



# Pennon Group Plc

Peninsula House, Rydon Lane, Exeter, Devon, England EX2 7HR Telephone 01392 446677 Fax 01392 434966

25 June 2009

This document is important and requires your immediate attention. If you are in any doubt about the action you should take, you should immediately consult your stockbroker, solicitor, accountant, bank manager or other independent financial adviser who is authorised under the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred some or all of your ordinary shares please send this document, together with the accompanying Form of Proxy, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. The Form of Proxy, if used, should be lodged with the Company's Registrars, Equiniti, not less than 48 hours before the time fixed for the meeting.

## Dear Shareholder

### Annual General Meeting and Financial Results for the year ended 31 March 2009

The Company's policy, as approved by shareholders at the 2007 Annual General Meeting, is to provide all shareholder documents electronically whenever possible. As a consequence you will only receive copies of the Annual Report and other shareholder communications by post if you have specifically opted to do so or if you became a shareholder on the register after 3 January 2008. For those of you who have not requested to receive shareholder communications by post, you can now view a copy of the Company's Annual Report on the Company's website at [pennon-group.co.uk/uploads/financialreports/AnnualReport2009.pdf](http://pennon-group.co.uk/uploads/financialreports/AnnualReport2009.pdf)

Using our website allows the Company to offer you greater choice on how you receive your shareholder communications. Electronic communications are not only a secure method to receive your shareholder communications, but they are also quicker, more cost effective, and are in line with the Company's sustainable development objectives as less resources are required compared with traditional printing and distribution methods.

If you elected to receive a copy of the Annual Report, a copy of that document is enclosed. If you now wish to sign up to receive all future shareholder communications electronically, you can do so via the Shareview service provided by our Registrars. Simply go to [shareview.co.uk](http://shareview.co.uk). You need only your shareholder reference number (referred to below). There's no charge to register and you will also have access to information about your shareholding as well as other services available. When registering with Shareview, select 'e-mail' as your preferred format for shareholder communications.

If a copy of the Annual Report is not enclosed and you do not have access to the Company's website, a copy may be obtained on request from our Company Secretary's department, by telephoning 01392 443024 and quoting your shareholder reference number which can be found on the enclosed Form of Proxy.

Attached to this letter is the Notice of our 2009 Annual General Meeting (AGM), together with notes explaining the business of the meeting. It is to be held on Thursday 30 July 2009, commencing at 11.00 am at the same venue as last year: the Sandy Park Conference Centre, Sandy Park Way, Exeter, Devon EX2 7NN. Details of how to reach this venue are set out on the back of the Notice. Parking will be available.

If you are unable to attend the AGM, please register your vote with us electronically by logging on to [sharevote.co.uk](http://sharevote.co.uk) (once again you will need your shareholder reference number together with the card ID and account numbers shown on your Form of Proxy). Registering your vote electronically is entirely secure and ensures the privacy of your personal information. Alternatively, I urge you to complete and return your Form of Proxy by post.

### Scrip Dividend Alternative

Your Directors are proposing to introduce a Scrip Dividend Alternative (Scrip) to enable shareholders to elect to receive all, or part, of their dividends in the form of shares instead of cash. The Scrip is intended to replace the Dividend Re-investment Plan which shareholders were previously invited to participate in. By electing for the Scrip, shareholders can increase their shareholding in the Company without incurring stamp duty or dealing expenses. Subject to obtaining shareholder approval at the AGM to introducing the Scrip, full details of the Scrip, including how to join, will be sent out to shareholders on 28 August 2009.

*Continued overleaf*

Continued from front page

Whilst writing to you I am pleased to set out below a summary of the highlights of Pennon Group's financial and operational results for the year ended 31 March 2009.

