PENNON GROUP PLC

Preliminary Results
29 May 2012

Pennon Group Plc (“Pennon Group”)

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Pennon Group Plc

2011/12 Financial Highlights

- Profit before tax up 6.4% to £200.5m
  - South West Water up 9.8% to £141.5m
  - Viridor down 8.4% to £57.6m
- Earnings per share before deferred tax up 11.8% to 47.3p[1]
- Dividend
  - full year dividend per share up 7.6% to 26.52p
  - recommended final dividend per share up 6.7% to 18.30p
- Strong liquidity and funding position
  - £566m new/refinanced facilities since 31 March 2011
  - £1,084m cash and facilities at 31 March 2012
- £257m capital invested in key infrastructure – up 29%
- Group businesses well positioned for the future

[1] *Basic earnings per share were 48.1p*

Pennon Group Plc
2011/12 Operational and Business Highlights

South West Water

- Strong performance against 2010 – 2015 regulatory contract
- Average funding cost 4.1%
- Substantial progress in operating efficiency
- Strong water resource position, expect 16th summer without restrictions
- Best ever leakage performance
- Repeated best ever drinking water quality at 99.98% compliance
- Record percentage of bathing waters achieving excellent status
- Private sewers transferred to SWW on 1 October 2011 – estimated network length increased by over 50%
- Further improvements in Service Incentive Mechanism (SIM) performance

Pennon Group Plc

2011/12 Operational and Business Highlights

Viridor

- Continuing growth in profits from recycling, contracts and joint ventures offset this year by reduction in landfill plus increased project pipeline bid costs
- As flagged previously, recyclate prices have fallen from their first half 2011/12 peak reflecting world economic conditions
  - cost base adjusted accordingly: more than 50% of impact recovered via terms of customer supply contracts and by cost reductions
- Significant progress in developing pipeline of long-term projects including
  - preferred bidder for the South London Waste Partnership residual waste PPP
  - successful participant for the treatment of Glasgow residual waste PPP
  - successful resolution of the legal challenge for the Ardley EfW plant with the Oxford PPP Notice to Proceed issued and construction commenced
  - construction commenced on Exeter EfW
  - construction contract signed (post year-end) for Cardiff EfW
  - strong pipeline of future opportunities
- Five acquisitions in 2011/12 for c£40m
- Transforming waste
  - c50% of profits from recovering value in waste

PENNON

GROUP PLC

Available on the App Store

Pennon Group Plc

Summary Financial Results

	2011/12 £m	2010/11 £m	Change
Group revenue	1,233.1	1,159.2	6.4%
Group operating profit	268.8	260.9	3.0%
- SWW	204.7	189.8	7.9%
- Viridor	63.7	71.6	(11.0%)
Viridor PBIT plus joint ventures	*75.2*	*82.6*	*(9.0%)*
Group profit before tax	200.5	188.5	6.4%
- SWW	141.5	128.9	9.8%
- Viridor	57.6	62.9	(8.4%)
Earnings per share [(1)]	47.3p	42.3p	11.8%
Dividend per share	26.52p	24.65p	7.6%
Capital investment	257.4	199.0	29.3%

(1) Before deferred tax

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Cash Flow

	2011/12 £m	2010/11 £m
Cash inflow from operations	373.9	411.8
Net interest paid	(61.3)	(63.8)
Dividends paid	(69.1)	(56.8)
Tax paid	(41.4)	(43.2)
Capital expenditure	(257.6)	(185.6)
Acquisitions and investment in joint ventures	(42.6)	(37.6)
Loan repayments received from joint ventures	3.6	3.5
Pension contributions	(49.2)	(35.6)
Net cash outflow	(143.7)	(7.3)
Shares issued	1.6	1.6
Debt acquired with acquisitions	(0.1)	(22.0)
Non-cash movements	(28.6)	(10.8)
Increase in net borrowings	(170.8)	(38.5)

- **Increased capital expenditure to support the growth profile**

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Net Borrowings

	As at 31 March	
	2012	2011
	£m	£m
Loans and finance leases		
- over one year	2,204	2,390
- under one year	326	99
	2,530	2,489
Less: cash and cash deposits	(425)	(555)
Net borrowings	2,105	1,934
Net gearing [1]	71.9%	71.3%
SWW debt/RCV	56.1%	57.1%

- **Gearing stable**
- **Net borrowings include £143m for EfW plants under construction (Runcorn II, Oxford and Exeter)**

(1) *Net borrowings/(equity + net borrowings)*

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Net Borrowings Analysis as at 31 March 2012

	£m
Finance leasing	1,284
Bank bilaterals - RCFs/term loans	384
EIB	253
Index-linked bond 2057	240
Bond 2040	132
Private placements	100
Convertible bond	118
Unsecured loan notes	8
Other	11
Total gross debt	2,530
Less: Cash/liquid investments	(425)
Total net debt	2,105

- **Key role of finance leasing**
- **Diversified funding sources**

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***Interest Analysis* [1]**

	2011/12 £m	2010/11 £m
Interest payable	(92.0)	(90.0)
Capitalised interest payable	(3.0)	(1.1)
Interest receivable on shareholder loans to joint ventures	7.5	6.7
Other interest receivable	9.6	6.1
Net interest payable	(77.9)	(78.3)
Average rate of interest	3.9%	4.1%
Net interest cover	3.6x	3.4x

- **Effective management of interest rates**
  - **Group 3.9%**
  - **SWW 4.1%**

[1] *Excludes pensions net interest, IFRIC12 "contract interest receivable" and discount unwind on provisions*

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Efficient Financing Strategy

- Mix of fixed, floating and index-linked rate borrowings
  - locks in benefit of low interest rates versus OFWAT assumptions
  - c24% of SWW current debt index-linked to 2041-2057

- At least 50% of SWW net debt fixed for K5 in line with Group policy
  - weighted average rate of 3.4%

- Significant finance leasing with long maturity and secured margins

- New financing initiatives in 2011/12
  - £566m new and renewed bank facilities
    - £125m EIB facility committed for SWW
    - £205m new finance leases
    - £236m of new and renewed term loans and revolving credit facilities
  - additional £100m swaps to fix SWW debt

