

23 June 2014

**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 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 Registrar, Capita Asset Services, not less than 48 hours before the time fixed for the meeting.

Dear Shareholder

### **Annual General Meeting 2014 and Financial Results for the year ended 31 March 2014**

Please find attached to this letter the Notice of our 2014 Annual General Meeting, together with notes explaining the business of the meeting. The Annual General Meeting will be held on Thursday, 31 July 2014, starting at 11.00 a.m. at the Exeter Golf and Country Club, Topsham Road, Countess Wear, Exeter EX2 7AE. Details of how to reach this venue are set out on the first page of the Notice. Free parking will be available.

If you are unable to attend the Annual General Meeting please register your vote with us electronically by visiting **capitashareportal.com**. Registering your vote electronically is entirely secure and ensures the privacy of your personal information. Alternatively please complete and return your Form of Proxy by post.

**Your Directors consider that all the proposals before 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, as they intend to do in respect of their own shareholdings.**

### **Electronic communications**

The Company's policy is to provide all shareholder documents electronically whenever possible. As a consequence you will only receive copies of the Annual Report and certain other shareholder communications by post if you have specifically opted to do so or if you became a shareholder on the register after 19 March 2013. 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 **<http://www.pennon-group.co.uk>**

Using our website allows us to offer you greater choice on how you receive your shareholder communications. Electronic communications are not only secure, 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 previously elected to receive a written copy of the Annual Report, a copy is enclosed. If a copy of the Annual Report is not enclosed and you wish to receive a copy rather than viewing it on the Company's website, please request a copy from our Registrar, Capita Asset Services, by telephoning 0871 664 9234 (lines are open 8.30am-5.30pm Monday-Friday. Calls cost 10p per minute plus network extras) or +44 800 141 2951 (from outside the UK) and quoting your Investor Code which can be found on your Form of Proxy.

If you have not already done so and now wish to sign up to receive future shareholder communications electronically, you can do so via the share portal service provided by our Registrar. To register simply go to **capitashareportal.com** and select 'Account Registration' and then follow the on-screen instructions by inputting your surname and your Investor Code which can be found on your Form of Proxy enclosed. You will also need to input your postcode and e-mail address and select a password.

### **Pennon Group's financial and operational results for the year ended 31 March 2014**

I am pleased to set out overleaf a summary of the highlights of Pennon Group's financial and operational results for the year ended 31 March 2014. Full details are contained in the Company's Annual Report.

Yours sincerely



**Ken Harvey**  
Chairman

# Summary of Pennon Group's financial and operational results

for the year ended 31 March 2014

## Pennon Group

- profit before tax<sup>(1)</sup> <sup>(2)</sup> up 9.1% to £207.3 million
  - South West Water up 10.8% to £162.5 million
  - Viridor down 19.5% to £27.6m
- net exceptional charges £48.6m (post tax £39.7 million)
- earnings per share<sup>(1)</sup> <sup>(3)</sup> up 5.7% to 42.6p
- dividend
  - full year dividend up 6.5% to 30.31p
  - recommended final dividend per share up 6.2% to 20.92p
- strong liquidity and funding position
  - £640 million new/refinanced facilities since 31 March 2013
  - £1,303 million cash/committed facilities at 31 March 2014
  - Average cost of debt reduced to 3.8%
- Group businesses well positioned for the future

<sup>(1)</sup> Comparatives restated for IAS 19 (Revised)

<sup>(2)</sup> Before net exceptional charges of £48.6m (post tax £39.7m). Statutory profit before tax £158.7m

<sup>(3)</sup> Before net exceptional charges and deferred tax. Basic earnings per share (statutory basis) 38.8p

## South West Water

- strong performance against 2010-2015 (K5) regulatory contract
  - well placed to deliver outcomes and outperform
- robust operational performance, despite extreme weather, and improving standards of customer service
  - strong performance against bathing water compliance
  - further improvement in SIM<sup>(4)</sup> performance
- profit before tax up due to
  - higher revenue and good cost control
  - average funding cost 3.8%
- Business Plan for 2015-2020 (K6) achieved 'enhanced' status
  - only water and sewerage company to achieve Ofwat's top assessment
  - financial benefits from enhanced status
  - Draft Determination already received
  - enabling early K6 implementation

<sup>(4)</sup> Service Incentive Mechanism

## Viridor

- excellent continuing progress in strategic re-orientation of Viridor business model
- financial performance<sup>(5)</sup> delivered in line with management expectations
  - profit before interest and tax plus joint ventures broadly similar to 2012/13
- substantial recovery in recycling margins, supported by focus on costs, but remain cautious about future prospects.
- landfill energy – focus on reducing landfill operations and optimising energy production
  - focus on strategic sites for residual landfill
  - maximising value of landfill gas generation
  - development of alternative uses for closed sites including new energy opportunities
- significant developments in long-term Energy from Waste (EfW) business
  - around 80% of the waste inputs required at opening secured, of which around 60% is from long term contracts
  - Runcorn Phase 1 and Exeter EfW facilities – burning waste
  - Ardley (Oxfordshire) EfW facility in commissioning
  - Runcorn Phase 2 and Trident Park (Cardiff) EfW facilities – shortly to enter commissioning
  - South East Wales residual waste project (Prosiect Gwyrdd) – signed December 2013
  - Glasgow and Peterborough EfW plants under construction
  - South London Waste Partnership PPP (Beddington) – planning secured but delayed due to expected judicial review

<sup>(5)</sup> Before net exceptional charges.