- Underlying operating profit up 7.0% to £259.0 million
  - South West Water up 3.6% to £191.6 million
  - Viridor up 12.7% to £65.5 million
- Underlying profit before tax up 6.7% to £165.3 million
- Underlying earnings per share up 3.5% to 38.2p
- Dividend
  - Recommended final dividend per share up 5.1% to 14.25p
  - Full-year dividend up 6.0% to 21.0p
  - Continued dividend policy of 3% per annum above inflation to the end of 2009/10
- £205 million debt facilities established/renewed during the year
- Group cash balances of £353 million at 31 March 2009
- Group businesses well positioned in the current economic slowdown

The reconciliation of the underlying measures of performance detailed above with the statutory results is:

	2008/09 £m	2007/08 £m	Growth
<b>OPERATING PROFIT</b>			
Statutory operating profit	252.8	236.8	6.8%
Non-underlying costs:			
– Restructuring – South West Water	5.0	4.0	
– Intangibles amortisation – Viridor	1.2	1.3	
Underlying operating profit	259.0	242.1	7.0%
<b>PROFIT BEFORE TAX</b>			
Statutory profit before tax	159.1	149.6	6.4%
Non-underlying costs :			
– Restructuring – South West Water	5.0	4.0	
– Intangibles amortisation – Viridor	1.2	1.3	
Underlying profit before tax	165.3	154.9	6.7%
<b>EARNINGS PER SHARE – pence</b>			
Statutory earnings per share	26.3p	38.2p	-31.2%
Non-underlying costs :			
– Restructuring (after tax) – South West Water	0.9	0.9	
– Intangibles amortisation – Viridor	0.4	0.4	
Deferred tax	10.6	(2.6)	
Underlying earnings per share	38.2p	36.9p	3.5%

**Underlying results exclude restructuring costs, intangibles, amortisation and deferred tax. The Directors believe that the underlying measures provide a more useful comparison on business trends and performance.**

#### South West Water:

- On target to deliver the 2005 – 2010 Regulatory Contract
- Strong growth in Regulatory Capital Value 2005 – 2010, expected to reach £2.5 billion by the end of March 2010
- Twelfth consecutive year without hosepipe bans and drought orders
- Operating efficiency target achieved ahead of schedule
- Leakage target achieved despite adverse weather
- Capital investment of £148 million
- Final Business Plan for 2010 -2015 submitted to Ofwat

#### Viridor:

- Continued strong growth
- 25-year Greater Manchester waste disposal PFI contract signed (April 2009) and in operation
  - UK's largest ever combined waste and renewable energy project
  - 1.3 million tonnes of waste per year
  - 130MW total potential energy generation
- 14-year, 450,000 tonnes per year recycling, anaerobic digestion and disposal contract secured with South London Waste Partnership
- Renewables Obligation power generation output sold forward to March 2010 in May 2008 at favourable prices
- Business mix and profits well diversified

The Board's strategy remains focussed on its two businesses, South West Water and Viridor. South West Water is successfully delivering the current five-year regulatory contract and is expected to grow significantly its Regulatory Capital Value to around £2.5 billion by 2010. As part of the 2009 Periodic Review process, a Final Business Plan for the next five-year period (2010 – 2015) has been submitted to the regulator, Ofwat.

Viridor's successful strategy to create long-term sustainable profit growth is expected to continue through capitalising on its leading position in landfill waste disposal, proactively developing new waste management facilities to meet ambitious EU/UK targets and successfully exploiting the huge potential in waste-based renewable energy generation.

Both businesses are well positioned in the current economic slowdown and the Group has a long-term funding structure to continue to finance its activities efficiently.

Yours sincerely



Ken Harvey  
Chairman

# Notice of Annual General Meeting

The twentieth Annual General Meeting of Pennon Group Plc will be held at **Sandy Park Conference Centre, Sandy Park Way, Exeter, Devon EX2 7NN** (location plan on back page) on Thursday 30 July 2009 at 11.00am.

