

24 June 2010

**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 in Pennon Group, 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 2010 and Financial Results for the year ended 31 March 2010

Please find attached to this letter the Notice of our 2010 Annual General Meeting (AGM), together with notes explaining the business of the meeting. It is to be held on Thursday 29 July 2010, starting at 11.00 a.m. 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 AGM, 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 AGM 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 3 January 2008. For those of you who have not requested to receive shareholder communications by post, you can now view a copy of the Company's Annual Report on the Company's website [pennon-group.co.uk/pennongroup/uploads/financialreports/Annual\\_Report\\_2010.pdf](http://pennon-group.co.uk/pennongroup/uploads/financialreports/Annual_Report_2010.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 do not have access to the Company's website, a copy may be obtained on request from our registrars, Capita Registrars, by telephoning 0871 664 9234 (UK)\* or +44 800 141 2951 (from outside the UK) and quoting your Investor Code which can be found on your enclosed Form of Proxy. Lines are open 8:30am – 5:30pm Monday – Friday.

*\*(calls cost 10p per minute plus network extras)*

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, which can be found on your Form of Proxy. You will also need to input your postcode as well as entering an e-mail address and selecting a password. Some facilities will require an activation code which will be sent to you in the post following registration.

*Continued overleaf*

## Change of registrar

On 31 March 2010 we wrote to shareholders advising that the Company had decided to change its registrar from Equiniti to Capita Registrars with effect from 10 May 2010. All enquiries in respect of your shareholding in Pennon Group should therefore now be addressed to Capita Registrars, whose contact details are as follows:

Capita Registrars  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
HD8 0GA  
Email: pennon@capitaregistrars.com

Alternatively you can telephone Capita Registrars on the telephone numbers given for them on the first page of this letter.

## Pennon Group's financial and operational results for the year ended 31 March 2010

Whilst writing to you I am pleased to set out below a summary of the highlights of Pennon Group's financial and operational results for the year ended 31 March 2010. Full details are set out in the Company's Annual Report.

- Underlying profit before tax\* up 14.2% to £189.1m
  - South West Water up 8.7% to £132.5m
  - Viridor up 34.8% to £55.4m
- Underlying earnings per share\* up 9.2% to 41.6p
- Dividend
  - Recommended final dividend per share up 9.5% to 15.60p
  - Full year dividend up 7.4% to 22.55p
  - Board announces 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

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

	2009/10	2008/09*	Growth
	£m	£m	
<b>Profit Before Tax</b>			
Statutory profit before tax	183.8	159.4	15.3%
Non-underlying costs :			
- Restructuring – South West Water	5.0	5.0	
- Intangibles amortisation – Viridor	0.3	1.2	
Underlying profit before tax	189.1	165.6	14.2%
<b>Earnings Per Share</b>			
Statutory earnings per share	39.9p	25.8p	54.7%
Non-underlying costs :			
- Restructuring (after tax) – South West Water	1.2	0.9	
- Intangibles amortisation – Viridor	0.1	0.3	
Deferred tax	0.4	11.1	
Underlying earnings per share	41.6p	38.1p	9.2%

\* Restated for the application of IFRIC 12 'Service Concession arrangements'.

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

Continued overleaf

*Financial and operational results (continued)*

• **South West Water :**

- Successful delivery of 2005 – 2010 Regulatory Contract
- Strong growth in K4 Regulatory Capital Value significantly exceeded growth in net debt
- Average funding cost 4.0%
- Leakage target achieved despite severest winter for around 30 years
- Operating efficiency and financing targets exceeded
- Delivery under way of 2011-2015 Regulatory Contract

• **Viridor :**

- Continued strong growth in profit before interest, tax and amortisation of intangibles plus joint ventures and profit before tax
  - recycle prices very strong
  - benefit of favourable power prices contracted in May 2008
  - 44% of profits from recovering value in waste
- Greater Manchester 25-year Private Finance Initiative contract operating successfully
- Lakeside Energy from Waste (EfW) plant handover from contractor in January 2010
- Preferred bidder for Oxfordshire Public Private Partnership and Exeter EfW; continuing to bid selectively for other contracts
- London Recycling and Intercontinental Recycling acquired and successfully integrated

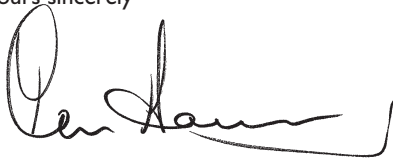
The Board's strategy continues to be focussed on its two businesses, South West Water and Viridor.