## Notice of Annual General Meeting

The twenty-fifth Annual General Meeting of Pennon Group Plc will be held at

**Exeter Golf and Country Club, Topsham Road,  
Countess Wear, Exeter EX2 7AE**

on Thursday, 31 July 2014 at 11.00 a.m.

**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 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 Registrar, Capita Asset Services, 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 for the year ended 31 March 2014.

Copies of this Notice of Annual General Meeting and the Annual Report and Accounts are available to view and download from the Company's website:

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

**How to get to the Pennon Group Plc Annual General Meeting at Exeter Golf and Country Club, Topsham Road, Countess Wear, Exeter EX2 7AE**

**By road:**

From junction 30 on the M5 take the third exit at the first roundabout, A379 for Exeter, Dawlish and Topsham. Follow the signs to Topsham for 1.8 miles to the Countess Wear roundabout. Take the first exit left to Topsham. The venue is 300 meters on the left hand side. Free parking will be available at the venue.

**By rail:**

Exeter's mainline station is Exeter St. David's, which is located 3.2 miles from the venue. The nearest rail station is Exeter Central, which is situated 2.7 miles from the venue.

# Annual General Meeting

The twenty-fifth Annual General Meeting of Pennon Group Plc will be held at Exeter Golf and Country Club, Topsham Road, Countess Wear, Exeter EX2 7AE on Thursday, 31 July 2014 at 11.00 a.m. for the transaction of the following business:

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

### **Report and accounts**

#### **Resolution 1**

That the Directors' report and the financial statements for the year ended 31 March 2014 be received and adopted, together with the report of the auditors.

### **Dividend**

#### **Resolution 2**

That a final dividend of 20.92 pence per Ordinary share recommended by the Directors for the year ended 31 March 2014 be declared for payment on 3 October 2014.

### **Annual report on remuneration**

#### **Resolution 3**

That the annual report on remuneration for the financial year 2013/14, as contained in the Company's Annual Report 2014, be approved.

### **Directors' remuneration policy**

#### **Resolution 4**

That the Directors' remuneration policy, as contained in the Company's Annual Report 2014, be approved.

### **Directors**

#### **Resolution 5**

That Mr K G Harvey who is retiring in accordance with the UK Corporate Governance Code be re-elected as a Director.

#### **Resolution 6**

That Mr M D Angle who is retiring in accordance with the UK Corporate Governance Code be re-elected as a Director.

#### **Resolution 7**

That Mr G D Connell who is retiring in accordance with the UK Corporate Governance Code be re-elected as a Director.

#### **Resolution 8**

That Mr D J Dupont who is retiring in accordance with the UK Corporate Governance Code be re-elected as a Director.

#### **Resolution 9**

That Mr C Loughlin who is retiring in accordance with the UK Corporate Governance Code be re-elected as a Director.

#### **Resolution 10**

That Mr I J McAulay who is retiring in accordance with the Company's Articles of Association and the UK Corporate Governance Code be elected as a Director.

#### **Resolution 11**

That Ms G A Rider who is retiring in accordance with the UK Corporate Governance Code be re-elected as a Director.

## Auditors

### Resolution 12

That Ernst & Young 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 13

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

## Political donations

### Resolution 14

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,

during the period from the date of this resolution to the date of the next Annual General Meeting of the Company in 2015, provided that the aggregate amount of any such donations and expenditure shall not exceed £75,000 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 10 of this Notice, it is considered to be necessary to obtain such authorisation to avoid any possible technical breach of the Companies Act 2006 due to the uncertainty created by the wide definitions in the Act of what can be regarded as a political donation or political expenditure.*

## Authority to allot shares

### Resolution 15

That:

(a) the Directors be generally and unconditionally authorised, in accordance with Section 551 of the Companies Act 2006, to exercise all powers of the Company to allot shares in the Company and grant rights to subscribe for, or convert any security into, shares in the Company:

- (i) up to a maximum nominal amount of £51,879,733 (such amount to be reduced by the nominal amount of any equity securities (as defined in Section 560 of the Companies Act 2006) allotted under paragraph (ii) below in excess of £51,879,733; and
- (ii) comprising equity securities (as defined in Section 560 of the Companies Act 2006) up to a maximum nominal amount of £103,759,466 (such amount to be reduced by any shares allotted or rights granted under paragraph (i) above) in connection with an offer by way of a rights issue:
  - (A) to holders of Ordinary shares in proportion (as nearly as may be practicable) to their existing holdings; and
  - (B) to holders of other equity securities if this is required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities;

and so that the Directors may make such exclusions or other arrangements as they consider expedient in relation to treasury shares, fractional entitlements, record dates, shares represented by depositary receipts, legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange or any other matter;