**This document is important and requires your immediate attention. If you are in any doubt about the action you should take, you should immediately consult your stockbroker, solicitor, accountant, bank manager or other independent financial adviser who is authorised under the Financial Services and Markets Act 2000.**

If you have sold or otherwise transferred some or all of your ordinary shares please send this document, together with the accompanying Form of Proxy, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. The Form of Proxy, if used, should be lodged with the Company's Registrars, Equiniti, not less than 48 hours before the time fixed for the meeting.

This Notice of Annual General Meeting should be read in conjunction with Pennon Group Plc's Annual Report and Accounts in respect of the year ended 31 March 2009.

Copies of this Notice and the Annual Report and Accounts are available on the Company's website:

[pennon-group.co.uk](http://pennon-group.co.uk)

## ANNUAL GENERAL MEETING

The twentieth Annual General Meeting of Pennon Group Plc will be held at Sandy Park Conference Centre, Sandy Park Way, Exeter, Devon EX2 7NN on Thursday 30 July 2009 at 11.00am for the transaction of the following business:

### The following resolutions will be proposed as ordinary resolutions:

#### Resolution 1

That the Directors' Report and the financial statements for the year ended 31 March 2009 be received and adopted, together with the report of the auditors.

#### Resolution 2

That a final dividend of 14.25 pence per ordinary share recommended by the Directors for the year ended 31 March 2009, be declared for payment on 7 October 2009.

#### Resolution 3

That the Directors' remuneration report for the financial year 2008/09, as contained in the Annual Report 2009, be approved.

#### Resolution 4

That Mr M D Angle who is retiring in accordance with the Articles of Association be elected as a Director.

#### Resolution 5

That Mr K G Harvey who is retiring in accordance with corporate governance best practice be re-elected as a Director.

#### Resolution 6

That Mr C I J H Drummond who is retiring in accordance with the Articles of Association be re-elected as a Director.

#### Resolution 7

That Ms D A Nichols who is retiring in accordance with the Articles of Association be re-elected as a Director.

#### Resolution 8

That PricewaterhouseCoopers LLP be appointed auditors of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company.

#### Resolution 9

That the Directors be authorised to fix the remuneration of the auditors.

#### Resolution 10

That in accordance with Section 366 of the Companies Act 2006 the Company, and all companies that are subsidiaries of the Company at any time during the period for which the resolution has effect, be generally and unconditionally authorised to:

- (a) make political donations to political parties and/or independent election candidates not exceeding £75,000 in total;
- (b) make political donations to political organisations other than political parties not exceeding £75,000 in total; and
- (c) incur political expenditure not exceeding £75,000 in total,

provided that the aggregate amount of any such donations and expenditure shall not exceed £150,000 during the period from the date of this resolution to the date of the next Annual General Meeting of the Company in 2010 and that for the purpose of this resolution the terms 'political donations', 'political parties', 'independent election candidates', 'political organisations' and 'political expenditure' have the meanings set out in Sections 363 to 365 of the Companies Act 2006.

*It continues to be the policy of the Company and its subsidiaries not to make political donations, but as explained in more detail under the 'Political Donations' section of the Explanatory Notes on page 6 of this Notice, it is considered to be necessary to obtain such authorisation to avoid any possible technical breach of the Companies Act due to the uncertainty created by the wide definitions in the Act of what can be regarded as a political donation or political expenditure.*

#### Resolution 11

That approval be given to the renewal of the Pennon Group Sharesave Scheme for a further ten year period and that the Directors be authorised to operate the Scheme in accordance with the Scheme Rules.

#### Resolution 12

That in accordance with Article 6 of the Company's Articles of Association the Directors be authorised to allot relevant securities up to a maximum nominal amount of £30,448,075, that such authority shall expire on 1 October 2010 or, if earlier, at the conclusion of the next Annual General Meeting of the Company.