South West Water has successfully outperformed the operating cost efficiency and financing targets of its 2005-2010 regulatory contract. Notwithstanding the lower returns, envisaged by Ofwat's Final Determination for the setting of price limits for the next five years, the company is determined to successfully deliver the 2011-2015 regulatory contract.

Viridor has once again delivered a very strong financial performance and expects to continue to deliver long-term growth by continuing to lead the way in exploiting opportunities arising from the Government's targets for recycling, landfill diversion and renewable energy. Plastics, waste electrical and electronic equipment (WEEE) and paper processing are particular growth areas for Viridor's recycling business.

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

Yours sincerely



Ken Harvey  
Chairman



# Notice of Annual General Meeting

The twenty-first Annual General Meeting of Pennon Group Plc will be held at **Sandy Park Conference Centre, Sandy Park Way, Exeter, Devon EX2 7NN** (location plan on back page) on Thursday 29 July 2010 at 11.00am.

**This document is important and requires your immediate attention. If you are in any doubt about the action you should take, you should immediately consult your stockbroker, solicitor, accountant, bank manager or other independent financial adviser who is authorised under the Financial Services and 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 2010.

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

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

## ANNUAL GENERAL MEETING

The twenty-first Annual General Meeting of Pennon Group Plc will be held at Sandy Park Conference Centre, Sandy Park Way, Exeter, Devon EX2 7NN on Thursday 29 July 2010 at 11.00am for the transaction of the following business:

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

### Resolution 1

That the Directors' Report and the financial statements for the year ended 31 March 2010 be received and adopted, together with the report of the auditors.

### Resolution 2

That a final dividend of 15.60 pence per ordinary share recommended by the Directors for the year ended 31 March 2010 be declared for payment on 8 October 2010.

### Resolution 3

That the Directors' Remuneration Report for the financial year 2009/10, as contained in the Company's Annual Report 2010 be approved.

### Resolution 4

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

### Resolution 5

That Mr G D Connell who is retiring in accordance with the Articles of Association be re-elected as a Director.

### Resolution 6

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

### Resolution 7

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 8

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

### Resolution 9

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 2011, 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 6 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.*

### Resolution 10

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 or grant rights to subscribe for, or convert any security into, shares in the Company:
  - (i) up to a maximum nominal amount of £47,958,483 (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 £47,958,483; and
  - (ii) comprising equity securities (as defined in Section 560 of the Companies Act 2006) up to a maximum nominal amount of £95,916,966 (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 2011;
- (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 80 of the Companies Act 1985 and 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).

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

**Resolution 11**

That:

- (a) the Directors be given power:
  - (i) subject to the passing of Resolution 10 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(3) of that Act (sale of treasury shares) for cash, in either case as if Section 561 of that Act did not apply to the allotment, 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 10 (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 10 (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 £7,297,339;
- (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 2011;
- (c) all previous unutilised authorities under Section 95 of the Companies Act 1985 and 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.

**Resolution 12**

That in accordance with the Companies Act 2006, the Company is generally and unconditionally authorised to make market purchases (within the meaning of Section 693 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 35,350,233 (being no more than 10% of the issued share capital exclusive of treasury shares of the Company as at 20 June 2010);
- (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 2011, 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.

**Resolution 13**

That, with effect from the conclusion of the Annual General Meeting:

- (a) the Articles of Association of the Company be amended by deleting all the provisions of the Company's Memorandum of Association which, by virtue of Section 28 of the Companies Act 2006, are to be treated as provisions of the Company's Articles of Association; and
- (b) the Articles of Association produced to the meeting and initialled by the Chairman of the meeting for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association of the Company.

**Resolution 14**

That, with effect from midnight on the day of this Annual General Meeting, Article 68 (Power to borrow money) of the Articles of Association of the Company in force as at that time be amended as follows:

- (i) by deleting the words "two and a half (2½) times" from the eighth line of Article 68(b) and replacing them with the words "three (3) times"; and
- (ii) by adding the following as a new sub-paragraph (D) to Article 68(b): "(D) excluding therefrom the impact of market price movements on the accounting treatment of financial derivatives to which any member of the Group is a party arising under the requirements in relation to hedging instruments of International Accounting Standard 39 Financial Instruments: Recognition and Measurement."

