news from Pennon Group Plc

Thursday 29 May 2003

PENNON GROUP PLC

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2003

Pennon Group announces its unaudited results for the year ended 31 March 2003.

FINANCIAL HIGHLIGHTS

- Profit before tax of £74.2m
- Underlying profit before tax growth of 7.1%
- Earnings per share (before deferred tax and exceptional item) up 3.8% from 53.0p to 55.0p
- Dividend
    - Recommended final dividend per share up 4.3% to 26.5p
    - Full year dividend (excluding the special interim dividend) up 4.3% to 39.1p

OPERATIONAL HIGHLIGHTS

- South West Water
    - Operating profit up 4.2% to £111.5m
    - Profit before tax up 0.4% to £67.1m
    - Continuing to improve efficiency
    - Delivering record levels of drinking water and bathing water compliance
    - "Clean Sweep" now virtually complete

- Viridor Waste
    - Operating profit before goodwill up 25.7% to £19.1m
    - Profit before tax up 5.2% to £14.2m
    - Consented landfill capacity up 7m cubic metres to 80m cubic metres
    - Landfill gas capacity up 30% to 37MW
    - This year's and last year's acquisitions performing ahead of expectations

Communications, Pennon Group Plc, Peninsula House, Rydon Lane, Exeter, EX2 7HR
Telephone: 01392 443020/1/2 **Fax: 01392 422015**
E-mail: pressoffice@pennon-group.co.uk Web: www.pennon-group.co.uk

PROSPECTS

- Pennon Group continues to be well placed for the future
    - South West Water : strong growth in regulatory asset value to 2005; remains confident of out-performing the regulatory contract to 2005
    - Viridor Waste's focused strategy : capitalising on landfill asset base; exploiting landfill gas power generation opportunities; continuing to pursue profitable opportunities in line with the Government's developing waste strategy

"These results demonstrate further profitable growth in the Group, affirming our strategy of focusing on our two key businesses, South West Water and Viridor Waste" said Ken Harvey, Chairman. "South West Water has maintained its improvement in customer service, delivered further efficiencies and remains confident of out-performing the regulatory contract to 2005. Viridor Waste shows continued steady growth in profits and is well placed to capitalise on its recent developments. We are confident prospects for the Group remain favourable."

For further information on 29 May 2003, please contact :

David Dupont	Group Director of Finance	}	
Jo Finely	Investor Relations Manager	}	020 7831 3113
Andrew Dowler	Financial Dynamics	}	
Stephen Swain	Communications Manager		01392 443022

GROUP OVERVIEW

Group turnover from continuing operations, including acquisitions, rose £36.2m to £417.2m. Overall group turnover reduced by £6.7m as a consequence of the disposal of Viridor Instrumentation, completed in February 2002.

Group operating profit from continuing operations rose by 6.6% to £127.0m.

Earnings per share before deferred tax and exceptional item rose by 3.8% to 55.0p. Earnings per share after deferred tax and exceptional item fell by 18.4% to 44.3p, as a result of lower discount rates increasing the deferred tax charge.

Capital expenditure for the Group was £204.6m (2001/02 - £186.4m).

Three waste management acquisitions were made during the year for a total cash consideration of £41.4m.

Net debt for the Group was £988.6m, an increase of £237.3m since 31 March 2002. Gearing, being net borrowings to shareholders' funds, was 111% (2001/02 – 77%). (Allowing for the impact of the special interim dividend referred to below, pro forma gearing at 31 March 2002 was 96%.) Interest cover was 2.4 times (March 2002 – 2.5 times).

The Board has recommended a final dividend of 26.5p, up 4.3%, subject to shareholder approval. Together with the interim dividend of 12.6p, (but excluding the special interim dividend referred to below), this will result in a total dividend for the year of 39.1p, representing an increase of 4.3% on the total dividend for 2001/02. The Board intends to continue to pursue a progressive dividend policy. The total cost of the interim and final dividends for 2002/03 is £48.4m.

Following the sale of Viridor Instrumentation in February 2002, a special interim dividend for 2002/03 of 70p per share was paid on 1 October 2002 out of the sale proceeds, at a cost of £95.9m. A share consolidation took place on 2 September 2002 in order to maintain comparability of the share price both before and after the payment of the special interim dividend.