**The following resolutions will be proposed as special resolutions:**

#### Resolution 13

That in accordance with Article 7 of the Company's Articles of Association: a) the Directors be authorised to allot equity securities for cash; b) that for the purpose of paragraph (a)(ii) of that Article, the nominal amount to which this power is limited is £7,227,592; and c) this authority shall expire on 1 October 2010 or, if earlier, at the conclusion of the next Annual General Meeting of the Company.

#### Resolution 14

That the Company is generally and unconditionally authorised to make market purchases (within the meaning of section 163 of the Companies Act 1985) (as amended) of ordinary shares of 40.7p each in the capital of the Company on such terms and in such manner as the Directors of the Company may from time to time determine provided that:

- (a) the maximum number of ordinary shares that may be purchased under this authority is 34,945,002 (being no more than 10% of the issued share capital exclusive of treasury shares of the Company as at 17 June 2009);
- (b) the maximum price which may be paid for an ordinary share purchase under this authority shall not be more than the higher of
  - (i) an amount equal to 105% of the average of the middle market quotations for such ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that share is purchased; and
  - (ii) the amount stipulated by Article 5(i) of the Buyback and Stabilisation Regulation 2003, and the minimum price which may be paid is the nominal value of each share being 40.7p; and
- (c) this authority will, unless previously varied, revoked or renewed, expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, on 1 October 2010, but the Company may make a contract to purchase ordinary shares under this authority before its expiry which will or may be executed wholly or partly after the expiry of this authority and may make purchases of ordinary shares pursuant to such a contract.

#### Resolution 15

That in accordance with Article 114 of the Company's Articles of Association, the Directors be authorised to offer any holders of ordinary shares in the capital of the Company the right to elect to receive ordinary shares, credited as fully paid, instead of cash, in respect of the dividend (or any part thereof) of the Company declared for the year ended 31 March 2009 and all or any subsequent dividends declared up to and including 29 July 2014.

#### Resolution 16

That a general meeting other than an Annual General Meeting may continue to be called on not less than 14 clear days' notice.

*By Order of the Board*

*K D Woodier, Group General Counsel & Company Secretary  
Peninsula House, Rydon Lane, Exeter EX2 7HR (Registered Office)  
25 June 2009*

## IMPORTANT NOTES

The following notes explain your general rights as a shareholder and your right to attend and vote at this meeting or to appoint someone else to attend and vote on your behalf.

A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote instead of him or her provided that each proxy is appointed to attend, speak and vote in respect of a different share or shares. A proxy need not be a shareholder. Appointing a proxy will not prevent a shareholder from attending in person and voting at the meeting. If a share is held by joint shareholders, and more than one of the joint shareholders votes (including by way of proxy), the only vote that will count is the vote of the person whose name is listed before the other voters on the Register for the share.

Shareholders may register a proxy appointment or voting directions electronically by visiting [sharevote.co.uk](http://sharevote.co.uk), where full details of the procedure are given. If you return more than one proxy appointment, either by paper or electronic communication, that received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.

The appointment of a proxy, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, should be: (a) deposited with the Company's Registrars, Equiniti, at the address shown on the proxy form or received via the sharevote website, no later than 11am on 28 July 2009, or 48 hours before the time for holding any adjourned meeting or (in the case of a poll not taken on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used; or (b) lodged using the CREST proxy voting service – see notes below.

In order to facilitate voting by corporate representatives at the Annual General Meeting, arrangements will be put in place at the meeting so that (a) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (b) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives ([icsa.org.uk](http://icsa.org.uk)) for further details of this procedure. The guidance includes a sample form of appointment letter if the Chairman is being appointed as described in (a) above.

Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him or her and the shareholder by whom he or she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he or she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

The statement of the rights of shareholders in relation to the appointment of proxies in the notes above does not apply to Nominated Persons. The rights described in these notes can only be exercised by shareholders of the Company.

