PENNON GROUP PLC **24 May 2011**

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2011

Pennon Group announces its unaudited results for the year ended 31 March 2011.

A presentation for City audiences will be held today, Tuesday 24 May 2011, at 9am at the King Edward Hall, Bank of America Merrill Lynch Financial Centre, 2 King Edward Street, London, EC1. A live webcast of the results presentation will be available at pennon-group.co.uk /investor/presentations, and a recording of the presentation will be available thereafter.

For further information today, 24 May 2011, please contact :

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FINANCIAL HIGHLIGHTS

- Profit before tax up 1.5% to £188.5m[(1)]
  - South West Water down 0.5% [(1)]
  - Viridor up 14.2%
- Underlying earnings per share[(1)] [(2)] 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
- Strong liquidity and funding position
  - £400m new/refinanced facilities since 31 March 2010
  - £825m cash/facilities at 31 March 2011
- Group businesses well positioned in current economic conditions

[(1)] Reflects the application of IFRIC18 “Transfers of assets from customers”, effective from 1 July 2009.

[(2)] Underlying earnings per share exclude deferred tax. Statutory earnings per share were 48.4p.

OPERATIONAL HIGHLIGHTS

- **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%
  - 2010 fourteenth consecutive summer without hosepipe bans or drought orders; no water restrictions envisaged summer 2011
  - Industry leader in tackling 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 (1) and Avonmouth (1) (2) EfWs
  - Circa £50m of acquisitions of recycling companies in key strategic areas

(1) Secretary of State's planning decision subject to challenge
(2) Post year-end

Ken Harvey, Chairman said "I am pleased to say that it has been another successful year for the Group. During the year South West Water continued to improve its operational performance and Viridor has once again delivered strong profit growth. Looking forward, South West Water is well placed to outperform the assumptions for the current regulatory period. Viridor's long-term profit momentum is underpinned by its recycling business, its major Energy from Waste planning successes, and its strong PPP pipeline."

GROUP OVERVIEW

- Revenue rose by 8.4% to £1,159.2m.
- Operating profit down by 2.0% to £260.9m[(1)].
- Net interest payable down by 6.0% to £76.7m.
- Profit before tax up 1.5% to £188.5m[(1)].
- Underlying earnings per share up by 3.7% to 42.3p[(1)]. Statutory earnings per share increased from 40.4p to 48.4p[(1)].
- Group capital expenditure £199.0m (2009/10 – £192.2m) [(1)].
- Investment in joint ventures £12.5m (2009/10 – £30.8m).
- Net borrowings £1,934m, an increase of £39m since 31 March 2010. Gearing, being net borrowings / (shareholders' funds plus net borrowings), was 71.3% (2009/10 – 74.1%). Net debt includes £46m for EfW plant under construction (Runcorn II).
- The Group has substantial cash resources and committed facilities - well placed in current financial market conditions.
- South West Water net debt to RCV was 57% (31 March 2010 – 61%).
- Net interest cover (excluding pensions net interest, IFRIC 12 contract interest receivable and discount unwind on provisions) was 3.4 times (2009/10 – 3.4 times).

[(1)] Reflects the application of IFRIC18 "Transfers of assets from customers", effective from 1 July 2009.

DIVIDENDS

The Board has recommended a final dividend of 17.15p, up 9.9%, subject to shareholder approval. Together with the interim dividend of 7.5p, this will result in a total dividend for the year of 24.65p, an increase of 9.3% on the total dividend for 2009/10, in line with the previously announced policy to grow the Group dividend by 4% above inflation per annum up to the end of 2014/15.

The Company is also offering a scrip dividend alternative. The final date for the receipt of forms of election/mandate in respect of the scrip dividend alternative for the final dividend will be 19 September 2011.

SOUTH WEST WATER

At the end of the K4 period (2005 – 2010) South West Water reported that it had a solid platform in place for continued success during the new K5 period (2010 – 2015). 2010/11 has seen the company already benefit from that robust position to deliver a strong start to K5 both financially and operationally with improved standards of customer service.

Financial Highlights

Revenues rose 1.0% (£4.6m) to £448.8m as a result of tariff increases, new connections and higher demand offset by the effects of customers switching to a metered tariff and lower other sales. Approved tariff increases, including the 1.1% K factor, amounted to £7.0m. Customers switching from unmeasured to metered charging reduced turnover by £6.9m, but 5,500 new customer connections contributed £2.1m of additional turnover. Customer demand was 1.3% higher than last year resulting from dry weather in the early part of the year. 71% of South West Water's domestic customers are now metered.