(b) this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or, if earlier, at the close of business on 1 October 2015;

(c) the Company may, before this authority expires, make an offer or enter into an agreement which would or might require shares to be allotted or rights to be granted after it expires and the Directors may allot shares or grant rights in pursuance of such offer or agreement as if this authority had not expired; and

(d) all previous unutilised authorities under Section 551 of the Companies Act 2006 shall cease to have effect (save to the extent that the same are exercisable pursuant to Section 551(7) of the Companies Act 2006 by reason of any offer or agreement made prior to the date of this resolution which would or might require shares to be allotted or rights to be granted on or after that date).

## **Pennon Group Sharesave Scheme**

### **Resolution 16**

That approval be given to the updated rules of the Pennon Group Sharesave Scheme produced to the meeting and initialled by the Chairman of the meeting for the purpose of identification and that Directors be authorised to operate the Scheme in accordance with the Scheme rules for a ten-year period.

## **Pennon Group All-Employee Share Ownership Plan**

### **Resolution 17**

That approval be given to the updated rules of the Pennon Group All-Employee Share Ownership Plan produced to the meeting and initialled by the Chairman of the meeting for the purpose of identification and that Directors be authorised to operate the Plan in accordance with the Plan rules for a ten-year period.

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

### **Authority to disapply pre-emption rights**

#### **Resolution 18**

That:

(a) the Directors be given power:

(i) subject to the passing of Resolution 15 above, to allot equity securities (as defined in Section 560 of the Companies Act 2006) for cash pursuant to the authority conferred on them by that resolution under Section 551 of that Act; and

(ii) to allot equity securities as defined in Section 560 of that Act, including a sale of treasury shares, wholly for cash, in either case as if Section 561 of that Act did not apply to the allotment or sale, but this power shall be limited:

(A) to the allotment of equity securities in connection with an offer or issue of equity securities (but in the case of the authority granted under Resolution 15 (a)(ii), by way of a rights issue only) to or in favour of:

(I) holders of Ordinary shares in proportion (as nearly as may be practicable) to their existing holdings; and

(II) holders of other equity securities if this is required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities;

and so that the Directors may make such exclusions or other arrangements as they consider expedient in relation to treasury shares, fractional entitlements, record dates, shares represented by depositary receipts, legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange or any other matter; and

(B) to the allotment of equity securities pursuant to the authority granted under Resolution 15 (a)(i) and/or by virtue of Section 560(3) of the Companies Act 2006 (in each case otherwise than under paragraph (A) above) up to a maximum nominal amount of £7,808,025;

(b) this power shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or, if earlier, at the close of business on 1 October 2015;

(c) all previous unutilised authorities under Sections 570 and 573 of the Companies Act 2006 shall cease to have effect; and

(d) the Company may, before this power expires, make an offer or enter into an agreement which would or might require equity securities to be allotted after it expires and the Directors may allot equity securities in pursuance of such offer or agreement as if this power had not expired.

## Authority to purchase own shares

### Resolution 19

That in accordance with the Companies Act 2006, the Company is generally and unconditionally authorised for the purposes of Section 701 of the Companies Act 2006 to make market purchases (within the meaning of Section 693(4) of the Companies Act 2006) 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 38,240,589 (being no more than 10% of the issued share capital exclusive of treasury shares of the Company as at 20 June 2014);
- (b) the minimum price which may be paid for each Ordinary share is 40.7p (exclusive of expenses payable by the Company in connection with the purchase);
- (c) the maximum price which may be paid for each Ordinary share purchased 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 Ordinary share is purchased; and (ii) the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003 (in each case exclusive of expenses payable by the Company in connection with the purchase);
- (d) 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 2015, but the Company may make a contract or contracts 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 any such contract; and
- (e) all existing authorities for the Company to make market purchases of Ordinary shares are revoked, except in relation to the purchase of shares under a contract or contracts concluded before the date of this resolution and which has or have not yet been executed.

## Scrap dividend alternative

### Resolution 20

That in accordance with Article 115 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 of the Company declared for the year ended 31 March 2014 and all or any subsequent dividends declared up to and including 30 July 2019.

## Notice of general meetings

### Resolution 21

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

**The Directors believe that all the resolutions 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 in respect of their own shareholdings as the Directors intend to do so in respect of their own shareholdings.**

By Order of the Board

K D Woodier, Group General Counsel & Company Secretary

Peninsula House, Rydon Lane, Exeter EX2 7HR (Registered Office)

23 June 2014

# Important Notes

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

Only those shareholders registered on the Register of Members of the Company as at 6.00 pm on 29 July 2014 (or, if this meeting is adjourned, at 6.00 pm on the two days prior to the adjourned meeting), shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries in the Register after 6.00 pm on 29 July 2014 or, if this meeting is adjourned, at 6.00 pm on the two days prior to the adjourned meeting, shall be disregarded in determining the rights of any shareholder to attend or vote at the Annual General Meeting.