The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders listed on the Register as at 6.00pm on 28 July 2009 (or if the meeting is adjourned, 48 hours before the time fixed for the adjourned meeting) shall be entitled to attend and vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. In each case, changes to entries on the Register after such time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

As soon as practicable following the Annual General Meeting, the results of the voting at the meeting and the numbers of proxy votes cast for and against and the number of votes actively withheld in respect of each of the Resolutions will be announced via a Regulation Information Service and also placed on the Company's website [pennon-group.co.uk](http://pennon-group.co.uk)

As at 17 June 2009 (being the last practicable date prior to the publication of this Notice) the Company's issued share capital consists of 355,164,274 ordinary shares of 40.7p each. The total voting rights in the Company as at 17 June 2009 are 355,164,274 of which 5,714,250 ordinary shares are held in treasury.

### Electronic proxy appointment through CREST

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 30 July 2009 and any adjournment(s) thereof by following the procedures described in the CREST Manual. All messages relating to the appointment of a proxy or an instruction to a previously appointed proxy, which are to be transmitted through CREST, must be received by the Company's Registrars, Equiniti (ID RA19) no later than 11am on 28 July 2009, or, if the meeting is adjourned, 48 hours before the time fixed for the adjourned meeting. After this time any change of instruction to proxies appointed through CREST should be communicated to the appointees through other means.

CREST members and, where applicable, their CREST sponsors, or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

### Documents available for inspection

Copies of the following documents are available for inspection during normal business hours at the Registered Office of the Company and at Allen & Overy LLP, One Bishops Square, London E1 6AD and will remain so up to and including 30 July 2009. They will also be available for inspection at the Annual General Meeting from 10.00am on 30 July 2009 until the conclusion of the Annual General Meeting:

- (a) Executive Directors' service contracts and the Chairman's and the Non-executive Directors' contracts for service;
- (b) the Articles of Association of the Company; and
- (c) the Rules of the Pennon Group Sharesave Scheme.

## EXPLANATORY NOTES ON CERTAIN BUSINESS OF THE ANNUAL GENERAL MEETING

### Remuneration policy

**Resolution 3** proposes the approval of the Directors' remuneration report which is set out on pages 43 to 49 inclusive of the Annual Report. It is a requirement, pursuant to Section 439 of the Companies Act 2006, that the Directors' remuneration report be submitted to shareholders for approval, albeit that any voting on the report is advisory only.

### Election and re-election of Directors

**Resolutions 4** proposes the election of Mr Angle as a Director of the Company and **Resolutions 5, 6 and 7** propose the re-election of Messrs K G Harvey and C I J H Drummond and Ms D A Nichols as Directors of the Company. These Resolutions are being proposed in accordance with the Company's Articles of Association and, where appropriate, the Combined Code.

Martin Angle, who was appointed by the Board on 1 December 2008 as a Non-executive Director, shall retire, and being eligible, offers himself up for election. As demonstrated by his biographical details set out on page 42 of the Annual Report, Martin has held senior executive roles in investment banking, industry and private equity and he currently holds non-executive directorships with Savills plc, JSC Severstal, Dubai International Capital llc and The National Exhibition Centre where he is chairman. Until July 2008, he was also chairman of Celerant Consulting and he sits on the Board of the Warwick Business School. As an executive, Martin most recently held senior positions with Terra Firma Capital Partners and various of its portfolio companies, including the executive chairmanship of Waste Recycling Group Limited. He is a member of the Board's Audit, Corporate Responsibility and Nomination Committees and is chairman of the Board's Remuneration Committee.

Ken Harvey, who has been Chairman and a Director of the Company for in excess of ten years, being eligible, now offers himself up for re-election annually in accordance with the Combined Code. Ken was appointed a Director of the Company on 1 March 1997. As demonstrated by his biographical details set out on page 42 of the Annual Report, Ken has extensive knowledge of utility businesses having formerly been Chairman and Chief Executive of Norweb Plc. In 1995 he was Chairman of National Grid Holdings and prior to

## EXPLANATORY NOTES ON CERTAIN BUSINESS OF THE ANNUAL GENERAL MEETING *continued*

that Deputy Chairman of London Electricity and earlier its Engineering Director. Currently he is the Senior Independent Non-executive Director of National Grid Plc. He is chairman of the Board's Nomination Committee.