This year the Board is proposing to re-introduce a scrip dividend alternative to replace the Dividend Reinvestment Plan which has been available to shareholders in recent years. The scrip alternative will enable shareholders to acquire new shares issued by the Company and details will be circulated with the Annual Report.

SOUTH WEST WATER

South West Water turnover rose by £9.8m to £270.2m. Approved tariff increases, including headroom arising from meter switching, amounted to £14.0m. Customers switching from unmeasured to metered charging caused a reduction of £5.0m in turnover. Other factors, including 7,300 new customer connections, offset by a small fall in measured demand, contributed £0.8m.

South West Water's operating profit rose 4.2% to £111.5m. Operating costs, including depreciation, increased by £5.3m to £158.7m. New capital schemes added £7.4m and inflation £3.1m, offset by £4.5m of efficiency and £0.7m of other savings made in the year. The company remains ahead of Ofwat's efficiency target and is on track to deliver further efficiency savings to achieve the regulatory contract to 2005. In the drive to achieve further efficiencies, the benefit of three new major management information systems is being realised in the areas of asset management, human resources and customer service management.

Capital expenditure rose £13.9m to £181.5m. £67.0m was invested in water supply improvements including water mains renovation, water treatment works enhancement and leakage control. The company is one of the industry leaders in managing water leakage and continues to deliver results in line with Ofwat's mandatory leakage target. Over 400kms of water mains were laid, replaced or refurbished during the year. Drinking water quality and river water quality are at an all time high and the region features more miles of high quality river than any other region in England.

Waste water services investment expenditure was £114.5m of which £64.5m was invested in the company's "Clean Sweep" bathing water programme which is nearing completion. Over 98% of the region's 140 bathing waters along the South West coastline complied with the European Union's mandatory standards. In addition, 84% of the region's bathing waters met the more stringent EU guideline standards, the best performance of any region in the UK (2001/02 – 71%).

Independent market research carried out amongst South West Water's customers confirmed continued high levels of satisfaction with the overall service provided by the company.

South West Water is formulating its business plan submission for the next regulatory period (2005 – 2010).

VIRIDOR WASTE

Viridor Waste turnover rose by 21.5% from £125.3m in 2001/02 to £152.3m in 2002/03. Acquisitions accounted for £12.9m, increased existing business £9.3m and increased landfill tax £4.8m.

Viridor Waste operating profit before goodwill rose by 25.7% to £19.1m (£17.6m after goodwill) compared to £15.2m in 2001/02. This year's and last year's acquisitions offset the impact of one off gains in 2001/02. Existing business grew strongly, assisted by a step change in profits arising from the impact of the new renewables pricing regime on Viridor Waste's existing power generation business. Excluding this step change, underlying profit growth was around 10%. This financial performance was achieved despite generally tough market conditions. Operating margin, before goodwill and excluding landfill tax, was 17.4%. Earnings before interest, tax, depreciation and amortisation (EBITDA) grew from £32.1m to £38.2m. Capital expenditure for the year was £23.0m (2001/02 - £18.3m).

Three acquisitions were made during the year reinforcing Viridor Waste's stated strategy of capitalising on its strong position in landfill disposal, exploiting opportunities in renewable energy in line with the Government's targets and pursuing profitable opportunities arising from the Government's developing waste management strategy. The three acquisitions were in total already earnings enhancing before goodwill in 2002/03, at least a year earlier than expected. Last year's acquisitions were earnings enhancing not only before goodwill, as expected, but also after goodwill.

Total landfill disposal volumes increased by 8.6% to 3.5m tonnes. Excluding the effect of last year's non recurring items and both last year's and this year's acquisitions, volumes increased by 3.3%. Underlying gate fees rose by 4.7%. Consented landfill increased from 73m m^3 to 80m m^3 from a combination of acquisitions and planning gains, less usage during the year. Viridor Waste's total power generation capacity increased by 30% to 37MW.

ENVIRO-LOGIC

The terms of the agreement with the other shareholders of Enviro-Logic provided for Pennon Group Plc to acquire full ownership of the company after 5 years. Pennon took up this option on 6 May 2003. The Company is currently reviewing the strategic development of Enviro-Logic and the integration of its activities with the ongoing commercial activities within South West Water.

PENSIONS

Pennon operates a defined benefit pension scheme for existing staff and new entrants to Pennon and South West Water and for existing employees in Viridor Waste. The last actuarial valuation in April 2001 indicated a scheme surplus, enabling a continuation of the employer contribution "holiday" in 2001/02. However, in response to deteriorating stock market conditions, the company resumed employer contributions of 4.8% of pensionable pay in 2002/03, in line with the recommendation from the scheme actuary.