A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to exercise all or any of his rights to attend, speak and vote instead of him 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 but must attend the meeting for the shareholder's vote to be counted. Appointing a proxy does not prevent a shareholder from attending and voting in person if he so wishes. 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.

A Form of Proxy is enclosed with this Notice of Annual General Meeting. A shareholder can only appoint a proxy using the procedures set out in these notes and the notes to the Form of Proxy. Details of how to appoint the Chairman of the meeting or another person as a shareholder's proxy using the Form of Proxy are set out in the notes to the Form of Proxy. If a shareholder wishes his proxy to speak on his behalf at the meeting, he will need to appoint his own choice of proxy (not the Chairman) and give his instructions directly to them. A shareholder may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. To appoint more than one proxy, a shareholder must complete a separate Form of Proxy for each proxy or, if appointing multiple proxies electronically, follow the instructions given on the relevant electronic facility. Shareholders can copy their original Form of Proxy, or additional Forms of Proxy can be obtained by telephoning Capita Asset Services on 0871 664 9234 (lines are open 8:30am -5:30pm Monday-Friday. Calls cost 10p per minute plus network extras) or +44 800 141 2951 (for outside the UK). A shareholder appointing more than one proxy should indicate on the relevant Forms of Proxy the number of shares for which each proxy is authorised to act on his behalf.

To be valid any Form of Proxy must be received by the Company's Registrar, Capita Asset Services, at the address shown on the Form of Proxy or received via the [capitashareportal.com](http://capitashareportal.com) website if the appointment is made electronically, no later than 11.00am on 29 July 2014, 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 lodged using the CREST proxy voting service, details of which are given overleaf. Any power of attorney or any other authority under which the Form of Proxy is signed (or a certified copy of such authority) must be included with the Form of Proxy.

Completion of a Form of Proxy does not preclude a shareholder from attending and voting in person at the Annual General Meeting. The "Vote Withheld" option on the Form of Proxy is provided to enable shareholders to abstain on any particular resolution. However, it should be noted that a "Vote Withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes "For" and "Against" a resolution.

As an alternative to completing a paper copy of the Form of Proxy shareholders may register a proxy appointment or voting directions electronically by visiting [capitashareportal.com](http://capitashareportal.com). If you have already registered to receive all shareholder communications electronically you can also submit your Form of Proxy via this website. Shareholders will need their Investor Code number printed under their name on the Form of Proxy. Full instructions are given on the website. The proxy appointment and instructions should reach Capita Asset Services not less than 48 hours before the time appointed for the holding of the Annual General Meeting or any adjournment thereof. 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. Any electronic communication found to contain a computer virus will not be accepted. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.



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.

Nominated Persons are reminded that they should contact the registered holder of their shares (and not the Company) on matters relating to their investments in the Company.

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 Regulated Information Service and also placed on the Company's website [pennon-group.co.uk](http://pennon-group.co.uk)

As at 20 June 2014 (being the last practicable date prior to the publication of this Notice of Annual General Meeting) the Company's issued share capital consists of 383,686,771 Ordinary shares of 40.7p each, of which 1,280,875 Ordinary shares are held in treasury. Therefore, the total voting rights in the Company as at 20 June 2014 are 382,405,896.

### **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 31 July 2014 and any adjournment(s) thereof by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instruction as described in the CREST Manual (available via [euroclear.com/CREST](http://euroclear.com/CREST)). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must in order to be valid be transmitted so as to be received by the Company's Registrar, Capita Asset Services (ID RA10) by no later than 11.00 am on 29 July 2014, or, if the meeting is adjourned, 48 hours before the time fixed for the adjourned meeting. For this purpose the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) at which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. 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 Euroclear UK & Ireland Limited 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 at [euroclear.com/CREST](http://euroclear.com/CREST)

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.

Members satisfying the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to (a) the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (b) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Companies Act 2006 and which the members propose to raise at the meeting. The Company may not require the members requesting the publication to pay its expenses in complying with Sections 527 or 528

of the Companies Act 2006. Any statement placed on the website must also be sent to the Company's auditors not later than the time it makes its statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement under Section 527 of the Companies Act 2006 that the Company has been required to publish on its website.

A member attending the meeting has the right to ask questions. Pursuant to Section 319A of the Companies Act 2006 the Company must cause to be answered at the Annual General Meeting any question relating to the business being dealt with at the Annual General Meeting which is put by a member attending the meeting, except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered or if to do so would involve the disclosure of confidential information.