Colin Drummond, being eligible, offers himself up for re-election. Colin was appointed a Director of the Company on 1 April 1992. As demonstrated by his biographical details set out on page 42 of the Annual Report, Colin has extensive business knowledge and is currently Chief Executive of Viridor. Prior to joining the Company, Colin was a divisional chief executive of Coats Viyella, having previously been corporate development director of Renold plc, a strategy consultant with the Boston Consulting Group and an official of the Bank of England. He is chairman of the Government's Environmental Sector Advisory Group and chairman of the Environmental Knowledge Transfer Network; senior visiting research fellow in Earth Sciences at Oxford University; an adviser to Beehive Water and Waste Holdings LP; and for the past year has been Deputy Master of the Worshipful Company of Water Conservators. He is a member of the Board's Corporate Responsibility Committee.

Dinah Nichols, being eligible, offers herself up for re-election. Dinah was appointed a Non-executive Director of the Company on 12 June 2003. As demonstrated by her biographical details set out on page 42 of the Annual Report, Dinah has extensive business knowledge and knowledge of government and was formerly Director General Environment at the Department for Environment, Food and Rural Affairs and previously held various senior appointments within Government, including being head of the water directorate during the period of water privatisation. She is also a Crown Estate Commissioner, a non-executive director of Shires Smaller Companies Plc, chair of the National Forest Company and a director of several Trusts. She is a member of the Board's Audit, Remuneration and Nomination Committees and is chairman of the Board's Corporate Responsibility Committee.

The Board supports the election of Martin Angle and the re-election of Ken Harvey, Colin Drummond and Dinah Nichols as Directors as it believes that their knowledge and experience assist in ensuring that the Board has an appropriate balance of skills and experience for the requirements of the business. The Chairman confirms that following the formal annual performance evaluation, Martin Angle and Dinah Nichols, as Non-executive Directors, continue to demonstrate commitment to their roles, including commitment to time for Board and Committee meetings and other duties as they are likely to arise.

### Reappointment of auditors

**Resolution 8** proposes the reappointment of PricewaterhouseCoopers LLP as auditors of the Company. PricewaterhouseCoopers LLP have indicated their willingness to continue in office and their appointment is supported by the Audit Committee of the Board.

### Political Donations

Whilst **Resolution 10** requests shareholder approval by way of an ordinary resolution to approve donations to political parties, please note that the Company and all its subsidiaries have a policy that they do not make donations to, or incur expenditure on behalf of, political parties. However, the Political Parties, Elections and Referendums Act 2000 (the "Act") and the Companies Act 2006 contain restrictions on companies making donations or incurring EU political expenditure and the Act defines these terms very widely, such that activities that form part of the normal relationship between the Company and its subsidiaries and bodies concerned with policy review, law reform and other business matters affecting the Company may be included. Such activities, which are in the shareholders' interests for the Company and its subsidiaries to conduct, are not designed to support, or implement support for, a particular political party.

The Company believes that the authority proposed under this Resolution (which is similar to that agreed by shareholders at the Annual General Meeting last year) is necessary to ensure that it, and its subsidiaries, do not commit any technical breach that could arise from the uncertainty generated by the wide definitions contained within the Act when carrying out activities in the furtherance of their legitimate business interests.

### Renewal of Pennon Group Sharesave Scheme

**Resolution 11** requests shareholder approval by way of an ordinary resolution to renew the Pennon Group Sharesave Scheme for a further ten years. The Pennon Group Sharesave Scheme was adopted at the time of the Company's flotation. In accordance with market practice, no options may be granted under the Scheme more than ten years after its adoption without the approval of shareholders. Shareholder approval was obtained at the Company's 1999 Annual General Meeting to renew the Scheme for ten years and therefore it is necessary for Shareholder approval to be obtained at this year's Annual General Meeting if the Scheme is to be renewed for another ten years.