**Resolution 15**

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)*

24 June 2010

## 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 27 July 2010 (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 27 July 2010 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 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 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 0871 664 9234 (UK)\* or +44 800 141 2951 (from outside the UK) \*(calls cost 10p per minute plus network extras). Lines are open 8:30am – 5:30pm Monday – Friday. 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 27 July 2010, 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 or 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 20 June 2010 (being the last practicable date prior to the publication of this Notice of Annual General Meeting) the Company's issued share capital consists of 358,591,640 ordinary shares of 40.7p each, of which 5,089,307 ordinary shares are held in treasury. Therefore, the total voting rights in the Company as at 20 June 2010 are 353,502,333.



## 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 29 July 2010 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 11.00 am on 27 July 2010, 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) 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 (AGM); 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 AGM 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 AGM any question relating to the business being dealt with at the AGM 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/Investor Information/Shareholder Services/AGM](http://pennon-group.co.uk/Investor%20Information/Shareholder%20Services/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 29 July 2010. They will also be available for inspection at the Annual General Meeting from 10.00am on 29 July 2010 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; and
- (b) the Memorandum and the current Articles of Association of the Company, marked to show all the changes proposed at the Annual General Meeting, and the proposed new Articles of Association of the Company.

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

### Directors' Remuneration report

**Resolution 3** proposes the approval of the Directors' Remuneration Report which is set out on pages 41 to 48 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, and 6** propose the re-election of Messrs K G Harvey, G D Connell and C Loughlin as Directors of the Company in accordance with the Company's Articles of Association and the Combined Code.

Ken Harvey, who has been Chairman and a Director of the Company for in excess of nine years, being eligible, now offers himself up for re-election annually in accordance with the Combined Code. He was appointed a Director of the Company on 1 March 1997. As demonstrated by his biographical details set out on page 40 of the Annual Report, Ken has extensive knowledge of utility businesses having formerly been Chairman and Chief Executive of Norweb Plc. In 1995 he was Chairman of National Grid Holdings and prior to that Deputy Chairman of London Electricity and earlier its Engineering Director. Currently he is the Senior Independent Non-executive Director of National Grid Plc. Ken is chairman of the Board's Nomination Committee.



Gerard Connell, being eligible, offers himself up for re-election. Gerard was appointed a Director of the Company on 1 October 2003. As demonstrated by his biographical details set out on page 40 of the Annual Report, Gerard has extensive business and financial knowledge. He is currently group finance director of Wincanton Plc and was previously a director of Hill Samuel and a managing director of Bankers Trust and has held other corporate finance and business development positions in the City and in industry. Gerard is also a governor of King's College School, Wimbledon. He is Chairman of the Board's Audit Committee and a member of the Board's Corporate Responsibility, Nomination and Remuneration Committees.

Chris Loughlin, being eligible, offers himself up for re-election. Chris was appointed a Director of the Company on 1 August 2006. As demonstrated by his biographical details set out on page 40 of the Annual Report, Chris has extensive business knowledge having most recently been the chief operating officer with Lloyd's Register and previously an executive director of British Nuclear Fuels Plc and executive chairman of Magnox Electric Plc. Chris started his career as a chartered engineer and subsequently held a number of senior positions with British Nuclear Fuels. He was appointed chairman of Water UK with effect from 1 April 2008 and he is a member of the Board's Corporate Responsibility Committee.

The Board supports the re-election of Ken Harvey, Gerard Connell and Chris Loughlin as it believes that their knowledge and experience assist in ensuring that the Board has an appropriate balance of skills and experience for the requirements of the business. The Chairman confirms that following the formal annual performance evaluation, Gerard Connell, as a Non-executive Director, continues to perform effectively and to demonstrate commitment to his roles, including commitment to time for Board and Committee meetings and other duties as they are likely to arise.

### Reappointment of auditors

**Resolution 7** 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 9** 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.

### Authority to allot shares

**Resolution 10** requests shareholder approval by way of an ordinary resolution to renew (in compliance with published institutional guidelines) until 1 October 2011 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 (which superseded Section 80 of the Companies Act 1985). The authority will expire on 1 October 2011 or, if earlier, at the conclusion of the next Annual General Meeting of the Company, although it is the Directors' intention to seek to renew the authority annually in accordance with investor guidelines.

Paragraph (a)(i) of Resolution 10 will allow the Directors to allot ordinary shares up to a maximum nominal amount of £47,958,483 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 2010 (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 10 will allow Directors to allot, including the ordinary shares referred to in paragraph (a)(i) of Resolution 10, 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 £95,916,966 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 2010 (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. However, if they do exercise this authority, the Directors intend to follow emerging 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 2010, the Company held 5,089,307 ordinary shares in treasury, which represents approximately 1.4% of the total ordinary share capital in issue as at 20 June 2010 (being the latest practicable date prior to publication of this Notice of Annual General Meeting).