***A copy of this Notice, and other information required by Section 311A of the Companies Act 2006, can be found on the Company's website:***

[pennon-group.co.uk/pennon/en/Investor/shareholderservices/agm](http://pennon-group.co.uk/pennon/en/Investor/shareholderservices/agm)

***Please note you may not use any electronic address provided either in this Notice of Annual General Meeting or any related documents (including the Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.***

### **Documents Available For Inspection**

Copies of (a) the Executive Directors' service contracts and the Chairman's and the Non-executive Directors' contracts for service; (b) the Rules of the Pennon Group Sharesave Scheme; and (c) the Rules of the Pennon Group Share Incentive Plan (the Pennon Group All-Employee Share Ownership Plan); are available for inspection during normal business hours at the Registered Office of the Company. They will also be available for inspection at the Annual General Meeting from 10.00am on 31 July 2014 until the conclusion of the Annual General Meeting.

In addition the rules of the Sharesave Scheme and the All-Employee Share Ownership Plan are available for inspection during normal business hours at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD.

## **Explanatory Notes**

### **on certain business of the Annual General Meeting**

#### **Annual report on remuneration**

**Resolution 3** proposes the approval of the Annual Report on remuneration which is set out on pages 82 to 96 inclusive of the Annual Report. It is a requirement, pursuant to Section 439 of the Companies Act 2006, that this report be submitted to shareholders for approval. The result of Resolution 3 is advisory only and the Directors' entitlement to remuneration is not conditional on this resolution being passed.

#### **Directors' Remuneration Policy**

**Resolution 4** proposes the approval of the Directors' remuneration policy which is set out on pages 72 to 81 inclusive of the Annual Report in accordance with the new requirement that came into effect this year pursuant to Section 439A of the Companies Act 2006, that a separate resolution on the Directors' remuneration policy be submitted to shareholders for approval.

The Directors' remuneration policy sets out the Company's forward-looking policy on Directors' remuneration and is subject to a binding shareholder vote by ordinary resolution at least every three years. The Company will only be able to make remuneration and loss of office payments to Directors within the permitted limits of the policy, unless the payment has been approved by a separate shareholder resolution.

#### **Re-election of Directors**

**Resolutions 5, 6, 7, 8, 9, 10 and 11** propose the re-election of Messrs K G Harvey, M D Angle, G D Connell, D J Dupont, C Loughlin and Ms G A Rider and the election of Mr I J McAulay (it being the first Annual General Meeting since his appointment) as Directors of the Company.

The Company's Articles of Association require Directors to retire and submit themselves for reappointment by shareholders at the first Annual General Meeting following their appointment and for reappointment at least every three years. Irrespective of this provision, in accordance with the UK Corporate Governance Code, all Directors will stand for reappointment at the Annual General Meeting as they have at each Annual General Meeting since 2011. Ken Harvey, who is Chairman, offers himself up for re-election annually in

any event in accordance with the UK Corporate Governance Code as he has been a Director for in excess of nine years. Gerard Connell, who is due for re-election in accordance with the Company's Articles of Association, will have been a Director for ten years since his first election. The Board has determined that Gerard Connell remains independent as he demonstrates independence of character and judgement in his conduct of matters with the Board.

David Dupont is also due for re-election, and Ian McAulay for election, in accordance with the Company's Articles of Association. The Directors' biographies are set out below and details of the Directors' remuneration are set out in the Annual Report.

### **Kenneth George Harvey CBE, BSc**

**Chairman** Committees: Nomination (Chairman)

Appointed on 1 March 1997 - Ken was formerly chairman and chief executive of Norweb Plc. He was previously deputy chairman of London Electricity and earlier its engineering director. He has also been chairman of a number of limited and private equity funded companies. He was until July 2013 the senior independent director of National Grid Holdings Plc.

### **Martin David Angle BSc Hons, FCA, MCSI**

**Non-executive Director** Committees: Audit, Remuneration (Chairman) Sustainability, Nomination

Appointed on 1 December 2008 - Martin currently holds non-executive directorships with Savills Plc, OAO Severstal, Shuaa Capital psc and The National Exhibition Group where he is chairman. In addition he sits on the board of the FIA Foundation where he is vice-chairman. Formerly he held senior positions with Terra Firma Capital Partners and various of its portfolio companies, including the executive chairmanship of Waste Recycling Group Limited. Before that he was the group finance director of TI Group Plc and held a number of senior investment banking positions with SG Warburg & Co Ltd, Morgan Stanley and Dresdner Kleinwort Benson.

### **Gerard Dominic Connell MA**

**Senior Independent Non-executive Director** Committees: Audit (Chairman), Remuneration, Sustainability, Nomination

Appointed on 1 October 2003 - Gerard currently is also a non-executive director and chairman of the audit committee of the Defence Science and Technology Laboratory, a non-executive director of the Land Registry, an independent director of the Nuclear Decommissioning Fund Company Limited and a council member of the Science & Technology Facilities Council. He was previously group finance director of Wincanton plc. Before that he was a director of Hill Samuel and a managing director of Bankers Trust, having trained originally at Price Waterhouse. He is also a governor of King's College School, Wimbledon. Subject to re-election at the Annual General Meeting in 2014 Gerard is due to retire following the 2015 Annual General Meeting.