The Directors are of the view that the Sharesave Scheme should continue to be operated for a further period of ten years. The Scheme, which is a standard HM Revenue & Customs approved all-employee saving scheme, has operated successfully since its introduction in 1989. The Directors consider that, as well as encouraging saving and share ownership, it has been an important element in motivating the Group's employees as options are granted to employees over shares usually at a 20% discount (the maximum allowed) on the market price of the shares at the time. At the end of the Sharesave contract of 3, 5 or 7 years, employees then acquire the shares at the option price using the savings that have accrued under their Sharesave contract. The maximum amount that an employee can save in the Sharesave Scheme at any one time is £250 per month and the maximum of the Company's issued share capital that the Sharesave options can be over during the life of the Scheme is 10%;

## EXPLANATORY NOTES ON CERTAIN BUSINESS OF THE ANNUAL GENERAL MEETING *continued*

currently there are Shavesave options over some 0.58% of the Company's issued share capital. In the event of a change of control of the Company, employees would have the right to exercise their Shavesave options.

### Authority to allot shares

**Resolution 12** requests shareholder approval by way of an ordinary resolution to renew (in compliance with published institutional guidelines) until 1 October 2010 or, if earlier, at the conclusion of the next Annual General Meeting of the Company, the Directors' existing general and unconditional authority to allot securities in accordance with the Companies Act 1985 and the Articles of Association of the Company. This authority would continue that granted in July 2008. The nominal share capital to which this authority relates of £30,448,075 (being the unissued share capital of the Company) represents approximately 21% of the issued share capital (excluding treasury shares) as at 17 June 2009. The authority will expire on 1 October 2010 or, if earlier, at the conclusion of the next Annual General Meeting of the Company, although it is the Directors' intention to seek to renew the authority annually in accordance with investor guidelines.

Currently the Company holds 5,714,250 ordinary shares (40.7p) in treasury representing approximately 1.6% of the issued share capital (excluding treasury shares) as at 17 June 2009 (see the explanatory notes in respect of Resolution 14 for further details relating to treasury shares).

**Resolution 13** requests shareholder approval by way of a special resolution to renew until 1 October 2010 or, if earlier, at the conclusion of the next Annual General Meeting of the Company, the Directors' authority to allot equity securities for cash without first being required to offer such securities to existing shareholders. The maximum share capital (inclusive of treasury shares) to which this authority relates is 17,758,213 ordinary shares which represents not more than 5% of the issued share capital as at 17 June 2009. This is in accordance with investor protection guidelines. In addition, the Directors would not intend to offer more than 7.5% of the Company's issued share capital in any rolling three-year period without prior consultation with the Investment Committees of the Association of British Insurers and the National Association of Pension Funds.

The Directors consider that they should have the authorities set out in Resolutions 12 and 13 in order to be able to take advantage of opportunities as they arise and to retain flexibility, although they have no current plans to issue shares except pursuant to the exercise of options arising from the Company's all-employee Shavesave Scheme and Share Incentive Plan, the operation of the Company's Performance and Co-ownership Plan, the operation of the deferred bonus share element of the Company's Annual Incentive Bonus Plan and/or the Scrip Dividend Alternative if approved by shareholders at the Annual General Meeting (Resolution 15).

### Authority to purchase ordinary shares of the Company

**Resolution 14** requests shareholder approval by way of a special resolution to renew the Company's authority to purchase up to 10% of its ordinary shares in issue at or between the minimum and maximum prices specified in the Resolution. This authority is requested in order to increase the Company's flexibility to optimise the long-term financial and tax efficiency of its capital structure. It can lead to increases in future earnings per share on those shares not purchased.