- **Average debt maturity 23 years**
- **Index-linked debt: average real rate 1.66%**

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Liquidity

- £425m cash balances at 31 March 2012 (includes £123m deposits with Letter of Credit providers and lessors)
- £659m undrawn facilities at 31 March 2012
- Committed funding in place for South West Water up to March 2015
  - c.£140m of drawn facilities will mature over the rest of K5 (c.7% of SWW gross debt)
  - c.£320m of drawn facilities due to mature in K6

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Taxation

	2011/12 £m	2010/11 £m
Current tax	30.9	38.6
Deferred tax	23.6	3.4
Deferred tax reduction on change of corporation tax rate	(26.4)	(25.1)
	28.1	16.9

- **Current tax charge 15% (2010/11 - 20%)**
- **Reduction in effective rate reflects lower CT rate and higher pension contributions**

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Pensions as at 31 March 2012

- Gross pension deficit of £99m (March 2011 - £86m)
  - £75m net of tax (March 2011 - £64m)

	March 2012	March 2011
• Pension schemes' assets	£517m	£454m
Pension schemes' liabilities	£616m	£540m
	£99m = £75m net of tax	£86m = £64m net of tax

- **Market volatility in long-term interest rates used to discount liabilities**
- **Deficit recovery contributions paid until end of K5 (£33m in 2011/12)**
- **SWW cash contributions within Final Determination**
- **Net deficit less than 3% of Group's market capitalisation**

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Dividends

- Recommended final dividend up 6.7% to 18.30p
- Full year dividend up 7.6% to 26.52p, reflecting RPI of 3.6% to March 2012
- Sector-leading progressive dividend policy: 4% real increase to end of K5 period (March 2015)
- Scrip dividend alternative

SOUTH WEST WATER

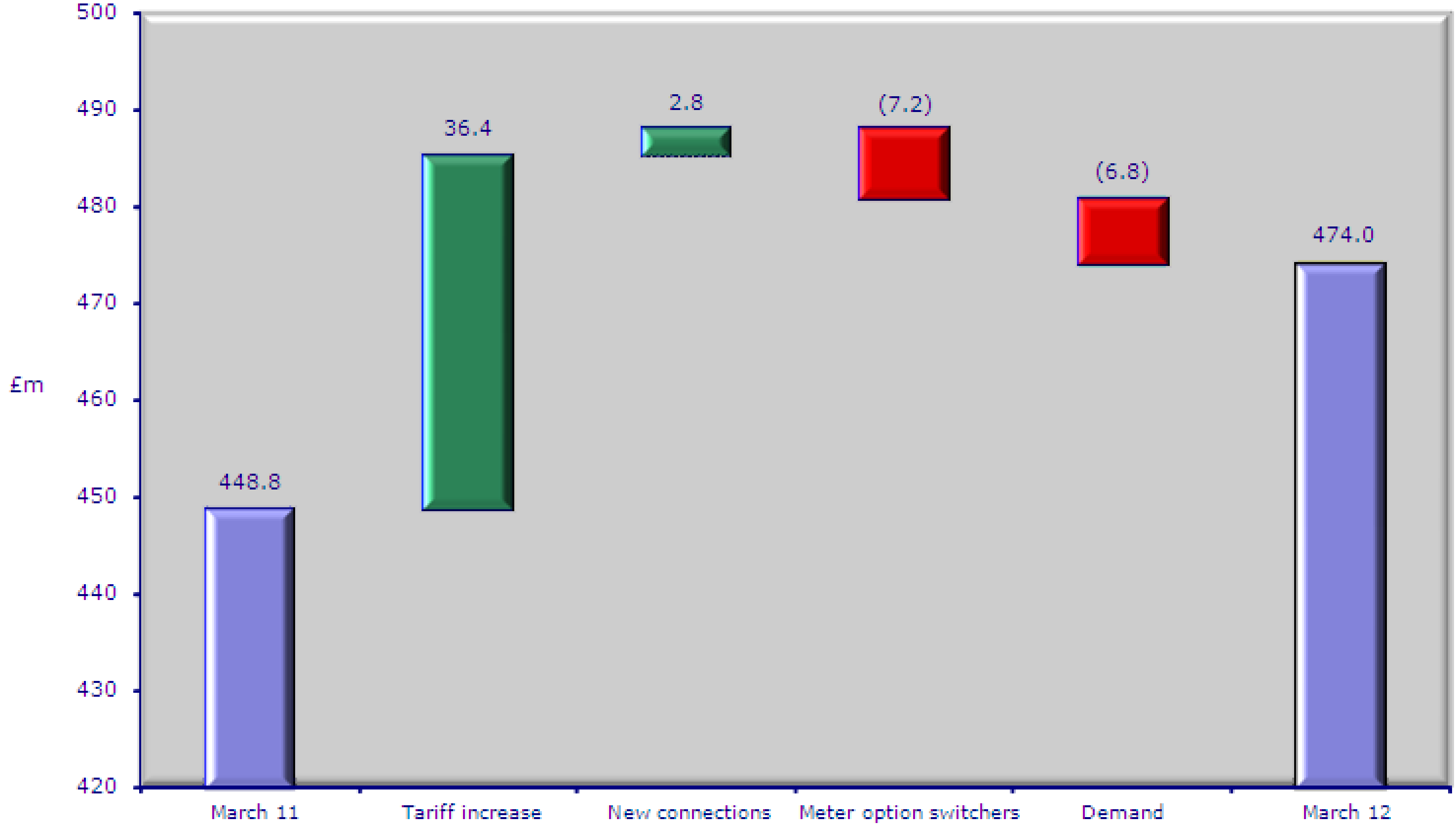
PENNON GROUP PLC

South West Water
Financial Performance Summary

	2011/12 £m	2010/11 £m	Change
Revenue	474.0	448.8	5.6%
Operating profit	204.7	189.8	7.9%
Profit before tax	141.5	128.9	9.8%

