m	Non-underlying items (note 5) half year ended 30 September 2020 £m	Total half year ended 30 September 2020 £m
Analysis of charge						
Current tax charge	**4.5**	**-**	**4.5**	11.6	(3.9)	7.7
Deferred tax charge	**0.7**	**96.9**	**97.6**	4.7	(0.9)	3.8
Tax charge for the period	**5.2**	**96.9**	**102.1**	16.3	(4.8)	11.5

UK corporation tax is calculated at 19% (H1 2020/21 19%) of the estimated assessable profit for the year. The tax charge for September 2021 and September 2020 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 6% (H1 2020/21 19%).

The effective tax rate for the period for the group including prior year adjustments and the impact of non-underlying items was 128% (H1 2020/21 19%).

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 has reduced in the period following the share consolidation which took place on 5 July 2021, whereby the Ordinary Share capital was consolidated on the basis of two New Ordinary Shares in the capital of the Company for every three Existing Ordinary Shares in the capital of the Company.

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

	Unaudited	
Number of shares (millions)	**Half year ended 30 September 2021**	Half year ended 30 September 2020
For basic earnings per share	**353.3**	420.7
Effect of dilutive potential ordinary shares from share options	**1.9**	2.1
For diluted earnings per share	**355.2**	422.8

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)

Continuing and discontinued operations	Unaudited					
	Half year ended 30 September 2021			Half year ended 30 September 2020		
	Profit after tax £m	**Earnings per share Basic p**	**Diluted p**	Profit after tax £m	Earnings per share Basic p	Diluted p
Statutory earnings	**(22.3)**	**(6.3)**	**(6.3)**	1,770.6	420.9	418.8
Deferred tax before non-underlying items	**0.7**	**0.2**	**0.2**	12.3	2.9	2.9
Non-underlying items (net of tax)	**107.4**	**30.4**	**30.3**	(1,660.8)	(394.8)	(392.8)
Adjusted earnings before non-underlying items and deferred tax	**85.8**	**24.3**	**24.2**	122.1	29.0	28.9

Continuing operations	Unaudited					
	Half year ended 30 September 2021			Half year ended 30 September 2020		
	Profit after tax £m	**Earnings per share Basic p**	**Diluted p**	Profit after tax £m	Earnings per share Basic p	Diluted p
Statutory earnings	**(22.3)**	**(6.3)**	**(6.3)**	50.6	12.0	12.0
Deferred tax before non-underlying items	**0.7**	**0.2**	**0.2**	4.7	1.1	1.1
Non-underlying items (net of tax)	**107.4**	**30.4**	**30.3**	20.0	4.8	4.7
Adjusted earnings before non-underlying items and deferred tax	**85.8**	**24.3**	**24.2**	75.3	17.9	17.8

9. Dividends

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

	Unaudited	
	Half year ended 30 September 2021 £m	Half year ended 30 September 2020 £m
Interim dividend paid for the year ended 31 March 2021: 6.77 pence (2020: 13.66 pence) per share	**28.6**	57.5
Final dividend paid for the year ended 31 March 2021: 14.97 pence (2020: 30.11 pence) per share	**63.2**	126.8
Special dividend paid for the year ended 31 March 2021: 355.00 pence (2020: Nil) per share	**1,498.5**	-
	1,590.3	184.3

Notes to condensed half year financial information (continued)

9. Dividends (continued)

In the six months to 30 September 2021 the 2020/21 interim and final dividends and special dividend were paid resulting in a cash outflow of £1,590.3 million.

	Unaudited	
	Half year ended 30 September 2021 £m	Half year ended 30 September 2020 £m
Proposed interim dividend for the year ended 31 March 2022: 11.70 pence (2021: 6.77 pence) per share	**32.4**	28.6

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 2022 will be paid on 5 April 2022 to shareholders on the register on 28 January 2022.

10. Share capital

Allotted, called up and fully paid:

1 April 2020 to 30 September 2020	Unaudited		
	Number of shares		
	Treasury shares	Ordinary shares	£m
At 1 April 2020 ordinary shares of 40.7 pence each	8,443	421,036,557	171.3
For consideration of £3.8 million, shares issued in respect of the Company's Sharesave Scheme	-	811,400	0.4
At 30 September 2020 ordinary shares of 40.7 pence each	8,443	421,847,957	171.7

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**

10. Share capital (continued)

* 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, the Group announced and began a process to purchase ordinary shares at an aggregate cost of £400 million by September 2022. During the first phase of this process the Group has purchased £59.7 million of ordinary shares from the market at an average ordinary share price of 12.66 pence. The shares acquired under the tender offer were immediately cancelled, creating a capital redemption reserve of £2.9 million.