Reflecting the impact of the reduced rate of return allowed in the 2009 Ofwat price review, South West Water's operating profit decreased by £3.7m to £189.8m. Operating costs, including depreciation and restructuring costs, increased from £250.7m to £259.0m. Cost increases of £8.3m (including inflation), additional costs from new capital schemes of £10.1m (including £3.4m of net depreciation and additional asset maintenance costs of £6.7m relating to the increased emphasis on maintenance in the 2010-2015 (K5) investment programme) were offset by £8.4m of efficiency savings, increased property disposals and reduced cost of other sales of £1.0m. In addition, the adoption of IFRIC 18 "Transfers of assets from customers" resulted in £2.7m (2009/10 - £2.0m) costs in relation to new service connections being capitalised (reflecting the assets being created) rather than included in operating costs.

In K4 South West Water implemented a significant programme of organisational restructuring. This initiative has continued into K5 and £4.0m (2009/10 - £5.0m) was provided in 2010/11. A further £3m is expected to be provided in 2011/12.

Despite the industry-wide reduction in the allowed rate of return, profit before tax was stable at £128.9m with a net interest charge £3.1m lower than last year at £60.9m, primarily from lower average rates on borrowings net of higher RPI on index-linked loans.

Capital expenditure in the year was broadly stable at £125.1m after adjusting for the non-recurring items in the prior year (£20.9m for the substantial K4 water mains rehabilitation project and £9.7m advanced K5 expenditure). Major investments included construction on the Exeter water treatment works flood defence scheme, infrastructure works connecting Stannon Lake (the company's fourth largest reservoir) into the distribution network, and maintenance expenditure focused on maintaining near perfect tap water quality.

Operational Highlights

South West Water's company-wide 'Pure Water, Pure Service, Pure Environment' strategy is the cornerstone of the company's business and operations.

Pure Water

This year the company once again successfully met both its annual and three year rolling leakage targets, and has done so every year since leakage targets were originally set by Ofwat. This was achieved in spite of the coldest December in England in the last 100 years which caused an exceptional number of burst pipes across the region.

A significant proportion of the company's capital programme in 2010/11 was focused on maintaining drinking water quality, which remained near perfect with a 99.97% sample compliance rate during the 2010 calendar year. Investments made during the year included filtration improvements to a number of water treatment works, security enhancements at works, and refurbishment of the Lopwell raw water pumping station.

South West Water has put in place a comprehensive strategy to ensure a continued secure supply of water for the region. 2010 was the 14th consecutive summer with no water restrictions and it is envisaged that there will be no water restrictions in summer 2011 despite very dry conditions in the year so far. More cost effective than building new reservoirs, the two disused china clay pits acquired in 2006 and 2008, now known as Park and Stannon Lakes, represent a significant addition to water resources in Cornwall and further increase the robustness of the company's water supply system. Park Lake became fully operational last year and Stannon Lake will follow this summer. The two lakes form the region's fourth and fifth largest reservoirs (behind Roadford, Wimbleball and Colliford).

Pure Service

South West Water's emphasis on excellent service is delivering tangible improvements for customers and is reflected in reducing levels of contacts (particularly repeat contacts). Customer satisfaction levels are rising. Service improvements undertaken in the past two years to reduce customer complaints are delivering results, with complaint levels falling for the second year running (written complaints down a quarter on 2009/10).

South West Water has welcomed the Government's response to the Walker Review of charging for household water and sewerage services. The Government proposal to fund a cut from 2013/14 in the average bill of all householders will be especially well received by customers alongside proposals to target help at those in most need by pegging the 'Water Sure' tariff to the lower national average bill and allowing us to develop our own social tariff. We will continue to work closely with Government and regulators throughout the consultation phase to examine the practicality of all options to aid customers.

Regulations laid before Parliament to allow for the transfer of private sewers and lateral drains is due to come into effect from 1 October 2011. South West Water has operational plans in place to manage the transfer. A procurement process with suppliers to deliver the service to customers is under way. Incremental operating and capital costs efficiently incurred will be funded by future adjustments to price limits.