South West Water

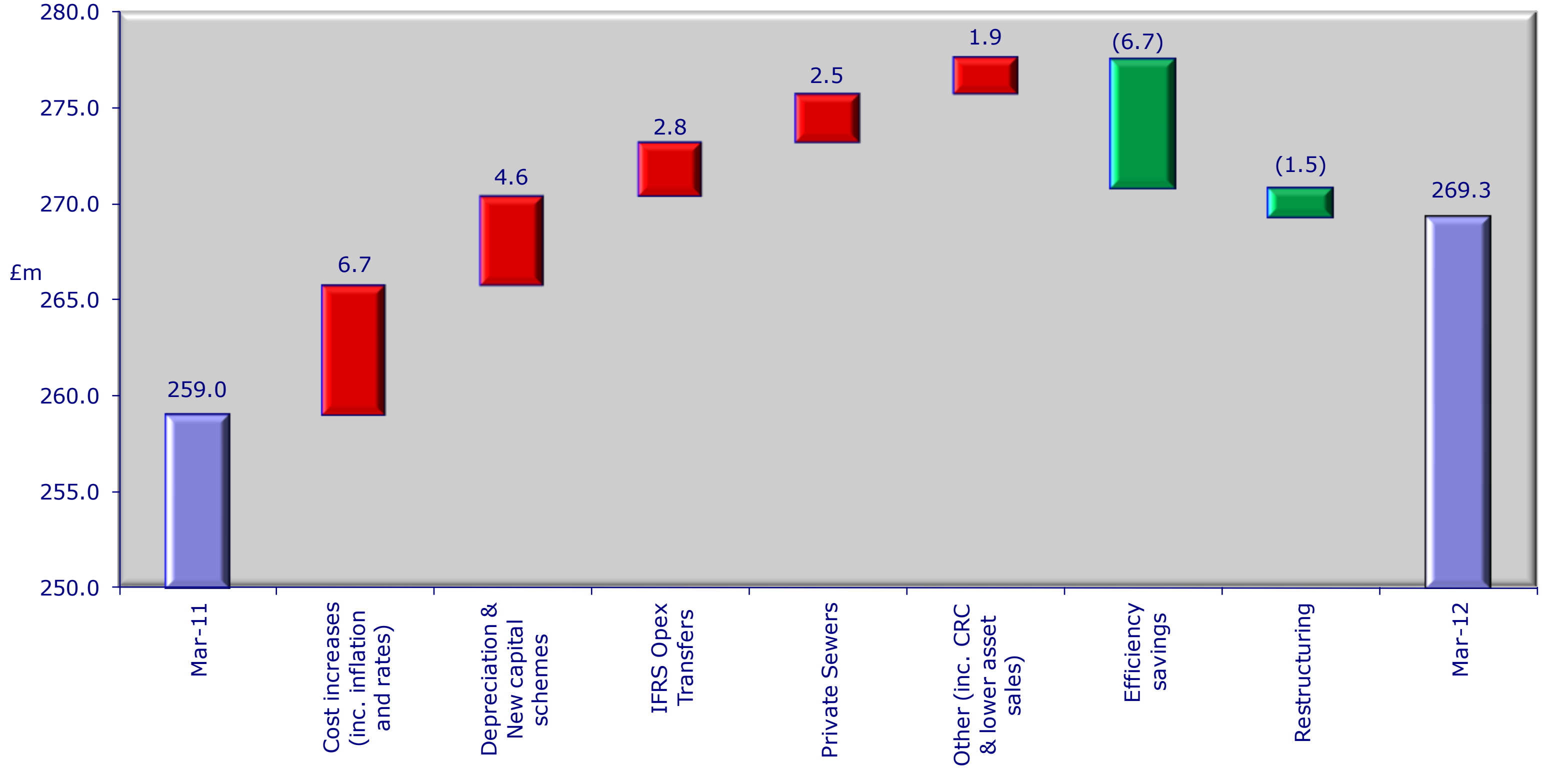
Revenue



- **Tariff increase of 8.1% (inc RPI)**
- **Metered demand – reduced 2.6%, cumulative K5 demand higher than Final Determination assumption**
- **73.4% of domestic customers now metered**

South West Water

Operating Costs

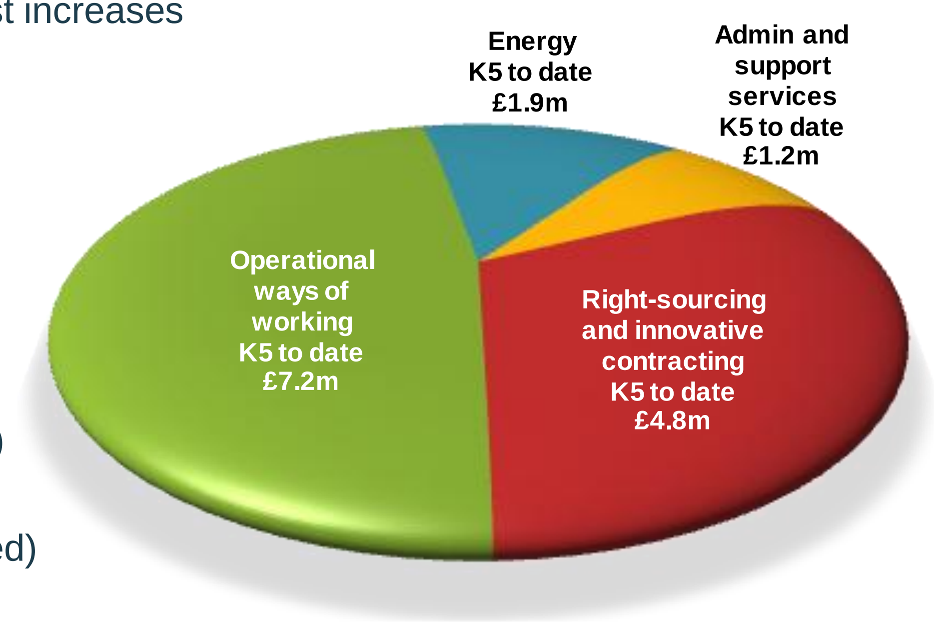


- **Cost increases lower than RPI - efficiency savings offsetting cost increases**
- **New capital scheme costs and depreciation reflect growing asset base**
- **Private sewer costs currently at lower end of expected range**
- **Bad debt charge 1.8% of revenue – mitigated by improved collection in H2**