The second phase of this process began on 30 September 2021 and the Group has recorded a liability of £60.9 million in respect of the irrevocable commitment made as part of this phase (see note 18).

The maximum number of shares that can be repurchased in connection with the Programme is 42,183,689 (being the maximum authority granted by Pennon's shareholders at Pennon's AGM on 22 July 2021).

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 1,236 pence (H1 2020/21 1,051 pence).

11. Share premium account

	Unaudited
1 April 2020 to 30 September 2020	**£m**
At 1 April 2020	227.0
Shares issued under the Sharesave Scheme	3.4
At 30 September 2020	230.4
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**

12. Capital redemption reserve

	Unaudited
1 April 2020 to 30 September 2020	**£m**
At 1 April 2020 and 30 September 2020	144.2
1 April 2021 to 30 September 2021	
At 1 April 2021	144.2
Share capital redeemed	2.9
At 30 September 2021	**147.1**

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 2021 £m	Half year ended 30 September 2020 £m
Cash generated from operations		
(Loss)/Profit for the period	**(22.2)**	1,770.4
Adjustments for:		
Share-based payments	**1.1**	2.6
(Profit) / loss on disposal of property, plant and equipment	**(0.3)**	0.2
Profit on sale of discontinued operations	**-**	(1,729.3)
Depreciation charge	**70.7**	60.7
Amortisation of intangible assets	**1.3**	0.1
Continuing Group:		
- non-underlying pension items (note 5)	**-**	4.3
Discontinued operations:		
- non-underlying pension items	**-**	(6.0)
- non-underlying restructuring costs and share scheme charges	**-**	6.6
- non-underlying debt retirement costs	**-**	56.8
Share of post-tax profit from joint ventures	**-**	(4.3)
Finance income (before non-underlying items)	**(2.2)**	(8.3)
Finance costs (before non-underlying items)	**39.2**	47.6
Taxation charge	**102.1**	10.8
Changes in working capital:		
Increase in inventories	**(0.1)**	(3.9)
Increase in trade and other receivables	**(20.5)**	(46.8)
Increase in service concession arrangements receivable	**-**	(3.8)
(Decrease) / increase in trade and other payables	**(8.9)**	9.7
Decrease in retirement benefit obligations from contributions	**(23.7)**	(37.8)
Decrease in provisions	**(0.6)**	(3.0)
Cash generated from operations	**135.9**	126.6
Cash generated from operations comprises:		
- Cash generated from discontinued operations	**-**	6.0
- **Cash generated from the Continuing Group**	**135.9**	120.6

	Unaudited	
Total interest paid	**Half year ended 30 September 2021 £m**	Half year ended 30 September 2020 £m
Interest paid in operating activities	**34.6**	45.4
Interest paid in investing activities	**0.3**	1.4
Total interest paid	**34.9**	46.8

The above cash flow tables reflect the entire Group, including cash flows relating to the discontinued operations in H1 2020/21. 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 £15.0 million (H1 2020/21 £5.0 million) were received. These assets are primarily being leased back over an initial 10-year lease term at market rentals.

Notes to condensed half year financial information (continued)

14. Net borrowings

	Unaudited Half year ended 30 September 2021 £m	Year ended 31 March 2021 £m
Cash and cash deposits	**885.0**	2,919.3
Borrowings – current		
Bank and other loans	**(7.7)**	(7.7)
Other current borrowings	**(70.8)**	(32.4)
Lease obligations	**(92.6)**	(48.2)
Total current borrowings	**(171.1)**	(88.3)
Borrowings – non-current		
Bank and other loans	**(1,713.8)**	(1,170.7)
Other non-current borrowings	**(188.8)**	(205.0)
Lease obligations	**(1,354.2)**	(1,391.0)
Total non-current borrowings	**(3,256.8)**	(2,766.7)
Total net (borrowings) / cash	**(2,542.9)**	64.3