**Resolution 11** requests shareholder approval by way of a special resolution to renew until 1 October 2011, or if earlier, at the conclusion of the next Annual General Meeting of the Company, the Directors' authority to allot equity securities for cash without first being required to offer such securities to existing shareholders. It is proposed that this authority be renewed. 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 £7,297,339 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 2010 (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.

The Directors consider that they should have the authorities set out in Resolutions 10 and 11 in order to be able to take advantage of opportunities as they arise and to retain flexibility, although they have no current plans to issue shares except pursuant to the Company's Scrip Dividend Alternative.

## Authority to purchase ordinary shares of the Company

**Resolution 12** requests shareholder approval by way of a special resolution to renew the Company's authority to purchase up to 10% of its ordinary shares in issue at or between the minimum and maximum prices specified in the Resolution. This authority is requested in order to increase the Company's flexibility to optimise the long-term financial and tax efficiency of its capital structure. It can lead to increases in future earnings per share on those shares not purchased. This Resolution complies with investor protection guidelines which limit share purchases to 10% of the issued share capital per annum. The Directors confirm that they will only purchase shares where they believe the effect would be to increase earnings per share and would be in the best interest of shareholders. The Directors have no current plans to exercise such authority.

The Companies Act 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 18 June 2010 (being the latest practicable date prior to publication of this Notice of Annual General Meeting) was 3,996,633. The proportion of issued share capital that they represented at that time was 1.13% and the proportion of issued share capital that they will represent if the full authority to purchase shares is used is 1.26%.

## Adoption of new Articles of Association

**Resolution 13** requests shareholder approval by way of a special resolution to adopt new Articles of Association (the "New Articles") to update the Company's current Articles of Association (the "Current Articles") primarily to reflect the implementation of the Companies (Shareholders' Rights) Regulations 2009 (the "Shareholders' Rights Regulations") which came into force on 3 August 2009 and the final tranche of the Companies Act 2006 (the "CA 2006") which came into force on 1 October 2009.

The principal changes introduced in the New Articles are set out below.

### 1. The Company's objects

Prior to 1 October 2009 the provisions regulating the operations of the Company were set out in the Company's Memorandum and Articles of Association. The Company's Memorandum contained, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake. This is drafted to give a wide scope. The CA 2006 significantly reduces the constitutional significance of a company's memorandum, providing that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the CA 2006, the objects clause and all other provisions which are contained in a company's memorandum are deemed to be contained in the company's articles of association, but the company can remove these provisions by special resolution.

In addition the CA 2006 states that, unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason, the Company is proposing to remove its objects clause, together with all other provisions of its Memorandum which, by virtue of the CA 2006, are now treated as forming part of its Articles of Association. Resolution 13(a) confirms the removal of these provisions although, where appropriate, to preserve the status quo, certain Directors' powers that were previously dealt with in the Memorandum have been added back in to the New Articles. As the effect of Resolution 13(a) will also be to remove the statement currently in the Company's Memorandum of Association regarding limited liability, the New Articles also contain an express statement regarding the limited liability of shareholders.

### 2. Authorised share capital and unissued shares

The CA 2006 abolishes the requirement for a company to have an authorised share capital, and the New Articles reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the CA 2006, except in respect of employees' share schemes.

### 3. Redeemable shares

Under the Companies Act 1985, if a company wished to issue redeemable shares, it had to include in its articles of association the terms and manner of redemption, whereas the CA 2006 enables directors to determine such matters themselves, provided that they are authorised to do so by the articles. The New Articles contain such an authorisation for the Directors. The Company has no plans to issue redeemable shares but, if it did so, the Directors would need shareholders' authority to issue new shares in the usual way.

### 4. Suspension of registration of share transfers

The current Articles permit the Directors to suspend the registration of share transfers. This power has been removed in the New Articles because it is inconsistent with the CA 2006, which requires share transfers to be registered as soon as practicable.

### 5. Notice of general meetings

The Shareholders' Rights Regulations amends the CA 2006 to require the Company to give 21 clear days' notice of general meetings unless the Company offers members an electronic voting facility and a special resolution reducing the period of notice to not less than 14 clear days has been passed (as the Board recommends that shareholders do under Resolution 15). Annual General Meetings must continue to be held on 21 clear days' notice. The New Articles amend the provisions of the Current Articles to be consistent with the new requirements.