South West Water
Operating Cost Efficiency

- Good operational cost control
- On track to deliver 2.8%[1] pa required efficiency over K5
  - focus on front loaded delivery
  - efficiency delivery offsetting general cost increases
- Efficiency delivery of £6.7m in 2011/12
  - £15.1m cumulative K5 efficiencies
  - equivalent to 5.1% pa to date
  - targeting sector-leading efficiency
- Efficiency programme progressing well
  - operational ways of working (PUROS[2])
  - energy procurement and usage
    (94% of energy requirements for K5 fixed)
  - rationalising admin & support services
  - right-sourcing and innovative contracting

K5 cumulative operating cost efficiencies to March 2012



[1] *Average over K5*
[2] *PUROS – Phased Utilisation of Remote Operating Systems*

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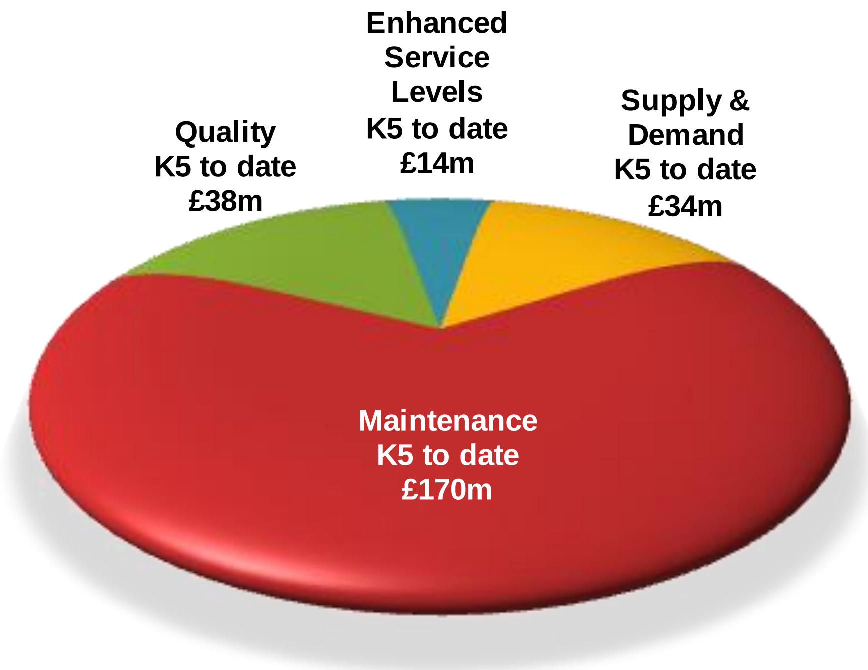
South West Water
Capital Programme

- Expenditure £130.8m (2010/11 £125.1m)
  - Park & Stannon Lakes now fully operational
  - 1st borehole developed in 18 years
  - major upgrades at 3 water treatment works
  - new service reservoir completed at Newquay
  - renewables investment – solar, wind, hydro
  - K5 mains rehab completed
- Capex lower than CIS baseline to date in K5[(1)]
- Targeting continued below CIS baseline expenditure and a 5% outperformance for K5[(2)]

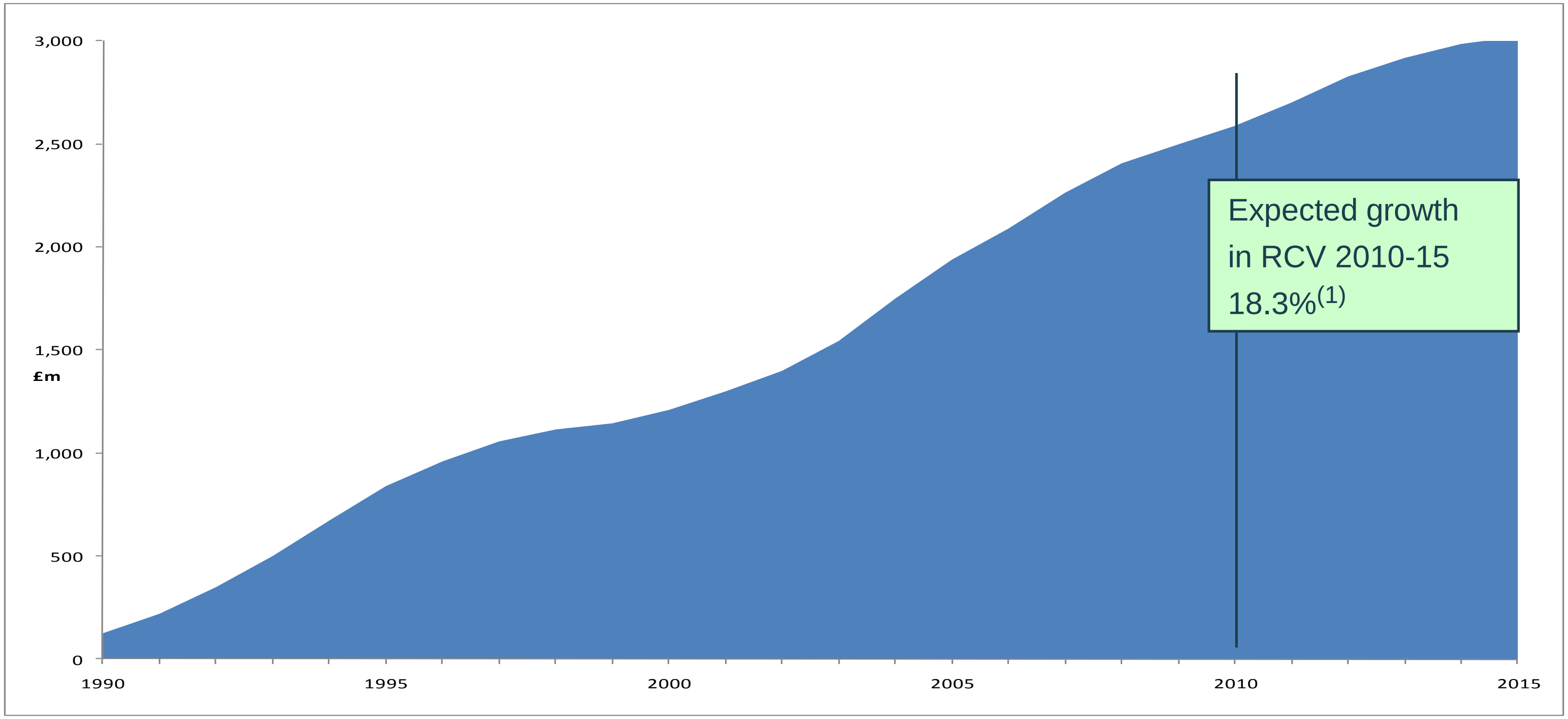
K5 cumulative capital expenditure to March 2012



(1) Based on current published Construction Output Price Index (COPI)
(2) Using 2009 Final Determination estimates of COPI

South West Water

Shareholder Value



- **Growth in RCV continues to exceed growth in net debt**
- **RCV of £2,827m at 31 March 2012, debt/RCV gearing 56.1%**
- **RCV growth benefiting from higher inflation over K5**

(1) *Outturn prices growth for K5 based on RPI 3.3% 2012-2015*

South West Water

Operational Highlights: Delivering the Regulatory Contract - I

- No hosepipe bans or drought orders – 15th consecutive summer in 2011
- As announced in March, 2012 expected to be 16th summer without restrictions
  - two new reservoirs in use, Park & Stannon
  - winter use of pumped storage facilities
  - continued metering programme – 73.4% of domestic customers metered
  - enhanced network flexibility
- Best ever
  - leakage control performance
    - leakage target met every year since targets introduced 15 years ago
  - water quality 99.98%
  - bathing water results - 95% achieving ‘excellent’ status[(1)]
- Asset ‘stable serviceability’ status across all four areas
  - first assessment year for PR14

(1) European ‘guideline’ standard – ‘excellent status’

South West Water

Operational Highlights: Delivering the Regulatory Contract - II

- SIM[1] score improved 15% (78% improvement over two years)
  - customer complaints halved in last two years
- Online/self-service customer support increased
  - ***My Account*** **–** online account management
  - ***Water Live*** **–** live info. on leaks, repairs & operational events
  - ***BeachLive*** **–** real-time information on bathing water quality
  - Smartphone app **–** paperless billing, e-accounts & other live features
- ***Source for Business*** launched
  - new and enhanced services for business customers
- Collections performance improved
  - bad debts improved in H2
  - schemes assisting vulnerable customers in place - ***Freshstart*** & ***WaterCare***
  - targeted collections programmes by insourced teams

(1) *Service Incentive Mechanism*

South West Water

Operational Highlights: Delivering the Regulatory Contract – III

- Renewable energy capacity enhanced
  - solar generation at 23 sites
  - Lowermoor wind turbine installed – generating 60% of site's energy requirement
  - two further hydro-electric schemes developed

- 'Upstream Thinking' projects improve raw water quality
  - 237 hectares of land restored
  - working with 495 farms across the catchments
  - infrastructure investments made on 96 farms
  - monitors installed to measure impact of restoration
  - studies completed to inform future investment

South West Water

Regulatory Developments – Private Sewers

- Successful transition on 1 October 2011
- Estimated network increase > 50%
- Customer contacts within predicted levels
- Investigations ongoing to determine asset condition & targeted capex upgrades required – est. £44m
- Developing plan for targeted investment
- Private pumping stations phased transfer by October 2016
- IDoK anticipated 2013 – revenue reflected in subsequent financial years

	2011/12 Costs	**Expected future annual costs(1)**
Operating costs	£2.5m	£2 - 5m
Maintenance costs	£0.7m	£4 - 6m(2)

(1) *Including pumping stations*
(2) *Depending on the nature of the activity a proportion may be classified as IRE for regulatory reporting and opex transfers under IFRS*

South West Water
Regulatory Developments

- Legislative & regulatory change
  - Water White Paper published December 2011
  - Ofwat consulting on future price limits and Licence change
  - preparations for PR14 under way
    - updating long-term Strategic Direction Statement
    - establishment of WaterFuture panel

- Government support for customer bills
  - Royal Assent given to Water Industry (Financial Assistance) Act 2012
  - reduction of £50 pa in household bills from 2013/14
  - direct pass through to customers
  - regulatory and financial structure unchanged

South West Water
Outlook

- Outperforming the K5 regulatory contract
- Preparing for PR14
- Well positioned for legislative changes

Successful operational strategy underpinned by strong financial performance

Viridor

Transforming waste™

Viridor Strategy
Transforming Waste

- Viridor strategy is to add value by
  - growing in recycling
  - growing in PPPs/Energy from Waste
  - capitalising in the long-term on strong position in landfill market

- From 2007/08 until 2010/11 (and into H1 2011/12) growth in recycling profits more than offset decline in annual landfill profits

- As flagged previously recyclate prices per tonne have fallen from their first half 2011/12 peak reflecting world economic conditions
  - cost base adjusted accordingly: more than 50% of impact recovered via terms of customer supply contracts and by cost reductions

  - Roll-out of Viridor's PPP/EfW pipeline (operations commencing 2013/14 onwards) could more than double Viridor EBITDA within five years
  - substantial further progress during 2011/12

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Viridor

Financial Performance Summary

	2011/12 £m	2010/11 £m	Change
Revenue [(1)]	761.1	712.0	6.9%
EBITDA	110.3	116.5	(5.3%)
PBIT	63.7	71.6	(11.0%)
PBIT plus joint ventures [(2)]	**75.2**	**82.6**	**(9.0%)**
PBT	**57.6**	**62.9**	**(8.4%)**

(1) *Including landfill tax*
(2) *Interest receivable on shareholder loans plus share of* PAT

Viridor
Financial Highlights

- Revenue increased by £49.1m (6.9%) to £761.1m
  - acquisitions[1] accounted for £23.1m
  - existing business increased by £26.0m (including increase in landfill tax of £17.8m)
  - export sales £70.7m (2010/11 - £67.4m)
- EBITDA decreased by £6.2m (5.3%) to £110.3m
- PBIT plus joint ventures decreased by £7.4m (9.0%) to £75.2m
  - increased contribution from recycling, contracts and joint ventures
  - landfill gas power generation and collection stable
  - more than offset by decline in landfill plus increased bid costs
- PBT decreased by £5.3m (8.4%) to £57.6m
- As flagged at the half year, performance less strong in H2 than in H1
- Capex and investment in joint ventures £140.0m (2010/11 – £86.2m) of which c£93m is Viridor growth projects (largely EfW), £13.4m investment in joint ventures and the balance maintenance