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

	Unaudited Half year ended 30 September 2021 £m	Year ended 31 March 2021 £m
Cash and cash deposits as above	**885.0**	2,919.3
Less: deposits with a maturity of three months or more (restricted funds)	**(259.9)**	(250.8)
	625.1	2,668.5

Restricted funds of £259.9 million (31 March 2021 £250.8 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:

	Net cash/ (borrowings) at 1 April 2020 £m	Cash flows £m	Transfer between non-current and current £m	Other non-cash movements £m	Viridor disposal £m	Net cash/ (borrowings) at 30 September 2020 £m
	Unaudited					
Cash and cash deposits	665.9	1,754.2	-	-	-	2,420.1
Other short-term deposits	-	650.5	-	-	-	650.5
Bank and other loans due within one year	(7.6)	4.0	(4.0)	(0.1)	-	(7.7)
Other current borrowings	(33.1)	19.6	(16.2)	-	-	(29.7)
Current lease obligations	(19.2)	7.3	(15.0)	(2.7)	-	(29.6)
Bank and other loans due after one year	(1,894.8)	559.4	4.0	(3.8)	-	(1,335.2)
Other non-current borrowings	(340.8)	103.4	16.2	-	-	(221.2)
Leases due after one year	(1,419.3)	(5.0)	15.0	-	-	(1,409.3)
Net (borrowings) / cash	(3,048.9)	3,093.4	-	(6.6)	-	37.9
Net borrowings in Disposal Group	(215.1)	15.3	-	(1.9)	201.7	-
Total	**(3,264.0)**	**3,108.7**	**-**	**(8.5)**	**201.7**	**37.9**

	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 loans due within one year	(7.7)	4.0	(4.0)	-	(8.4)	(16.1)
Other current borrowings	(32.4)	16.2	(46.2)		-	(62.4)
Current lease obligations	(48.2)	10.5	(53.1)	(1.6)	(0.2)	(92.6)
Bank and other loans due after one year	(1,170.7)	(50.9)	34.0	3.6	(529.8)	(1,713.8)
Other non-current borrowings	(205.0)	-	16.2	-	-	(188.8)
Non-current lease obligations	(1,391.0)	(15.0)	53.1	(0.1)	(1.2)	(1,354.2)
Total	**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.

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 2021		Year ended 31 March 2021	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Non-current borrowings:				
Bank and other loans	**1,713.8**	**2,022.8**	1,170.7	1,370.7
Other non-current borrowings	**188.8**	**173.2**	205.0	188.8
Non-current borrowings excluding leases	**1,902.6**	**2,196.0**	1,375.7	1,559.5

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 2021 £m	Year ended 31 March 2021 £m
Level 2 inputs		
Assets		
Derivatives used for cash flow hedging	**3.1**	2.3
Derivatives used for fair value hedging	**2.6**	2.8
Total assets	**5.7**	5.1
Liabilities		
Derivatives used for cash flow hedging	**14.2**	23.7
Total liabilities	**14.2**	23.7

16. Retirement benefit assets

Defined benefit schemes

The principal actuarial assumptions were: the rate used to discount schemes' liabilities and expected return on scheme assets of 2.05% (March 2021 2.05%) and the inflation assumption of 3.4% (March 2021 3.2%).

	Unaudited Half year ended 30 September 2021			Year ended 31 March 2021		
	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	**(901.7)**	**910.5**	**8.8**	(685.3)	691.9	6.6
Amounts recognised in the income statement	**(10.6)**	**9.1**	**(1.5)**	32.9	(38.7)	(5.8)
Remeasurements through other comprehensive income	**(24.4)**	**40.3**	**15.9**	(72.0)	59.7	(12.3)
Company contributions	**-**	**25.5**	**25.5**	-	50.6	50.6
Benefits and expenses paid	**2.3**	**(2.3)**	**-**	39.2	(39.2)	-
Acquisition of Bristol Water Group	**(180.3)**	**188.1**	**7.8**	-	-	-
Transfer (from) / to liabilities directly associated with assets held for sale	**-**	**-**	**-**	(216.5)	186.2	(30.3)
At end of period	**(1,114.7)**	**1,171.2**	**56.5**	(901.7)	910.5	8.8

The net surplus on retirement benefits has increased in the half year following the acquisition of Bristol Water, whose scheme is in surplus, and additional contributions made to the Group's principal pension scheme.

Recognition of surplus on principal pension scheme

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

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.