### 6. Adjournments for lack of quorum

Under the CA 2006, as amended by the Shareholders' Rights Regulations, general meetings adjourned for lack of a quorum must be held at least 10 clear days after the original meeting. The New Articles amend the provisions of the Current Articles to reflect this requirement.

### 7. Chairman's casting vote

The New Articles remove the provision in the Current Articles giving the Chairman a casting vote in the event of an equality of votes, as this is no longer permitted under the CA 2006.

## 8. Voting by proxies on a show of hands

The Shareholders' Rights Regulations have amended the CA 2006 so that it now provides that, subject to a company's articles, each proxy appointed by a member has one vote on a show of hands, unless the proxy is appointed by more than one member, in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution. The New Articles amend the provisions of the current Articles to reflect these changes, and to clarify the procedure to be followed if a proxy is appointed by more than one member and is given discretion as to how to vote by one or more of those members.

## 9. Voting record date and proxy appointment deadline

Under the CA 2006, as amended by the Shareholders' Rights Regulations, the Company must determine the right of members to vote at a general meeting by reference to the register not more than 48 hours before the time for the holding of the meeting, not taking account of days that are not working days. The CA 2006 also allows companies to set a time limit for the receipt of proxy appointments and related documents that is not more than 48 hours before the time for the holding of the meeting, not taking account of days that are not working days. The New Articles amend the Current Articles to reflect these provisions.

## 10. Voting in accordance with instructions

Under the Shareholders' Rights Regulations, proxies are expressly required to vote in accordance with instructions given to them by members. For the avoidance of doubt, the New Articles contain a provision stating that the Company is not obliged to check whether a proxy or corporate representative has voted in accordance with the members' instructions.

## 11. Directors' fees

The New Articles increase the aggregate Director's fee that may be paid to the Directors to enable the Non-executive Directors of the Company fee to be increased from £500,000 to £600,000. This limit was last amended in July 2008 when it was increased from £400,000 to £500,000. The total Directors' fees payable vary with the number of Non-executive Directors and the amount of the Directors' base fee. The Company wishes to take this opportunity to create additional flexibility in respect of payment of Non-executive Directors' fees. The aggregate fee cap set in July 2008 is no longer feasible given the increased expected time commitments set out in the Walker Review (published in November 2009) and the UK Corporate Governance Code (published in June 2010). The New Articles also clarify that Directors who hold another office, such as that of Chairman, or who serve on any committees of the Directors, may also be paid for those services.

## 12. Change of name

Prior to 1 October 2009, a company could only change its name by special resolution, but now, under the CA 2006, a company is able to change its name by other means provided for by its Articles. To take advantage of this provision, the New Articles enable the Directors to pass a resolution to change the Company's name.

## 13. Scrip dividends

In line with common practice, the New Articles update the current Articles to provide that the value of shares issued in connection with a scrip dividend may be calculated by reference to the average middle-market quotation for shares of the same class on the London Stock Exchange Daily Official List for the day on which the shares are first quoted "ex" dividend, and the four subsequent dealing days, or in such other manner as the Directors determine. The New Articles also allow the Directors the flexibility at any time before the further shares are allotted to decide that the dividend will be paid in cash instead. The value of the further shares may not be greater than the net cash dividend which would otherwise have been paid, unless this has been authorised by a special resolution.

## 14. General

Generally, the opportunity has been taken to bring clearer language into the New Articles and in some areas to conform the language of the New Articles to the language used in the CA 2006. A change to the Company's borrowing power is proposed separately in Resolution 14.

### Articles of Association – change to borrowing power

**Resolution 14** requests shareholder approval for an amendment to the definition of capital and reserves so as to exclude the impact of market price movements on the accounting treatment of financial derivatives to which any member of the Pennon Group of companies is a party arising under the requirements in relation to hedging instruments of International Accounting Standard 39 Financial Instruments: Recognition and Measurement. The financial derivatives to which any member of the Pennon Group of companies is a party currently are used principally to fix the interest rates on the major portion of variable rate debt funding for South West Water over a regulatory period of five years. At 31 March 2010 interest rate swap derivatives covering a notional amount of £775 million to cover the period to 2015 were held by a member or members of the Pennon Group of companies. The market price volatility of these instruments at future Balance Sheet dates has to be recognised in reserves, but reverses in subsequent financial years over the duration of the instrument. The Directors believe therefore that the volatility of these market movements should be removed from the Company's borrowing power calculation.

### Calling of general meetings

**Resolution 15** 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 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 at least 14 clear days' notice as sought by Resolution 15. 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.

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

**By road:**

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

**By rail:**

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

**By bus:**

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