### **David Jeremy Dupont MA, MBA**

**Group Director of Finance**

Appointed on 2 March 2002 - David was formerly regulatory and finance director of South West Water Limited, having joined Pennon Group Plc (then South West Water Plc) in 1992 as strategic planning manager. Previously he held business planning and development roles with Gateway Corporation. He is a member of the CBI South West Regional Council and the Theatre Royal Plymouth Development Advisory Group.

### **Christopher Loughlin BSc Hons, MICE, CEng, MBA**

**Chief Executive, South West Water** Committees: Sustainability

Appointed on 1 August 2006 - Chris was previously chief operating officer with Lloyd's Register and earlier in his career was an executive director of British Nuclear Fuels Plc and executive chairman of Magnox Electric Plc. He was also a senior diplomat in the British Embassy, Tokyo. Chris started his career as a chartered engineer working in both the consulting and contracting sectors and subsequently held a number of senior positions with British Nuclear Fuels. Between April 2008 and March 2012 he was chairman of Water UK. Currently Chris is vice-chairman of the Cornwall Local Enterprise Partnership and a trustee and member of the audit committee of the global charity, WaterAid. Until June he was also President of the Institute of Water.

## Ian James McAulay BEng, CEng, MICE, MCIWEM

**Chief Executive, Viridor** Committees: Sustainability

Appointed on 9 Sept 2013 - Ian was previously chief of global strategy and corporate development with MWH Global based in the US. Previously he was the managing director, capital programmes, at United Utilities Plc. Ian started his career as a consulting civil engineer and held a number of positions with Crouch and Hogg in Glasgow and subsequently Montgomery Watson which merged in 2001 with Harza to form MWHGlobal.

## Gill Ann Rider CB, PhD, FCIPD

**Non-executive Director** Committees: Audit, Remuneration, Sustainability (Chairman), Nomination

Appointed on 1 September 2012 - Gill currently holds non-executive directorships with Charles Taylor Plc, the Chartered Institute of Personnel & Development where she is president and De La Rue Plc where she is chairman of the remuneration committee. She is also chair of council of the University of Southampton. Formerly Gill was head of the Civil Service Capability Group in the Cabinet Office reporting to the Cabinet Secretary and prior to that held a number of senior positions with Accenture culminating in the post of chief leadership officer for the global firm.

The Board supports the re-election/election of each Director as it believes that the particular knowledge and experience of each Director assists 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, each Non-executive Director continues to perform effectively and demonstrates commitment to his or her role, including commitment to time for Board and Committee meetings and other duties as they are likely to arise. The Board has determined that other than the Chairman (because the UK Corporate Governance Code acknowledges that an ongoing test of independence is not appropriate in relation to the chairman of a company) each of the Non-executive Directors is independent.

## Appointment of auditors

**Resolution 12** proposes the appointment of Ernst & Young LLP as auditors of the Company.

The appointment of PricewaterhouseCoopers LLP as auditors ceases at the 2014 Annual General Meeting. In accordance with good governance, the Audit Committee of the Board has undertaken a formal audit tender process and invited a number of firms to tender for the audit of the Group and the Company. The conclusion of the Audit Committee at the end of this process was to recommend to the Board the appointment of Ernst & Young LLP as auditor to the Group and the Company to replace PricewaterhouseCoopers LLP. The Board has approved the recommendation of the Audit Committee and is now, as an ordinary resolution, recommending to shareholders the appointment of Ernst & Young LLP as auditors to the Group and the Company.

## Political Donations

Whilst **Resolution 14** 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 Companies Act 2006 contains restrictions on companies making donations or incurring political expenditure and 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. These types of 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 the same as that agreed by shareholders at the Annual General Meeting last year and in previous years) 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.

## Authority to allot shares

**Resolution 15** requests shareholder approval by way of an ordinary resolution to renew (in compliance with published institutional guidelines) until 1 October 2015 or, if earlier, the conclusion of the next Annual General Meeting of the Company, the Directors' authority to allot Ordinary shares or grant rights to subscribe for or convert any security into shares in the Company in accordance with Section 551 of the Companies Act 2006. It is the Directors' intention to seek to renew this authority annually in accordance with investor guidelines.

Paragraph (a)(i) of Resolution 15 will allow the Directors to allot Ordinary shares up to a maximum nominal amount of £51,879,733 representing approximately one third (33.33%) of the Company's existing issued share capital (excluding shares held in treasury) and calculated as at 20 June 2014 (being the latest practicable date prior to publication of this Notice of Annual General Meeting). In accordance with the latest institutional guidelines issued by the Association of British Insurers (ABI), paragraph (a)(ii) of Resolution 15 will allow Directors to allot, including the Ordinary shares referred to in paragraph (a)(i) of Resolution 15, further of the Company's Ordinary shares in connection with a pre-emptive offer by way of a rights issue to ordinary shareholders up to a maximum nominal amount of £103,759,466 representing approximately two thirds (66.67%) of the Company's existing issued share capital (excluding shares held in treasury) and calculated as at 20 June 2014 (being the latest practicable date prior to publication of this Notice of Annual General Meeting).