Disposal of Viridor

In the prior period, prior to the completion of the Viridor sale in July 2020, the responsibilities for certain pension schemes that Viridor participated in transferred to Pennon Group plc. The net liabilities of the transferred obligations were £30.3 million.

Certain schemes that transferred from Viridor to Pennon were in respect of Viridor's Greater Manchester contract which ceased in May 2019. In respect of these obligations an agreement was reached, in September 2020, to transfer the liabilities of the active employees of the Greater Manchester contract to the new operator's pension fund. This resulted in a gain on settlement of £6.0 million which was recognised in non-underlying items within discontinued operations in the half year ended 30 September 2020. A settlement payment of £7.2 million was made to ensure the plan was fully funded on transfer to the new operator.

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Notes to condensed half year financial information (continued)

16. Retirement benefit assets (continued)

Modernisation of pension arrangements

The Group completed its employee consultation to modernise its ongoing pension arrangements in the year ended 31 March 2021. The outcome of the consultation resulted in a decision to close Pennon's principal defined benefit pension scheme to future accrual with effect from 30 June 2021. This resulted in a curtailment charge of £4.3 million, which was included within non-underlying items for the Continuing Group in the half year ended 30 September 2020 (see note 5).

The net gain of £1.2 million in respect of the settlement in connection with Greater Manchester and the curtailment charge is shown in the amounts recognised in the income statement for the year ended 31 March 2021.

17. Capital expenditure

	Unaudited Half year ended 30 September 2021 £m	Year ended 31 March 2021[(1)] £m
Property, plant and equipment		
Additions	**110.3**	168.3
Net book value of disposals	**-**	0.1
Assets acquired with Bristol Water Group	**944.8**	-
Capital commitments		
Contracted but not provided for the Group	**113.5**	76.7

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

(1) The additions and net book value of disposals in the year ended 31 March 2021 reflect additions for the Full Group, including Viridor up to the date of its sale.

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

	Unaudited Half year ended 30 September 2021 £m	Year ended 31 March 2021 £m
Trade and other payables – current		
Trade payables	**73.5**	74.4
Contract liabilities	**2.0**	2.0
Other tax and social security	**3.1**	2.7
Accruals	**40.5**	28.1
Other payables [(1)]	**87.6**	18.9
	206.7	126.1
Other non-current liabilities		
Contract liabilities	**131.7**	128.3

(1) Other payables at 30 September 2021 includes a liability of £60.9 million in relation to the Group's irrevocable commitment that exists to purchase its own shares, as described in Note 10.

19. Contingencies

Other contractual and litigation uncertainties

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

Up to the point of the sale of Viridor on 8 July 2020, the Group's significant related parties during the half year ended 30 September 2020 were its joint venture in Lakeside Energy from Waste Holdings Limited and its joint venture in INEOS Runcorn (TPS) Holdings Limited, for which disclosures were made in the Pennon Group plc Annual Report and Accounts for the year ended 31 March 2021. These joint venture interests formed part of Viridor's operations and following the disposal these are no longer related parties to the Group.

As part of the acquisition of Bristol Water, the Group acquired interests in two joint ventures, Bristol Wessex Billing Services Limited ("BWBSL") and Water 2 Business Limited ("Water 2 Business"). Details of transactions with these related parties in H1 2021/22 and balances outstanding at 2 June 2021 (date of acquisition) and 30 September 2021 are set out below.

Transactions with joint ventures	**Unaudited**
	Half year ended 30 September 2021
	£m
Sales to Water 2 Business	5.7
Purchases from BWBSL	0.8

Balances with joint ventures	**Unaudited**	
	30 September 2021	**2 June 2021**
	£m	**£m**
Trade and other receivables – non-current		
Water 2 Business	9.9	9.9
Trade and other receivables - current		
Water 2 Business	1.5	1.2
BWBSL	1.2	0.8
Trade and other payables - current		
BWBSL	1.4	1.7

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 Water 2 Business Limited, a joint venture with Wessex Water. The purpose of the acquisition was to grow the Group's core water business by expanding Pennon's water activities in the Greater South West region. The acquisition of the Bristol Water Group is currently under review by the Competition and Markets Authority, and the Bristol Water Group is consolidated in Pennon's accounts with effect from midnight on 2 June 2021.