Pure Environment

As the UK's premier tourist region, the state of the South West's bathing waters is particularly high-profile. During the year, a record percentage (90.3%) of the South West's bathing waters achieved EU Guideline (or excellent) standard, up from 84% in 2009, while 96.5% passed the mandatory minimum standard. The South West region also features the highest proportion of high quality rivers in England.

This summer South West Water will also be launching a new real time information service updating visitors on any potential risk to bathing water quality caused by storm overflows operating after heavy rainfall at around 25 of the most popular beaches in our region. South West Water's website will be one of the first in Europe to offer this sort of service to beach users on a daily basis.

Our programmes to achieve energy efficiency and carbon reduction targets have made good progress this year. Our energy awareness campaign, PowerDown, has been very successful working with the Energy Savings Trust. The PowerDown scheme has been recognised externally, being the Business Award winner of the Devon Environmental Business Initiative. The combined energy volume reductions target of 3GWh has been met from these activities.

We have also made good progress in our development of renewable energy systems, with major overhaul and control system replacements for our larger sewage gas combined heat and power plants, to give improved reliability and increased outputs. Our larger investment programme for new hydroelectric capacity has included a number of innovative cost effective solutions.

South West Water is working to integrate into all its business operations more sustainable ways of working that support the company's climate change adaptation programme.

An important achievement for the company during the year was the receipt of Emissions Measurement and Reduction certification. This can only be achieved by organisations that have not only made credible carbon reductions over the past three years, but also have robust plans in place to make more reductions in the future.

South West Water has embarked on an innovative programme of work called 'Upstream Thinking' to improve raw water quality in a sustainable way. This initiative - seen as best practice in the industry - seeks to improve the quality of water that feeds into treatment plants from the main moor sources of Dartmoor and Exmoor, by helping to re-establish the wetlands that naturally cleanse water by slowing the flows on their downhill journey to rivers and reservoirs. Receiving better quality water at the company's plants reduces the work required to cleanse it for human consumption, lowers the quantities of chemicals the company has to use and increases the cost-effectiveness of its operations. Work to re-wet uplands, restore grasslands and revise farming practices is under way and by working with farmers, environmental bodies and statutory bodies the company aims to achieve multiple environmental benefits.

Efficiency

A strong start has been made towards achieving targeted operating cost reductions. The company is seeking to front-end load delivery of efficiencies of 2.8% per annum targeted for K5. Some £8.4m, equal to 5.8% per annum, of operating cost efficiencies were delivered in 2010/11. This is being achieved through changing operational ways of working; right-sourcing and innovative contracting arrangements; energy procurement and reduced usage; and the rationalising of administration and support services.

South West Water has now purchased 94% of its K5 energy requirements at a lower market price than that assumed in the Final Determination.

Performance on the K5 capital programme, with its increased emphasis on maintenance of existing assets (66% of the total programme compared with 43% in K4), is being targeted to achieve 5% outperformance of the Final Determination [(1)]. South West Water continues to deliver capital projects in line with Ofwat, Drinking Water Inspectorate and Environment Agency expectations. Stable serviceability was maintained for all service areas.

Overall customer debt cash collections were stable despite the difficult economic environment, with the bad debt charge as a percentage of revenue raised broadly consistent with the prior year end.

Focus for K5

The focus for K5 is to continue to strike the right balance for investors, customers and other stakeholders. The company has already delivered substantial efficiencies over the last two decades and will continue to focus on delivering further efficiency whilst satisfying its regulatory requirements and improving services to its customers.

The South West Water plan for K5:

- targets outperformance of the regulatory contract
- continues to rigorously control costs
- delivers investment through increased capital maintenance that will secure operating cost savings and protect the service improvements made over the last 20 years
- prepares for future increased investment requirements.

(1) using 2009 Final Determination estimates of Construction Output Price Index.

VIRIDOR

Viridor's strategy is to grow and add value by:

- proactively developing new recycling operations to meet ambitious EU/UK targets
- successfully exploiting the huge potential in waste-based renewable energy generation
- capitalising on its strong position in landfill waste disposal.

At the beginning of the year we highlighted two factors concerning Viridor: first that we expected moderate overall profit growth including the contribution from joint ventures, despite the impact of lower landfill gas power generation prices; and secondly, that a number of potential strategic EfW plants were held up in the planning process. In the event, our profits in 2010/11 continued to increase driven by strong performances in recycling and our joint ventures. In addition, planning permissions have been achieved for four key EfWs: Cardiff, Dunbar, Ardley (Oxfordshire) and Avonmouth (Secretary of State's decision to grant planning permissions for Ardley and Avonmouth subject to challenge).