The Directors have no present intention of exercising this authority (other than pursuant to the Company's Scrip Dividend Alternative, employee share schemes and receipt of conversion notices in respect of the Company's 4.625% Convertible Bonds 2014 but they do consider that they should have this authority in order to be able to take advantage of opportunities as they arise and to retain flexibility. If they do exercise this authority, the Directors intend to follow best practice as regards its use (including as regards the Directors standing for re-election in certain cases), as recommended by the ABI.

As at 20 June 2014, the Company held 1,280,875 Ordinary shares in treasury, which represents approximately 0.33% of the total Ordinary share capital in issue (excluding shares held in treasury) as at 20 June 2014 (being the latest practicable date prior to publication of this Notice of Annual General Meeting).

## Pennon Group Sharesave Scheme and All-Employee Share Ownership Plan

**Resolutions 16 and 17** request shareholder approval by way of ordinary resolutions to adopt updated rules for both the Pennon Group Sharesave Scheme (the "Scheme") and the Pennon Group All-Employee Share Ownership Plan (the "Plan") to increase the maximum savings limits for both the Scheme and Plan in line with the announcement made in the Government's Autumn Statement 2013 and subsequent enacting legislation, and to operate the Scheme and the Plan each for a ten-year period.

### (i) Sharesave Scheme

The Directors are of the view that the Sharesave Scheme should continue to be operated for a further period of ten years with the increased savings limit. 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 or 5 years, employees then may acquire the shares at the option price using the savings that have accrued under their Sharesave contract. Under the existing Scheme rules, the maximum amount that an employee can save in the Sharesave Scheme at any one time is £250 per month which it is proposed be increased to £500 in accordance with the new savings limit. The maximum of the Company's issued share capital that the Sharesave options can be over during the life of the Scheme will remain at 10%; currently there are Sharesave options over some 0.60% 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 Sharesave options.

### (ii) All-Employee Share Ownership Plan

The Directors are of the view that the All-Employee Share Ownership Plan should continue to be operated with the increased savings limit. The HM Revenue & Customs approved Plan is currently offered to all eligible UK employees of Pennon Group Plc and South West Water Limited so that they can buy shares in the Company using deductions from their gross salary up to a value of £125 per month or £1,500 per annum which it is proposed be increased to £150 per month or £1,800 per annum to reflect the new savings limit. The Plan has facilitated wider employee share ownership and the Company proposes that the Plan be renewed for a further ten years.

The main terms of the Plan and a summary of the general provisions applicable to the Plan are as follows.

As previously was the case, the Plan will be operated by the Board and will be available to all qualifying employees of the Group as determined by the Board. The Plan also includes a UK resident trust which will hold the shares acquired or awarded under the Plan. In accordance with the Finance Act 2013 and to reflect the increased savings limit, the Plan provides for the following:

- (i) the provision of up to £3,600 (increased from £3,000) worth of free shares to eligible employees each year. These free shares may be awarded subject to the achievement of performance targets. All awards of free shares must generally be offered on the same terms. The Board may impose forfeiture provisions on the free shares for up to three years from the date they were awarded if the employee ceases employment during the period unless the reason for the cessation is injury, disability, redundancy, retirement, death or change of control;
- (ii) the purchase by employees of 'partnership' shares up to a maximum value of £1,800 (Increased from £1,500) per annum out of their pre-tax salary; and
- (iii) the matching of partnership shares by the Company by giving employees up to two free shares for each partnership share they acquire. Similar forfeiture conditions as described above for free shares may be applied to matching shares.

The Board will decide each year which elements of the Plan, if any, to operate. To date, the Plan has only been operated in respect of the partnership share element ((ii) above) and it is currently intended to continue operating the Plan on this basis. No awards may be granted under the Plan after ten years from the date of its renewal.

#### **Summary of the general provisions applicable to the Sharesave Scheme and the All-Employee Share Ownership Plan (together the 'Schemes')**

Awards and options are personal to the participant and may not be transferred except on death or in the case of a participant for whom a trustee is acting, in which case the trustee will be able to transfer the benefit to the participant. Any benefits granted or shares awarded under any of the Schemes are not pensionable.

The aggregate number of newly subscribed shares which may be issued at any date of grant when aggregated with shares issued or issuable pursuant to options granted under the Schemes and all other employee share schemes operated by the Company in any rolling ten year period shall not exceed 10% of the issued ordinary share capital inclusive of shares held in treasury.

Awards released in the form of shares, options exercised or shares purchased by the Company, by employees or the trustees, as the case may be, may be in the form of newly subscribed shares (at not less than par value), or shares from treasury (at not less than par value) or shares purchased in the market.

On a variation of the capital of the Company the option price relating to an option and/or the number of shares subject to an option/or award may be adjusted in such manner as the Board determines and, if appropriate, external advisors to the Company confirm to be fair and reasonable.