Notes to condensed half year financial information (continued)

21. Acquisition of Bristol Water Group (continued)

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	22.6
Current tax asset	0.6
Cash and cash deposits (including restricted cash of £6.1 million)	18.9
Borrowings	(545.1)
Trade and other payables	(32.2)
Provisions	(0.3)
Retirement benefit obligations	7.8
Deferred tax liabilities	(140.3)
Identifiable net assets	301.2
Goodwill on acquisition	118.4
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
Acquisition costs paid charged to expenses	9.1
Net cash paid relating to the acquisition	421.4

Acquisition related costs paid and accrued of £10.5 million are not included as part of the consideration transferred and have been recognised as an expense in the consolidated income statement within other operating expenses.

The fair values of all identifiable assets and liabilities have been determined provisionally at 30 September 2021, whilst all necessary information is finalised to complete the valuation.

The provisional fair value of trade and other receivables acquired as part of the business combination amounted to £22.6 million with a gross contractual amount of £39.2 million. At the acquisition date the Group's best estimate of the contractual cash flows expected not to be collected amounted to £16.6 million.

As noted in note 20 above as part of the acquisition of Bristol Water, the Group acquired interests in two joint ventures, Bristol Wessex Billing Services Limited ("BWBSL") and Water 2 Business Limited ("Water 2 Business"). These two interests are accounted for using the equity method.

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 an intangible asset. Goodwill has been provisionally allocated to the water segment. The goodwill arising is not expected to be tax deductible. From the date of acquisition on 2 June 2021, Bristol Water Group contributed £41.4 million (excluding £0.2 million intercompany revenue as outlined in note 4) and £7.2 million to the Group's revenue and profits before tax respectively. Had the acquisition occurred on 1 April 2021, the Group's revenue would have been £410.4 million and the Group's profit before tax for the period would have been £82.1 million.

PENNON GROUP PLC

Notes to condensed half year financial information (continued)

22. Profit for the period from discontinued operations

The Group disposed of the Viridor waste operating segment on 8 July 2020, having entered into a formal sale agreement on 18 March 2020. Viridor was reported as a discontinued operation with effect from 18 March 2020. The profit on discontinued operations of £1,720.0 million reported for Viridor in H1 2020/21 comprised a net loss from operating activities after non-underlying items of £9.3 million and a profit on disposal of discontinued operations of £1,729.3 million. Non-underlying operating expenses of £48.5 million comprised employments costs (restructuring, accelerated share scheme charges and a settlement gain on transfer of pension liabilities), other operating restructuring costs and finance costs relating to debt retirements.

23. Post balance sheet events

Defra, Ofwat and the Environment Agency announced an industry-wide investigation into sewage treatment works on 18 November 2021. The precise scope or what the likely outcome of this investigation will be is not yet clear as it is in its very early stages.

Pennon Group plc
Registered office:
Peninsula House
Rydon Lane
Exeter
Devon
EX2 7HR
pennon-group.co.uk

Registered in England: 2366640

PENNON GROUP PLC

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors named below confirm on behalf of the Board of Directors that this unaudited condensed half year financial information has been prepared in accordance with 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 2021.

S J Davy
Group Chief Executive Officer

P M Boote
Group Finance Director

INDEPENDENT REVIEW REPORT TO PENNON GROUP PLC

Conclusion

We have been engaged by Pennon Group plc (the Company) to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2021, 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 2021 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 UK'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" issued by the Auditing Practices Board. 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 Company will be 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".

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 UK's Financial Conduct Authority.

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 is 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 Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Ernst & Young LLP
Leeds
29 November 2021

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 amended from those presented previously to reflect the changing nature of the Group following the sale of Viridor in July 2020 and the acquisition of Bristol Water in June 2021 as well as reflecting APM changes due to reporting interim results:

- An APM for 2021/22 has been added for Basic adjusted earnings per share – Continuing Operations (adjusted share consolidation). To aid comparability, this new APM, which is presented on a basis other than in accordance with IAS 33, includes the full impact of the share consolidation as if it had taken place at the start of the previous financial year and recalculates the resulting Adjusted earnings per share measure.
- Group dividend cover is not presented in the half year APM disclosure. The ratio represents a measure of full year adjusted profit and dividend performance and cannot be calculated on a comparable basis using half year adjusted profits and the interim dividend.
- Return on capital employed is not presented in the half year APM disclosure. This ratio represents the total of underlying operating profit by capital employed (net debt plus total equity invested). An average value for this metric is part of the long-term incentive plan for Directors.