Under FRS 17 reporting requirements the Group pension schemes had a net deficit at 31 March 2003 of £59.4m. This represents circa 7% of total market capitalisation. From 1 April 2003, employer contributions have been increased to 11.5%. The pension fund position is being kept under review and the next triennial actuarial review is due in April 2004.

Having reviewed practices in the waste industry, Pennon is putting in place a defined contribution scheme for employees from recently acquired waste companies and new entrants to Viridor Waste. In many instances this will be an enhancement of their current position. At the same time the policy is that the Pennon defined benefit scheme will no longer be available to new entrants to Viridor Waste as of 1 July 2003. Whilst the introduction of the defined contribution scheme and increased funding costs for the defined benefit pension scheme will impact profit growth in 2003/04, this change will reduce Viridor Waste's exposure to any further adverse movements in the defined benefit scheme funding position.

TAXATION

The mainstream corporation tax charge for the year was £3.4m (2001/02 – nil).

The deferred tax charge for the year to 31 March 2003 was £13.7m, up from £3.3m in 2001/02 as a result of lower discount factors.

FINANCING INITIATIVES

The Group funding strategy utilises a mix of fixed and floating rate borrowings. To take advantage of current historically low interest rates and reduce the risk of adverse movements over the next few years, South West Water has entered into swap arrangements to fix the interest rate on the majority of its debt for the period up to the next Periodic Review. In addition, it has entered into a new £95m finance lease facility which provides sub-LIBOR funding at very attractive rates for the next 20 years and also provides a substantial element of the remaining K3 funding requirements.

STRATEGY AND PROSPECTS

The Board will continue to focus on adding value for shareholders. This will be achieved by South West Water growing its regulatory asset value and outperforming the regulatory contract up to 2005, and Viridor Waste capitalising on the opportunities arising from its successful focused strategy.

The pension fund contribution increases will have some impact on the Group 2003/04 results. The Board is confident, however, that the satisfactory performance this year of both businesses provides a strong foundation for the Group going forward.

Ken Harvey
Chairman
29 May 2003

PENNON GROUP PLC
GROUP PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2003

	Note	**2003 (unaudited) £m**	2002 £m
Turnover			
Continuing operations		**403.0**	381.0
Acquisitions		**14.2**	-
		417.2	381.0
Discontinued operations	2	**-**	42.9
Total turnover		**417.2**	423.9
Operating costs		**(290.2)**	(302.1)
Group operating profit			
Continuing operations		**126.0**	119.1
Acquisitions		**1.0**	-
		127.0	119.1
Discontinued operations	2	**-**	2.7
Total Group operating profit		**127.0**	121.8
Share of operating loss in			
Joint venture		**(0.1)**	(0.1)
Associate		**(0.6)**	(0.4)
Total operating profit		**126.3**	121.3
Profit on disposal of discontinued operation	2	**-**	5.1
Net interest payable		**(52.1)**	(49.0)
Profit on ordinary activities before taxation		**74.2**	77.4
Tax on profit on ordinary activities	3	**(17.1)**	(3.3)
Profit on ordinary activities after taxation		**57.1**	74.1
Dividends	4	**(144.3)**	(51.4)
Retained (deficit)/surplus transferred (from)/to reserves		**(87.2)**	22.7
Earnings per share	5		
Adjusted basic		**55.0p**	53.0p
Adjusted diluted		**54.8p**	52.9p
Basic		**44.3p**	54.3p
Diluted		**44.2p**	54.2p
Dividend per share	4	**109.1p**	37.5p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 March 2003

	2003 (unaudited) £m	2002 £m
Profit on ordinary activities after taxation	**57.1**	74.1
Currency retranslation differences on foreign currency net investments	**-**	0.6
Total gains and losses recognised for the year	**57.1**	74.7
Prior year adjustments	**-**	(50.9)
Total gains and losses recognised since last Annual Report	**57.1**	23.8