This Resolution complies with investor protection guidelines which limit share purchases to 10% of the issued share capital per annum. The Directors confirm that they will only purchase shares where they believe the effect would be to increase earnings per share and would be in the best interest of shareholders. The Directors have no current plans to exercise such authority.

The Companies Act 1985 allows companies to hold shares acquired by way of market purchase in treasury, rather than having to cancel them. In addition to shares already held in treasury, the Directors may decide to hold further of the Company's own shares that may be purchased pursuant to the authority conferred by this Resolution as treasury shares as an alternative to cancelling them. Shares held in treasury may subsequently be cancelled, sold for cash or issued for the purposes of satisfying share options and share awards under the Company's employee share schemes. The Directors believe that holding shares in treasury provides the Company with greater flexibility in management of its share capital. No dividends may be paid on shares held in treasury and no voting rights are exercisable in respect of treasury shares.

## EXPLANATORY NOTES ON CERTAIN BUSINESS OF THE ANNUAL GENERAL MEETING continued

### Scrip Dividend Alternative

**Resolution 15** requests shareholder approval by way of a special resolution to authorise Directors to offer shareholders a Scrip Dividend Alternative which will permit shareholders to elect to receive ordinary shares in the Company instead of cash in respect of any dividend of the Company declared. The Scrip Dividend Alternative is intended to replace the Dividend Re-investment Plan which shareholders were previously invited to participate in. By electing for the Scrip Dividend Alternative, shareholders can increase their shareholding in the Company without incurring stamp duty or dealing expenses. The Company benefits from the retention in business of cash which would otherwise be paid out in dividends.

Subject to **Resolution 15** being approved by shareholders, the Directors intend to offer the Scrip Dividend Alternative in respect of the final dividend of 14.25p per ordinary share for the year ended 31 March 2009. The timetable for offering the Scrip Dividend Alternative would be as follows:

12 August 2009	Ordinary shares quoted ex dividend
14 August 2009	Record date for final cash dividend
28 August 2009	Posting of Scrip Dividend Alternative offer
23 September 2009	Final date for receipt of Forms of Election/Mandate
6 October 2009	Posting of dividend cheques and share certificates
7 October 2009	Final dividend payment date
7 October 2009	First day of dealing in the new ordinary shares

### Calling of general meetings

**Resolution 16** requests shareholder approval by way of a special resolution to enable Directors to continue to be able to call general meetings, other than Annual General Meetings, on 14 clear days' notice. Currently as permitted under the Companies Act 2006, the Company is able to call general meetings, other than Annual General Meetings, on not less than 14 clear days' notice as set out in Article 28 of the Company's Articles of Association adopted at the Annual General Meeting last year. However, when the EU Shareholder Rights Directive becomes effective in August 2009, listed companies will be required to call general meetings on at least 21 clear days' notice unless shareholder approval has been obtained for the holding of such meetings on at least 14 clear days' notice by passing an appropriate resolution at an Annual General Meeting. The Company will also need to meet the requirements for electronic voting under the Shareholder Rights Directive before it can call a general meeting on 14 clear days' notice.

### Recommendation

Your Directors consider that all the proposals to be considered at the Annual General Meeting are in the best interests of the Company and its shareholders as a whole and recommend shareholders to vote in favour of the Resolutions.

**How to get to the Pennon Group Plc AGM at the Sandy Park Conference Centre, adjacent to the Sandy Park Stadium at Sandy Park Way, Exeter, Devon EX2 7NN**

**By road:**

From junction 30 on the M5 take the A379 for Exeter and Dawlish – Sandy Park is the first exit left off the dual carriageway. Parking is available at Sandy Park.

**By rail:**

By rail – Nearest rail station is Exeter Digby and Sowton – 10 minutes walk. Mainline station is Exeter St David's – 4 miles.

**By bus:**

By bus – Service 52 (Exeter to Sidmouth) – 5 minutes walk.