Shares subscribed will not rank for dividends payable by reference to a record date falling before the date on which the shares are acquired but will otherwise rank *pari passu* with existing shares.

Application may be made to the UK Listing Authority for admission to the Official List for shares that are to be issued following the exercise of an option or release of an award. Currently the Company has tended to release shares held in treasury for this purpose.

The Board may amend the rules of the Schemes to take account of minor changes to administrative arrangements and local legislative and regulatory treatment for participants or the relevant Group Company, provided that the parameters of these arrangements will provide no greater benefits than under the Schemes as summarised above. However, the provisions governing eligibility requirement, equity dilution, share utilisation, individual participation limits and the adjustments which may be made following a variation of capital may not be altered to the advantage of the participants without the prior approval of shareholders in general meeting.

Copies of the rules of the Schemes are available for inspection at the Company's registered office and at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD during normal office hours and will remain so up to and including 31 July 2014. They will also be available for inspection at the Annual General Meeting from 10.00am on 31 July 2014 until the conclusion of the Annual General Meeting.

## Note

These explanatory notes summarise the main features of the Sharesave Scheme and the All-Employee Share Ownership Plan but do not form part of them and should not be taken as affecting the interpretation of the detailed terms and conditions constituting the rules of the Scheme or Plan. The Company reserves the right up to the time of the meeting to make such amendments and additions as it considers necessary or desirable, provided that such amendments and additions do not conflict in any material respect with the summaries set out on pages 11 and 12.

## Disapplication of Pre-emption rights

**Resolution 18** requests shareholder approval by way of a special resolution to renew until 1 October 2015, or if earlier, 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. If approved, the Directors will be authorised to issue shares in connection with a rights issue and otherwise to issue shares for cash up to a maximum nominal amount of £7,808,025 which includes the sale on a non pre-emptive basis of any shares for cash the Company may hold in treasury. The maximum nominal amount of equity securities to which this authority relates (inclusive of treasury shares) represents not more than 5% of the issued share capital of the Company as at 20 June 2014 (being the latest practicable date prior to publication of this Notice of Annual General Meeting). This is in accordance with investor protection guidelines. In addition the Directors do 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 shareholders and the Investment Committees of the Association of British Insurers and the National Association of Pension Funds. It is the Directors' intention to seek to renew this authority annually in accordance with investor guidelines.

## Authority to purchase Ordinary shares of the Company

**Resolution 19** 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 interests of shareholders. The Directors have no current plans to exercise such authority.

The Companies Act 2006 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.

The total number of options to subscribe for Ordinary shares that were outstanding as at 20 June 2014 (being the latest practicable date prior to publication of this Notice of Annual General Meeting) was 2,369,749. The proportion of issued share capital that they represented at that date was 0.62%. The proportion of issued share capital that they would represent if the full authority to purchase shares permitted pursuant to the resolution was used is 0.69%.

## Scrip dividend alternative

**Resolution 20** requests shareholder approval by way of a special resolution to authorise Directors to offer a Scrip dividend alternative which will permit shareholders to elect to receive Ordinary shares in respect of the whole of the cash dividend that they receive in respect of any dividend of the Company declared. By electing for the Scrip Dividend Alternative, shareholders can receive their dividend in the form of new Ordinary shares instead of cash and thereby increase their shareholding in the Company without incurring stamp duty or dealing expenses. The Company benefits from the retention in the business of cash which would otherwise be paid out as dividends.

Subject to Resolution 20 being approved by shareholders, the Directors intend to offer the Scrip dividend alternative in respect of the final dividend of 20.92p per Ordinary share for the year ended 31 March 2014. The timetable for offering the Scrip dividend alternative would be as follows:

6 August 2014	Ordinary shares quoted ex dividend
8 August 2014	Record date for final cash dividend
22 August 2014	Posting of Scrip dividend offer
15 September 2014	Final date for receipt of Forms of Election/Mandate
2 October 2014	Posting of dividend cheques and share certificates
3 October 2014	Final cash dividend payment date
3 October 2014	First day of dealing in the new Ordinary shares

### Calling of general meetings

**Resolution 21** 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. A similar resolution has been passed by shareholders at each Annual General Meeting since 2011. This resolution is required to reflect the changes made to the Companies Act 2006 by the Companies (Shareholders' Rights) Regulations 2009 (the "Shareholders' Rights Regulations") which, as referred to above, increased the notice period of listed companies to call general meetings on at least 21 clear days' notice unless shareholder approval has been obtained for the holding of such meetings on not less than 14 clear days' notice, as sought by Resolution 21. The Company undertakes to meet the requirements for electronic voting under the Shareholders' Rights Regulations before calling a general meeting on 14 clear days' notice. If given, the approval will be effective until the Company's next Annual General Meeting when it is intended that a similar resolution will be proposed. The Directors will only consider taking advantage of the flexibility permitted by this authority if it is appropriate and considered necessary to do so in the interests of the Company and shareholders as a whole.