Financial Highlights

Revenue was up 13.6% to £712.0m, of which the acquisitions of the Reconomy recycling companies, Pearsons, Adapt Recycling, Swinnerton and Martock in 2010/11, and the full-year effect of the 2009/10 acquisitions of London Recycling and International Recycling, accounted for £40.6m. Existing business increased by £44.9m (including an increase in landfill tax collected of £14.0m).

Viridor's earnings before interest, tax, depreciation and amortisation (EBITDA) rose £1.7m to £116.5m. PBIT decreased by £1.2m to £71.6m. The joint venture projects, Lakeside and Viridor Laing Greater Manchester, contributed £11.0m (2009/10 - £4.2m) comprising interest receivable on shareholder loans of £6.7m and share of profit after tax of £4.3m. Including profits earned in Viridor's contracts segment, Lakeside's total profit contribution in the year was approaching £9m from a Viridor investment of circa £17.5m (average during the year).

PBIT plus joint ventures taking account of the above increased 7.3% to £82.6m. Profit before tax at £62.9m was up 14.2% on the previous year.

Capital expenditure for the year was £73.7m (2009/10 - £46.6m) including £38.3m on Runcorn II. In addition, £12.5m was invested in joint ventures (2009/10 - £30.8m).

Operational Highlights

UK context

The UK is required under the EU Landfill Directive to reduce the amount of biodegradable municipal waste going to landfill sites. This is being achieved by a major increase in recycling, with residual waste increasingly being used for energy recovery. The latter is a significant source of energy already accounting for 1.5% of total UK electricity production: Viridor has called on the Government to set a target of 6% of electricity to come from waste sources by 2015.

The Government's main mechanism for diverting waste from landfill and incentivising recycling and energy from waste facilities is landfill tax. The Chancellor's Budget announcement of March 2011 reconfirmed the continuation of the increase in landfill tax of £8 a year from £56 per tonne currently to £80 per tonne from 1 April 2014. This increase will enhance further the long-term economics of recycling and energy recovery. In addition, recyclate costs are typically significantly lower than the cost of using virgin materials for manufacturers.

Viridor's clearly stated strategy is to expand in recycling and waste based renewable energy whilst exploiting our existing landfill void. 46% of Viridor's profits are now from recovering value in waste, either by recycling or renewable energy generation.

Recycling

Overall recycling revenues per tonne in 2010/11 were very strong with recyclate prices back to the peak levels seen previously, and more than offsetting lower gate fees and higher associated collection costs. Recycling volumes traded increased by 0.3m tonnes (22%) to 1.7m tonnes, with an improved mix. Volumes from existing businesses grew by 0.2m tonnes or 13%. Acquisitions accounted for the remaining growth of 0.1m tonnes. Profits per tonne are appreciably higher in recycling than from landfill. In net terms, Viridor is therefore benefitting from the move towards recycling away from landfill in the UK.

Viridor is now the largest operator of Materials Recycling Facilities (MRFs) in the UK. In June 2010, the company acquired a number of companies known as 'Reconomy Recycling Solutions' (Reconomy), a leading regional materials recycling business, for a consideration of £23.8m. In November, we acquired Pearsons Group Holdings Limited, a leading materials recycling company in East Anglia, for £16.0m. Two small recycling businesses based in Bury, being Adapt Recycling Limited and Swinnerton Environmental Limited, were acquired in December 2010 and January 2011 for £0.7m and £1.8m respectively. Martock Waste Paper

Limited, a leading materials recycling company head-quartered in Somerset, was acquired in February for £7.4m. The company operates a recycling facility and associated collection activities.

All the above acquisitions have significant operational synergies with Viridor's key strategic hubs in the UK and also provide additional recyclate volumes for Viridor's national and international trading network. All acquisitions were made on a debt free basis and are expected to be earnings enhancing in their first full year.

Demonstrating how the company has transformed its recycling, renewable energy and resource management capabilities, Viridor was named Recycling and Waste Management Business of the Year in July at the National Recycling Awards 2010, the industry's leading awards for best practice.

Renewable Energy

Energy can be recovered from waste in two ways, either via gas (notably landfill gas and potentially anaerobic digestion) and combustion (in "Energy from Waste" plants and similar facilities, some of which may be a part of a Combined Heat and Power (CHP) scheme). