

22 June 2011

**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 Market 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 Registrars, Capita Registrars, not less than 48 hours before the time fixed for the meeting.

Dear shareholder

### **Annual General Meeting 2011 and Financial Results for the year ended 31 March 2011**

Please find attached to this letter the Notice of our 2011 Annual General Meeting, together with notes explaining the business of the meeting. It is to be held on Thursday 28 July 2011, starting at 11.00am at the Sandy Park Conference Centre, Sandy Park Way, Exeter, Devon EX2 7NN. Details of how to reach this venue are set out on the last page of the Notice. Parking will be available.

If you are unable to attend the Annual General Meeting, please register your vote with us electronically by logging on to [capitashareportal.com](http://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 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.**

### **Electronic communications**

The Company's policy, as approved by shareholders at the 2007 Annual General Meeting, is to provide all shareholder documents electronically whenever possible. As a consequence you will only receive copies of the Annual Report and other shareholder communications by post if you have specifically opted to do so or if you became a shareholder on the register after 26 November 2010. 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 [pennon-group.co.uk/pennon/en/investor/freports/Annual\\_Report\\_2011.pdf](http://pennon-group.co.uk/pennon/en/investor/freports/Annual_Report_2011.pdf)

Using our website allows the Company 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, a copy may be obtained on request from our registrars, Capita Registrars, 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 enclosed 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 Registrars. To register, simply go to [capitashareportal.com](http://capitashareportal.com) and select 'Account Registration' and then follow the on-screen instructions by inputting your surname and your Investor Code. You will also need to input your postcode as well as entering an e-mail address and selecting a password.

### **Pennon Group's financial and operational results for the year ended 31 March 2011**

Whilst writing to you 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 2011. Full details are set out 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 2011

- Profit before tax up 1.5% to £188.5 million<sup>1</sup>
  - South West Water down 0.5% to £128.9 million<sup>1</sup>
  - Viridor up 14.2% to £62.9 million
- Underlying earnings per share<sup>2</sup> up 3.7% to 42.3p
- Dividend
  - Recommended final dividend per share up 9.9% to 17.15p
  - Full year dividend up 9.3% to 24.65p
  - In line with the Board's policy of 4% per annum real dividend increases from 2010/11 at least until 2014/15
- Strong liquidity and funding position
- Group businesses well positioned in current economic conditions.

<sup>1</sup> Reflects the application of IFRIC 18 'Transfers of assets from customers', effective from 1 July 2009.

<sup>2</sup> Underlying earnings per share exclude deferred tax. The reconciliation of this measure with the statutory result is:

	2010/11 p	2009/10 <sup>†</sup> p	Growth %
<b>Earnings per share – pence</b>			
Statutory earnings per share	<b>48.4</b>	40.4	19.8
Deferred tax per share	<b>(6.1)</b>	0.4	
Underlying earnings per share	<b>42.3</b>	40.8	3.7

<sup>†</sup> Restated for the application of IFRIC 18 'Transfers of assets from customers', effective from 1 July 2009.

## South West Water

- strong start to the new 2010-2015 regulatory contract
- profit before tax stable despite reduced allowed rate of return
- step change in operating efficiency delivered
- average funding cost 4.0%
- 14th consecutive summer (2010) without hosepipe bans or drought orders; no water restrictions envisaged summer 2011
- industry leader in tracking leakage. Target achieved despite coldest December in England in the last 100 years.

## Viridor

- continued strong growth in profit, driven by:
  - further progress in recycling
  - Greater Manchester 25 year PFI contract
  - Lakeside Energy from Waste (EfW) plant
- 46% of profits from recovering value in waste
- Runcorn EfW Plant Phases I and II under construction
- 25 year Oxfordshire PPP contract signed
- planning permissions achieved for Cardiff, Dunbar, Oxfordshire<sup>3</sup> and Avonmouth<sup>3,4</sup> EfWs
- circa £50 million of acquisitions of recycling companies in key strategic areas.

The Group remains well positioned in the current economic conditions to continue to deliver shareholder value and meet its future challenges.

<sup>3</sup> Secretary of State's planning decision subject to challenge.

<sup>4</sup> Post year-end.

## Notice of Annual General Meeting

The twenty-second Annual General Meeting of Pennon Group Plc will be held at  
**Sandy Park Conference Centre, Sandy Park Way,  
Exeter, Devon EX2 7NN**  
on Thursday 28 July 2011 at 11.00am.

(Details on how to reach the venue are on the last page of this Notice.)

**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 Market 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 Registrars, Capita Registrars, not less than 48 hours before the time fixed for the meeting.

This Notice of Annual General Meeting should be read in conjunction with Pennon Group Plc's Annual Report and Accounts in respect of the year ended 31 March 2011.

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)**

# Annual General Meeting

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The twenty-second Annual General Meeting of Pennon Group Plc will be held at Sandy Park Conference Centre, Sandy Park Way, Exeter, Devon EX2 7NN on Thursday 28 July 2011 at 11.00am 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 2011 be received and adopted, together with the report of the auditors.

**Dividend**

**Resolution 2**

That a final dividend of 17.15p per ordinary share recommended by the Directors for the year ended 31 March 2011 be declared for payment on 7 October 2011.

**Remuneration Report**

**Resolution 3**

That the Directors' Remuneration Report for the financial year 2010/11, as contained in the Company's Annual Report 2011, be approved.

**Directors**

**Resolution 4**

That Mr K G Harvey who is retiring in accordance with corporate governance best practice and the recommendations of the UK Corporate Governance Code be re-elected as a Director.

**Resolution 5**

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

**Resolution 6**

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

**Resolution 7**

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

**Resolution 9**

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

**Resolution 10**

That Ms D A Nichols who is retiring in accordance with the recommendations of the UK Corporate Governance Code be re-elected as a Director.

**Auditors**

**Resolution 11**

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

**Resolution 12**

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

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## Political donations

### Resolution 13

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 2012, 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 8 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.*

## All-Employee Share Ownership Plan

### Resolution 14

That the Pennon Group All-Employee Share Ownership Plan be renewed.

## Executive Share Option Scheme

### Resolution 15

That the Executive Share Option Scheme be renewed.

## Authority to allot shares

### Resolution 16

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 £48,541,689 (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 £48,541,689; and
  - (ii) comprising equity securities (as defined in Section 560 of the Companies Act 2006) up to a maximum nominal amount of £97,083,378 (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 2012;
- (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).

## Notice of Annual General Meeting

### Annual General Meeting continued

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

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

##### Resolution 17

That:

- (a) the Directors be given power:
- (i) subject to the passing of Resolution 16 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 16 (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;
    - (B) to the allotment of equity securities pursuant to the authority granted under Resolution 16 (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 £7,368,828;
- 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) 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 2012;
- (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 18

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 35,780,115 (being no more than 10% of the issued share capital exclusive of treasury shares of the Company as at 19 June 2011);
- (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(i) of the Buyback 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 2012, 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.

##### Notice of general meetings

##### Resolution 19

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.**

By Order of the Board

**K D Woodier, Group General Counsel & Company Secretary**  
**Peninsula House, Rydon Lane, Exeter EX2 7HR (Registered Office)**  
22 June 2011

# Important notes

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## **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 6.00pm on 26 July 2011 (or, if this meeting is adjourned, at 6.00pm 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 6.00pm on 26 July 2011 or, if this meeting is adjourned, at 6.00pm 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 contacting Capita Registrars on telephone 0871 664 9234 (calls cost 10p per minute plus network extras). Lines are open 8.30am-5.30pm Monday-Friday; overseas telephone +44 800 141 2951. (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 Registrars, Capita Registrars, 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 26 July 2011, 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 Registrars 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 Regulation Information Service and also placed on the Company's website [pennon-group.co.uk](http://pennon-group.co.uk)

As at 19 June 2011 (being the last practicable date prior to the publication of this Notice of Annual General Meeting) the Company's issued share capital consists of 362,104,614 ordinary shares of 40.7p each, of which 4,303,462 ordinary shares are held in treasury. Therefore, the total voting rights in the Company as at 19 June 2011 are 357,801,152.

## Notice of Annual General Meeting

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### Important notes *continued*

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#### **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 28 July 2011 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 Registrars, Capita Registrars (ID RA10) by no later than 11.00am on 26 July 2011, 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 [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. Any statement placed on the website must also be sent to the Company's auditors no 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)**

**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 the following documents are available for inspection during normal business hours at the Registered Office of the Company and at Allen & Overy LLP, One Bishops Square, London E1 6AD and will remain so up to and including 28 July 2011. They will also be available for inspection at the Annual General Meeting from 10.00am on 28 July 2011 until the conclusion of the Annual General Meeting:

- (a) Executive Directors' service contracts and the Chairman's and the Non-executive Directors' contracts for service;
- (b) the Articles of Association of the Company;
- (c) the Rules of the Pennon Group Share Incentive Plan (the Pennon Group All-Employee Share Ownership Plan); and
- (d) the Rules of the Pennon Group Executive Share Option Scheme.



# Explanatory notes

## on certain business of the Annual General Meeting

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### Directors' Remuneration Report

**Resolution 3** proposes the approval of the Directors' Remuneration Report which is set out on pages 45-56 inclusive of the Annual Report. It is a requirement, pursuant to Section 439 of the Companies Act 2006, that the Directors' Remuneration Report be submitted to shareholders for approval, albeit that any voting on the report is advisory only.

### Re-election of Directors

**Resolutions 4, 5, 6, 7, 8, 9, and 10** propose the re-election of Messrs K G Harvey, M D Angle, G D Connell, C I J H Drummond, D J Dupont, C Loughlin and D A Nichols 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. The UK Corporate Governance Code recommends that all directors of FTSE 350 listed companies should be subject to annual election by shareholders. The Board has decided, whilst it considers this recommendation may not be in the interests of companies generally, to endorse the UK Corporate Governance Code in its entirety and so all Directors will stand for reappointment at the Annual General Meeting. Ken Harvey, who is Chairman, offers himself up for re-election annually in any event in accordance with the Combined Code as he has been a Director for in excess of nine years and David Dupont is also due for re-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 chairman of National Grid Holdings in 1995 and 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. Currently he is the senior independent non-executive director of National Grid Plc.

### Martin David Angle BSc Hons, FCA

**Non-executive Director** Committees: [Audit, Corporate Responsibility, Nomination, Remuneration \(Chairman\)](#)

Appointed on 1 December 2008. Martin currently holds non-executive directorships with Savills plc, OAO Severstal, Shuaa Capital PSC and The National Exhibition Centre where he is Chairman. In addition he sits on the Advisory Board of the Warwick Business School and the Board of the FIA Foundation. 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 \(Chairman\), Corporate Responsibility, Nomination, Remuneration](#)

Appointed on 1 October 2003. Until last year Gerard was group finance director of Wincanton Plc. Previously he was a director of Hill Samuel and a managing director of Bankers Trust having trained originally at Price Waterhouse. He has held other corporate finance and business development positions in the City and in industry. He is also a governor of King's College School, Wimbledon.

### Colin Irwin John Hamilton Drummond MA, MBA, LTCL, CCMi

**Chief Executive, Viridor** Committees: [Corporate Responsibility, Executive](#)

Appointed on 1 April 1992. Prior to joining the Company Colin was a divisional chief executive of Coats Viyella, having previously been corporate development director of Renold plc, a strategy consultant with the Boston Consulting Group and an official of the Bank of England. He is chairman of the Government's Living with Environmental Change Business Advisory Board; of UKTI's Environmental Sector Advisory Group; and of the Environmental Sustainability Knowledge Transfer Network. He is a senior visiting research fellow in Earth Sciences at Oxford University; and a Past Master of the Worshipful Company of Water Conservators.

### David Jeremy Dupont MA, MBA

**Group Director of Finance** Committees: [Executive](#)

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 Environmental Affairs Committee and the CBI South West Regional Council.

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

**Chief Executive, South West Water** Committees: [Corporate Responsibility, Executive](#)

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, working in both the consulting and contracting sectors. Chris started his career as a chartered engineer and subsequently held a number of senior positions with British Nuclear Fuels. He has been chairman of Water UK since 1 April 2008 and since the year-end has been appointed a non-executive director of the Cornwall Local Enterprise Partnership.

### Dinah Alison Nichols CB, BA Hons

**Non-executive Director** Committees: [Audit, Corporate Responsibility \(Chairman\), Nomination, Remuneration](#)

Appointed on 12 June 2003. Dinah was formerly Director General Environment at the Department for Environment, Food and Rural Affairs and previously held various senior appointments within Government, including being head of the water directorate during the period of water privatisation. She is also a Crown Estate Counsellor, a non-executive director of Shires Smaller Companies Plc and a director of several charitable trusts.

The Board supports the re-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, each of the Non-executive Directors is independent.

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#### Reappointment of auditors

**Resolution 11** proposes the reappointment of PricewaterhouseCoopers LLP as auditors of the Company. PricewaterhouseCoopers LLP have indicated their willingness to continue in office and their appointment is supported by the Audit Committee of the Board.

#### Political donations

Whilst **Resolution 13** 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 similar to 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.

#### Renewal of All-Employee Share Ownership Plan

**Resolution 14** requests shareholder approval to renew the Company's Employee Share Ownership Plan (the 'Plan'), an all-employee share plan approved by HM Revenue & Customs, which will come to the end of its ten-year life this year. The 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. The Plan has facilitated wider employee share ownership and the Company is proposing to renew the Plan for a further ten years. The main terms of the Plan and a summary of the general provisions applicable to the Plan are given in Appendix 1 to this Notice of Annual General Meeting.

#### Renewal of Executive Share Option Scheme

**Resolution 15** requests shareholder approval to renew the Company's Executive Share Option Scheme (the 'Scheme'), an incentive arrangement for senior employees of the Group, which will come to the end of its ten-year life this year. The Company is proposing to renew the Plan for a further ten years. The main terms of the Scheme and a summary of the general provisions applicable to the Scheme are given in Appendix 1 to this Notice of Annual General Meeting.

#### Authority to allot shares

**Resolution 16** requests shareholder approval by way of an ordinary resolution to renew (in compliance with published institutional guidelines) until 1 October 2012 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 16 will allow the Directors to allot ordinary shares up to a maximum nominal amount of £48,541,689 representing approximately one third (33.33%) of the Company's existing issued share capital (excluding shares held in treasury) and calculated as at 19 June 2011 (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 16 will allow Directors to allot, including the ordinary shares referred to in paragraph (a)(i) of Resolution 16, 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 £97,083,378 representing approximately two thirds (66.67%) of the Company's existing issued share capital (excluding shares held in treasury) and calculated as at 19 June 2011 (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 and employee share schemes) 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 19 June 2011, the Company held 4,303,462 ordinary shares in treasury, which represents approximately 1.2% of the total ordinary share capital in issue as at 19 June 2011 (being the latest practicable date prior to publication of this Notice of Annual General Meeting).

#### Disapplication of pre-emption rights

**Resolution 17** requests shareholder approval by way of a special resolution to renew until 1 October 2012, 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 £7,368,828 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 19 June 2011 (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 18** 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.

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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 19 June 2011 (being the latest practicable date prior to publication of this Notice of Annual General Meeting) was 2,516,140. The proportion of issued share capital that they represented at that time was 0.70% and the proportion of issued share capital that they will represent if the full authority to purchase shares is used is 0.78%.

### Calling of general meetings

**Resolution 19** 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. This resolution is required to reflect the changes made to the Companies Act 2006 by the Companies (Shareholders' Rights) Regulations 2009 (the 'Shareholders' Rights') 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 at least 14 clear days' notice, as sought by Resolution 19. 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 flexibility offered by this resolution will be used where, taking into account the circumstances, the Directors consider this appropriate in relation to the business of the meeting and in the interests of the Company and shareholders as a whole.

## Appendix 1

### Renewal of the Pennon Group All-Employee Share Ownership Plan (the 'Plan')

The Plan, as previously was the case, 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 2000, the Plan provides for the following:

- (i) the provision of up to £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 £1,500 per annum out of their pre-tax salary
- (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, as outlined in (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. The Directors believe that the Plan complements the Company's all-employee Sharesave Scheme and furthers the Group's policy of seeking to align the interests of employees with those of shareholders.

### Renewal of the Pennon Group Executive Share Option Scheme (the 'Scheme')

The Scheme will continue to be supervised by the Remuneration Committee of the Board (the 'Committee'), which is comprised entirely of Non-executive Directors, excluding the Chairman. The Scheme has two parts, a UK HM Revenue & Customs approved part and an unapproved part.

The Committee selects those Executive Directors and senior managers who will be eligible to participate in the Scheme. Options may be granted with the approval of the Committee to selected eligible employees following renewal of the Scheme. The Committee does not, however, envisage at present that any options will be granted under the Scheme other than in conjunction with the Company's Annual Incentive Bonus Plan (the 'Bonus Plan') on the basis that the aggregate pre-tax value of the awards made under both the Scheme and the Bonus Plan would be the same as they would have been if the Bonus Plan had been operated alone. No payment will be required for the grant of an option.

Options may not be granted under the Scheme more than ten years after the renewal of the Scheme by the Company.

The option price payable on the exercise of an option is the average market value (as derived from the London Stock Exchange Daily Official List) of a share over a period of not more than five dealing days immediately preceding the date of grant or, if greater, the nominal value of a share.

In addition to the general dilution limit, 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 Scheme and any discretionary share schemes operated by the Company in any ten year rolling period shall not exceed 5% of the issued ordinary share capital inclusive of shares held in treasury.

The maximum value of options which may be granted to an individual employee under the Scheme in any financial year may not normally exceed 100% of the employee's annual salary. The Committee may, at its discretion, grant options in excess of this annual limit in exceptional circumstances, for example in the recruitment of a new executive.

Options are normally exercisable no earlier than three years and no more than ten years following their grant, provided that any performance requirements determined by the Committee have been satisfied. Exercise of options is also generally subject to the participant's continued employment with the Group.

Participants may be required by the Company to pay any employer's National Insurance liability arising on the exercise of an option.

## Notice of Annual General Meeting

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### Appendix 1 continued

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Options may, at the discretion of the Committee, be exercisable in the form of a stock appreciation right, so that the Company shall only issue the participant cash or shares to the value of the gain made at the time of exercise.

Options granted in conjunction with the Bonus Plan (as referred to earlier), will not be granted or exercisable unless specified performance targets pursuant to the Bonus Plan have been met. Otherwise, the exercise of options shall be dependent upon a demanding performance requirement determined from time to time by the Committee. In determining the performance requirement, the Committee will take into account all factors it considers relevant, including the level of grant and current best market practice.

Other than in respect of options granted in conjunction with the Bonus Plan (as referred to earlier) it continues to be the intention that any options granted shall become exercisable provided that the Company's earnings per share exceeds the UK Prices Index by a percentage amount of at least 2.5% compound per annum, to be determined by the Committee, over three years from the date of grant. If the relevant performance condition is not achieved by the third anniversary of the date of grant, it may be retested on the fourth and fifth anniversaries over the extended period from grant. The relevant options will lapse after the fifth anniversary if the performance condition has not been achieved.

If a participant leaves employment, an option normally lapses unless the Committee determines that the reason for the cessation of employment is such that it would be appropriate to allow the option (or part thereof) to be exercisable or made subject to the achievement of such amended performance criteria or other requirements as the Committee may determine.

In the event of a take-over, reconstruction, amalgamation or winding up of the Company, all shares which are the subject of options may be exercisable, subject to the achievement of any performance requirement to date or, subject to the agreement of the acquirer, may be exchanged for options over shares of the acquiring company. Similar arrangements may apply in the case of a de-merger or disposal of a part of the Group although, in such circumstances, the Committee has discretion *inter alia*, to determine that options should be exercisable or adjust the number of shares that may be released.

#### **Summary of the general provisions applicable to the Plan and the Scheme (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-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 Committee or the Board (as appropriate) 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 Committee or the Board (as appropriate) 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 requirements, 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 28 July 2011. They will also be available for inspection at the Annual General Meeting from 10.00am on 28 July 2011 until the conclusion of the Annual General Meeting.

#### **Note**

These explanatory notes summarise the main features of the Schemes 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 Schemes. 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 in this appendix.

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

##### **By road:**

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

##### **By rail:**

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

##### **By bus:**

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

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