PENNON GROUP PLC
SUMMARISED GROUP BALANCE SHEET
for the year ended 31 March 2003

	2003 (unaudited) £m	2002 £m
Fixed assets		
Intangible assets	**37.6**	11.7
Tangible assets	**2,046.4**	1,907.7
Investments	**1.9**	3.3
	2,085.9	1,922.7
Current assets		
Stocks	**4.0**	3.2
Debtors	**87.6**	81.6
Investments and cash	**191.0**	292.0
	282.6	376.8
Creditors: amounts falling due within one year	**(265.1)**	(276.0)
Net current assets	**17.5**	100.8
Total assets less current liabilities	**2,103.4**	2,023.5
Creditors: amounts falling due after more than one year	**(1,083.3)**	(932.3)
Provisions for liabilities and charges	**(90.6)**	(74.4)
Deferred income	**(39.4)**	(40.6)
Net assets	**890.1**	976.2
Capital and reserves		
Called-up share capital	**137.2**	137.0
Share premium account	**152.8**	151.6
Profit and loss account	**600.1**	687.6
Shareholders' funds	**890.1**	976.2

PENNON GROUP PLC
GROUP CASH FLOW STATEMENT
for the year ended 31 March 2003

	Note	2003 (unaudited) £m	2002 £m
Net cash inflow from operating activities	6	**198.9**	196.2
Returns on investments and servicing of finance		**(42.9)**	(44.3)
Taxation		**-**	0.4
Capital expenditure and financial investment		**(198.2)**	(182.3)
Acquisitions and disposals		**(37.2)**	85.0
Equity dividends paid		**(147.3)**	(49.4)
Net cash (outflow)/inflow before use of liquid resources and financing		**(226.7)**	5.6
Management of liquid resources		**67.6**	(27.0)
Financing		**140.7**	38.2
(Decrease)/increase in cash in year		**(18.4)**	16.8

PENNON GROUP PLC
SEGMENTAL ANALYSIS BY CLASS OF BUSINESS
for the year ended 31 March 2003

	2003 (unaudited) £m	2002 £m
Turnover		
Continuing operations		
Water and sewerage	**270.2**	260.4
Waste management	**152.3**	125.3
Other	**5.2**	6.6
Less intra-group trading	**(10.5)**	(11.3)
Total continuing operations	**417.2**	381.0
Discontinued operations		
Instrumentation	**-**	43.0
Property	**-**	1.4
Less intra-group trading	**-**	(1.5)
Total discontinued operations	**-**	42.9
Group totals	**417.2**	423.9
Group operating profit		
Continuing operations before goodwill amortisation		
Water and sewerage	**111.5**	107.0
Waste management	**19.1**	15.2
Other	**(2.1)**	(2.8)
Total continuing operations	**128.5**	119.4
Discontinued operations before goodwill amortisation		
Instrumentation	**-**	3.9
Property	**-**	0.1
Total discontinued operations	**-**	4.0
Goodwill amortisation		
Continuing operations :		
Waste management	**(1.5)**	(0.3)
Discontinued operations :		
Instrumentation	**-**	(1.3)
Total goodwill amortisation	**(1.5)**	(1.6)
Group totals	**127.0**	121.8

PENNON GROUP PLC
SEGMENTAL ANALYSIS BY CLASS OF BUSINESS
for the year ended 31 March 2003 (continued)

	2003 (unaudited) £m	2002 £m
Profit on ordinary activities before taxation		
Continuing operations		
Water and sewerage	**67.1**	66.8
Waste management	**14.2**	13.5
Other *	**(7.1)**	(11.0)
Total continuing operations	**74.2**	69.3
Discontinued operations		
Instrumentation	**-**	2.7
Property	**-**	0.3
Total discontinued operations	**-**	3.0
Exceptional item		
Discontinued operations disposal profit	**-**	5.1
Group totals	**74.2**	77.4

* includes interest arising on parent company financing of acquisitions

PENNON GROUP PLC
NOTES

1 The financial information for the years ended 31 March 2003 and 31 March 2002 does not constitute full financial statements within the meaning of section 240 of the Companies Act 1985. The full financial statements for the year ended 31 March 2002 have been delivered to the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

2 The comparatives for the year ended 31 March 2002 for discontinued operations include the results of Viridor Instrumentation Limited which was disposed of in February 2002.

3 Tax on profit on ordinary activities for the year comprises :

	2003 (unaudited)	2002
	£m	£m
United Kingdom corporation tax at 30%	**3.4**	0.5
Overseas taxation	**-**	(0.5)
Deferred taxation	**13.7**	3.3
	17.1	3.3

4 Dividends

	2003 (unaudited)	2002
	£m	£m
Special interim dividend of 70.0p per share	**95.9**	-
Interim dividend of 12.6p (2002 12.1p) per share	**15.6**	16.6
Final dividend 26.5p (2002 25.4p) per share	**32.8**	34.8
	144.3	51.4

On 2 September 2002 the Share Capital of the Company was reduced by a share capital consolidation whereby every 111 Ordinary shares of £1 each were replaced by 100 new Ordinary shares of £1.11 each. The consolidation was accompanied by the declaration of a special interim dividend for the year ending 31 March 2003 of 70.0 pence per existing Ordinary share. The special interim dividend was paid on 1 October 2002 together with the final dividend for the year ended 31 March 2002.

If approved at the Annual General Meeting on 31 July 2003 the final dividend of 26.5p per share will be paid on 1 October 2003 to shareholders on the register at 11 July 2003.

5 The calculation of earnings per share is based on the profit on ordinary activities after taxation divided by the weighted average number of ordinary shares in issue during the year of 128.8 million (2002 136.5 million).

All share options with an exercise price lower than the average market price of the Company's shares during the year have been included in the calculation of diluted earnings per share. The weighted average number of shares in issue during the year, taking account of the dilutive effect of share options, was 129.3 million (2002 136.8 million).

Adjusted basic and diluted earnings per share

Adjusted earnings per share have been calculated to exclude the impact of exceptional items and deferred tax on the results, as such items can have a distorting effect on earnings from year to year and therefore warrant separate consideration. Adjusted earnings have been calculated as follows :

	2003 (unaudited) £m	2002 £m
Profit on ordinary activities after taxation	**57.1**	74.1
Exceptional item - profit on business disposal	**-**	(5.1)
Profit after tax before exceptional item	**57.1**	69.0
Deferred tax	**13.7**	3.3
Adjusted earnings	**70.8**	72.3

The exceptional item in 2002 comprises the profit on disposal of Viridor Instrumentation Limited.

6 Reconciliation of Group operating profit to net cash inflow from operating activities:

	2003 (unaudited) £m	2002 £m
Group operating profit	**127.0**	121.8
Depreciation charge	**79.8**	75.5
Amortisation of intangible fixed assets	**1.5**	1.6
Provision for impairment of fixed asset Investments	**1.4**	0.3
Deferred income released to profits	**(1.2)**	(1.2)
(Decrease)/increase in provisions for liabilities and charges	**(2.0)**	1.0
Increase in stocks	**(0.8)**	(0.6)
Decrease/(increase) in debtors (amounts falling due within and over one year)	**1.1**	(4.0)
(Decrease)/increase in creditors (amounts falling due within and over one year)	**(7.1)**	2.9
Profit on disposal of tangible fixed assets	**(0.8)**	(1.1)
Net cash inflow from operating activities	**198.9**	196.2

7 Analysis of net debt

	At 1 April 2002	Cash flow	Acquisitions (excluding cash items)	Non-cash movements	**At 31 March 2003 (unaudited)**
	£m	£m	£m	£m	**£m**
Cash at bank and in hand	1.0	7.6	-	-	**8.6**
Current asset investments:					
Overnight deposits	45.3	(41.0)	-	-	**4.3**
Bank overdrafts	(29.1)	15.0	-	-	**(14.1)**
	17.2	(18.4)	-	-	**(1.2)**
Debt due within one year (other than bank overdrafts)	(62.9)	19.7	-	(14.8)	**(58.0)**
Debt due after more than one year	(299.2)	(100.0)	-	13.6	**(385.6)**
Finance lease obligations	(652.1)	(59.3)	(0.3)	(10.2)	**(721.9)**
	(1,014.2)	(139.6)	(0.3)	(11.4)	**(1,165.5)**
Current asset investments:					
Other than overnight deposits	245.7	(67.6)	-	-	**178.1**
	(751.3)	(225.6)	(0.3)	(11.4)	**(988.6)**

Non-cash movements include transfers between categories of debt for changing maturities, increased accrued finance charges within finance lease obligations, and loan notes issued in settlement of accrued consideration in respect of a previously acquired business.

8 The Annual Report for 2002/03 will be issued to shareholders on 30 June 2003.

Pennon Group Plc
Registered Office :
Peninsula House
Rydon Lane
EXETER
Devon EX2 7HR

Registered in England No 2366640