(i) Underlying earnings

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

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 (note 8) p**
EBITDA	**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/(loss) 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)**

Alternative performance measures (continued)

(i) Underlying earnings (continued)

Underlying earnings reconciliation 30 September 2020	Underlying £m	Non-underlying items: WaterShare + £m	Non-underlying items: Pension curtailment charge £m	Statutory results £m	Earnings per share (note 8) p
EBITDA	174.5	(20.5)	(4.3)	149.7	
Operating profit	114.8	(20.5)	(4.3)	90.0	
Profit before tax	86.7	(20.5)	(4.3)	61.9	
Taxation	(16.3)	3.9	0.9	(11.5)	
Profit after tax from continuing operations	70.4	(16.6)	(3.4)	50.4	
Profit after tax from discontinued operations				1,720.0	
Profit after tax				1,770.4	
Non-controlling interests				0.2	
Profit after tax attributable to shareholders				1,770.6	420.9

(ii) Basic adjusted earnings per share – Continuing Operations (adjusted for share consolidation)

	H1 2022	H1 2021
Basic weighted average number of shares		
Basic weighted average number of shares (millions) (note 8)	**353.3**	420.7
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)**	(140.2)
Adjusted basic weighted average number of shares (adjusted for share consolidation) (millions)	**280.3**	280.5
Basic adjusted earnings per share from continuing operations before exceptional items and deferred tax (pence) (note 8)	**24.3**	17.9
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**	8.9
Basic adjusted earnings per share from continuing operations before exceptional items and deferred tax (adjusted for share consolidation) (pence)	**30.6**	26.8

(iii) Underlying EBITDA

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

Alternative performance measures (continued)

(iv) South West Water Limited effective interest rate

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 2022	H1 2021
	£m	£m
Net finance costs after non-underlying items	**32.7**	27.6
Net interest on retirement benefit obligations	**0.2**	-
Capitalised interest	**0.3**	0.6
Net finance costs for effective interest rate calculation	**33.2**	28.2
Opening net debt	**2,273.5**	2,307.2
Closing net debt	**2,314.6**	2,286.6
Average net debt (opening net debt + closing net debt divided by 2)	**2,294.1**	2,296.9
Effective interest rate (%)	**2.9**	2.5

(v) Continuing operations underlying interest cover

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

	H1 2022	H1 2021
	£m	£m
Net finance costs after non-underlying items	**37.0**	28.1
Net interest on retirement benefit obligations	**0.3**	(0.6)
Net finance costs for interest cover calculation	**37.3**	27.5
Operating profit before non-underlying items	**127.4**	114.8
Interest cover (times)	**3.4**	4.2

Alternative performance measures (continued)

(vi) Capital investment

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

	H1 2022	H1 2021
	£m	£m
Additions to Property, plant and equipment	**110.3**	73.4
Additions to Other intangible assets	**1.2**	0.1
Capital investment	**111.5**	73.5

(vii) Capital payments

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

	H1 2022	H1 2021
	£m	£m
Cash flow statements: purchase of property, plant and equipment	**119.9**	113.1
Cash flow statements: purchase of intangible assets	**1.3**	0.1
Cash flow statements: proceeds from sale of property, plant and equipment	**(0.3)**	(0.1)
Capital payments relating to the Group	**120.9**	113.1
Capital payments relating to discontinued operations	**-**	(32.3)
Capital payments relating to continuing operations	**120.9**	80.8

(viii) Continuing operations operational cash inflows

Cash generated from operations before pension contributions and cash elements of non-underlying charges.

	H1 2022	H1 2021
	£m	£m
Cash generated from operations per cash flow statements	**135.9**	126.6
Remove: cash generated from discontinued operations	**-**	(6.0)
Cash generated from operations from the Continuing Group	**135.9**	120.6
Pension contributions	**23.7**	36.0
Remove: cash elements of non-underlying charges	**9.1**	-
Operational cash inflows	**168.7**	156.6

Alternative performance measures (continued)

(ix) 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 2021-25) plus totex 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 2021-25, the notional equity proportion is 40.0%.

Further information on this metric can be found in South West Water's annual performance report and regulatory reporting, published in July each year. The most recent can be found at: www.southwestwater.co.uk/about-us/how-are-we-performing.

(x) Totex

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

(xi) 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.