(1) *Storm Recycling, Community Waste, JWS Churngold and Veolia SW collection businesses in 2011/12; plus full year effect of 2010/11 acquisitions (Reconomy, Pearsons, Adapt Recycling, Swinnerton and Martock)*

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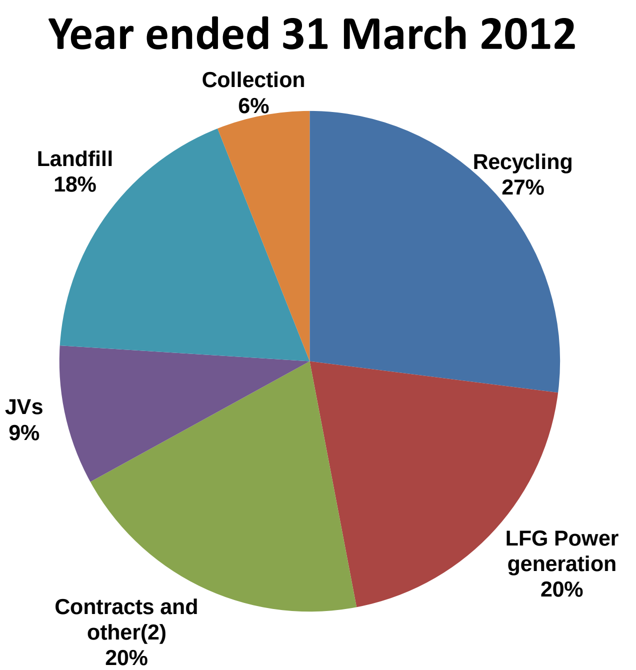
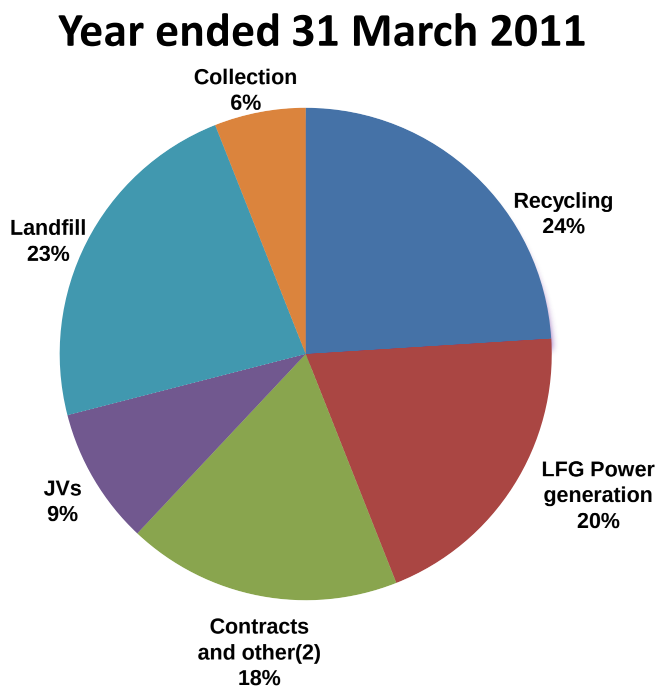
Viridor

Profit Contribution by Segment (1)





- **c50% of profits from recovering value in waste** (3)

(1) Contribution plus joint ventures (share of PAT and Interest) before intangibles and overheads (including pensions)

(2) "Contracts" includes Lakeside and Greater Manchester sub-contracts, West Sussex PFI, other municipal contracts and sludge contracts and 'Other' includes asset disposals

(3) Including more than 2% energy generation/recycling in JVs and Contracts & Other

Viridor

Operational Highlights - Recycling

- Volumes traded increased by 124k tonnes (7.2%) to 1,842k tonnes with continuing improvements in mix
  - higher value recyclates up 198k tonnes (17.4%), 110k tonnes from acquisitions
  - lower value recyclates down by 74k tonnes (12.8%)

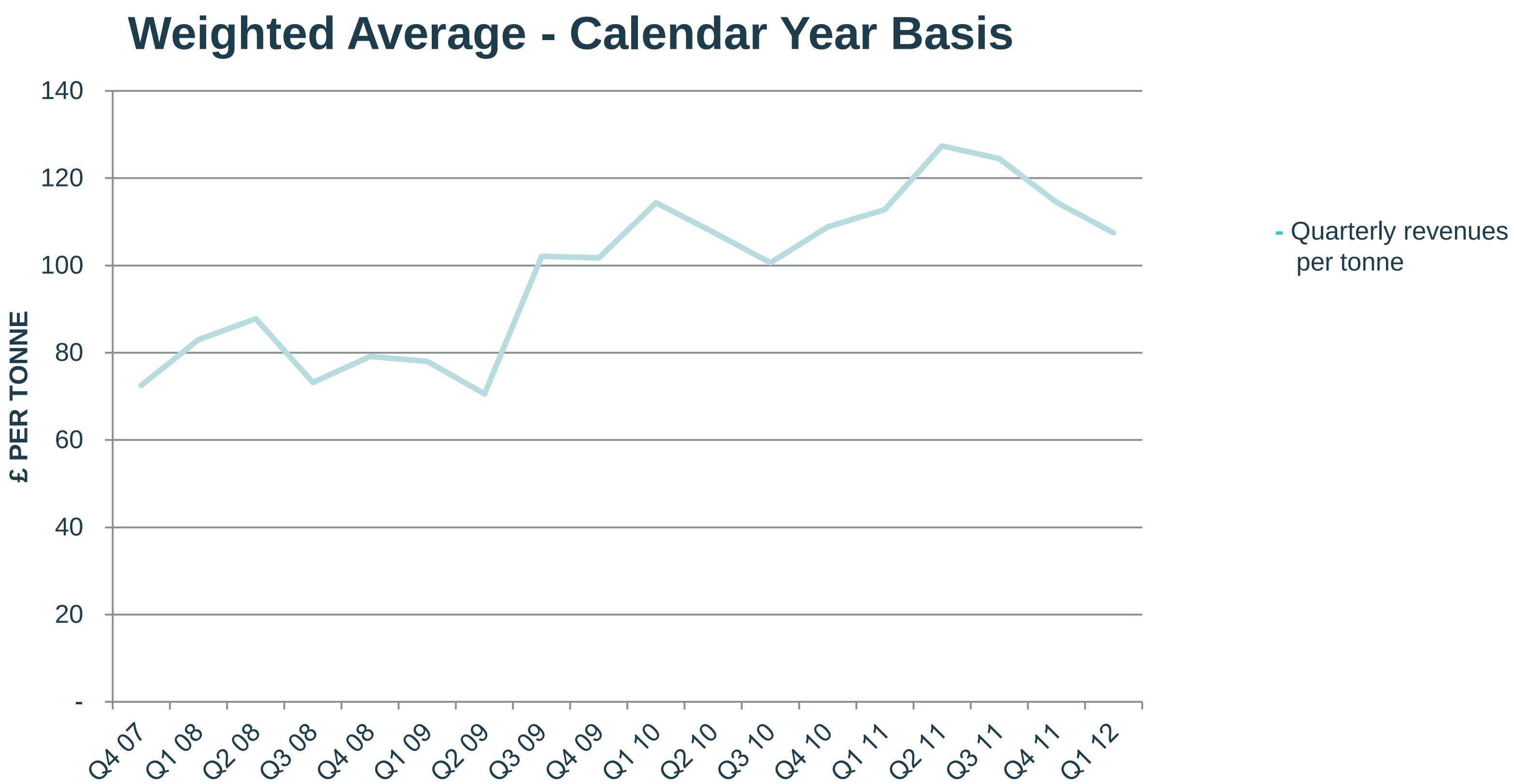
- Overall average revenue per tonne (gate fee and recyclate sale) up 6.8% to £118 compared to £111 in previous year
  - as forecast, revenue per tonne fell from above trend £125 in H1 to £111 in H2, reflecting world economic conditions
  - we are cautious about the prospect for a recovery in recyclate prices in the near-term
  - cost base adjusted accordingly: more than 50% of impact recovered via terms of customer supply contracts and by cost reductions

- **Recycling remains a very profitable business (profit per tonne c3x landfill) and is Viridor's largest profit generator**
  - long-term economics of recycling and energy recovery enhanced by landfill tax increasing by £8 per year from current £64 per tonne to £80 per tonne from 1 April 2014
  - recyclate very economical compared to virgin materials

- **For a three minute introduction to Viridor's MRFs, see http://www.youtube.com/user/ViridorTV**

Viridor

Recyclate Revenues Per Tonne



- **Viridor strategy is to maximise recyclate quality and hence revenue and margin per tonne**
  - **but not immune to world market conditions**

- **Key sensitivity: £5 per tonne change in revenue per tonne on c2m tonnes pa implies c£10m change in revenue pa**

Viridor
Acquisitions

- Viridor continues to grow its business by targeted acquisitions
- As reported at Half Year Viridor acquired
  - Storm Recycling Limited for £1.7m in June 2011
  - Veolia's trade waste collection interests in Cornwall and North Devon for £0.6m in October 2011
  - JWS Churngold Limited, which provides transport and logistics solutions to the Lancashire Waste PFI, for £14.3m in November 2011
- Community Waste Recycling Limited was acquired for £15.8m(1) in November 2011
  - annual volume 90kt
- Viridor acquired Veolia's industrial and commercial collection interests in Devon and Somerset for £7.6m in January 2012
- Above acquisitions are in line with Viridor's recycling and collection strategies

(1) *Initial consideration of £15.8m and further deferred consideration of £2.7m*

Viridor

Operational Highlights – Contracts and Collection

- Contracts
  - 16 municipal contracts around the UK (the more significant ones include Glasgow, Lakeside, Manchester, Somerset, W Sussex and Bedfordshire (last full year))
  - Thames Water
  - overall profit contribution up

- Collection profit contribution stable

- Viridor collection fleet has an increasing role in feeding our recycling plants

Viridor

Operational Highlights – Joint Ventures

- **Lakeside**, the first of our EfW pipeline, continues to perform very strongly - total contribution of £7.8m
  - £1.4m interest on shareholder loans (down £1.1m because of partial repayment); £3.7m share of PAT (up £0.2m); £2.7m sub-contract profit
  - won 2011 CIWM's "Peel People's Cup" for the best run waste management facility in the UK, and the "EfW Facility of the Year" and "Best Designed Renewable Energy Facility" categories in the UK Renewable Infrastructure Awards 2011

- **Viridor Laing Greater Manchester**
  - £6.1m interest on shareholder loans, up £1.9m because of increased shareholder loans
  - £0.3m share of PAT IFRIC 12 basis down £0.5m (£4.7m profit UK GAAP, up £1.5m)
  - 39 of the total 43 now planned facilities operational
  - 99.7% customer satisfaction with Household Waste Recycling Centres

- Total JV contribution up 4.5% to £11.5m (from £11.0m in 2010/11)

- **For an introduction to Viridor's Energy from Waste plants, including Lakeside and the Greater Manchester Waste PFI solution, see http://www.youtube.com/user/ViridorTV**

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Viridor

Operational Highlights – Landfill Gas Power Generation

- Average revenue per MWh up 1% to £83.5 per MWh (£82.5 2010/11) offset by unit cost increases

- Total landfill gas power generation 576GWh slightly up on last year level of 566GWh
  - approaching peak output

- Total operational capacity[1] decreased by 1MW since 31 March 2011 to 107MW at 31 March 2012 reflecting reduction in capacity at Somerset sub-contract sites

  - higher value ROC[2] component increased from 69% to 74%; NFFO[3] 26%
  - c60% of NFFOs migrate to ROCs in 2013/14; balance up to 2016/17

(1) *Excludes 3MW capacity at sub-contract sites in Suffolk*
(2) *ROC – Renewables Obligation Certificate*
(3) *NFFO – Non Fossil Fuel Obligation*

Viridor

Operational Highlights - Landfill

- Total volumes decreased by 0.4m tonnes (11.4%) to 3.1m tonnes in line with the market
  - site closure (Horton) accounted for approaching half the decline
  - ongoing impact of landfill diversion/recycling and weak UK economy
- Average gate fees increased by 5.8% (to £23 per tonne)
  - offset by increased costs on lower volumes
- Consented landfill capacity fell from 69.0million cubic metres (mcm) at 31 March 2011 to 65.4mcm at 31 March 2012 reflecting usage in the period

Viridor

Renewable Energy Developments

- Runcorn EfW/CHP phase I on track for handover at end of 2012/13 with phase II to follow during 2014/15
- Exeter EfW contract signed and construction commenced
- Ardley EfW legal challenge successfully resolved and construction commenced
- Cardiff EfW construction contract signed – construction due to commence in H1 2012/13
- AD plant at Walpole, Somerset under construction

Viridor
PPP Pipeline

- Preferred bidder for South London Waste Partnership residual waste
- Preferred bidder for Glasgow recycling and residual waste
- Preferred bidder for South Lanarkshire recycling and residual waste, subject to challenge
- One of last two for
  - Peterborough recycling and residual waste
  - Central Bedfordshire residual waste
  - South East Wales (Prosiect Gwyrdd) residual waste
  - West Lothian residual waste
  - Edinburgh and Midlothian food waste
- Increasing landfill tax is the fundamental driver for the above projects
- Expanding list of prospects including renewable energy/combined heat and power and recycling opportunities

Viridor

2011/12 Summary

- PBT down 8.4%
  - continued growth in recycling, contracts and joint ventures insufficient to offset decline in annual landfill profits and increased bid costs
- Recyclate prices have fallen from their first half 2011/12 peak reflecting world economic conditions
  - cost base adjusted accordingly: more than 50% of impact recovered via terms of customer supply contracts and by cost reductions
- c50% of profits from recovering value in waste
- Strong progress on PPP/EfW pipeline
- Further value enhancing acquisitions

Strategy focused on transforming waste

- **recycling key to profits in the short-term**
- **long-term profit momentum underpinned by growing PPP/EfW pipeline**

PENNON

GROUP PLC

Pennon Group Plc

Summary

- Strategy clearly focused on water and sewerage services; recycling; renewable energy; and waste management

- Over £250m invested in key infrastructure supporting the development of the UK ‘s green economy

- **South West Water**
  - strong performance against K5 regulatory contract
  - delivering outperformance
  - robust water resources

- **Viridor**
  - exploiting opportunities in recycling and renewable energy
  - c50% of profits from recovering value in waste
  - PPP/EfW pipeline underpins long-term profit momentum

- Well funded with efficient long-term financing

- **Group businesses well positioned for the future**

PENNON

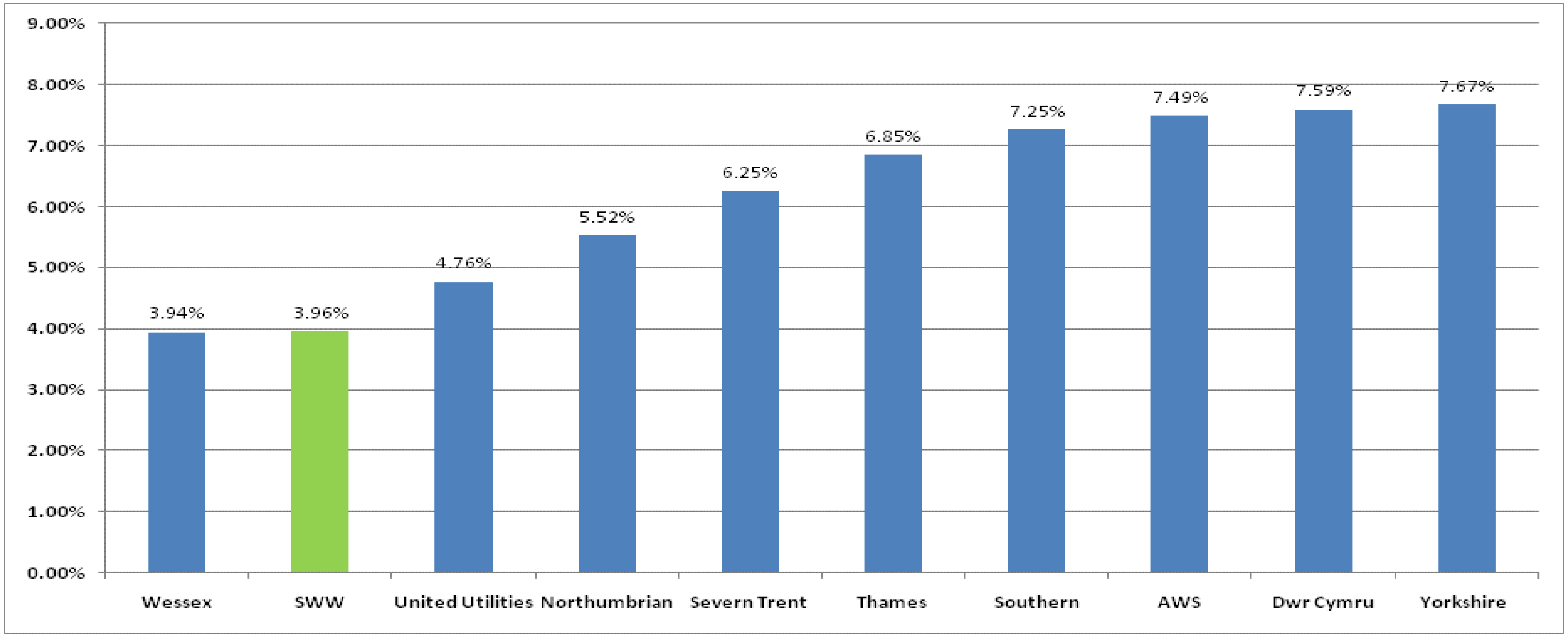
GROUP PLC

PENNON
GROUP PLC

Appendix

Water Industry

2010/11 Average Interest Rate on Net Debt



- **SWW interest rate consistently low**

Source: Pennon calculation based on company Annual Reports

Basis: Net interest payable (excluding pensions net interest) / average net debt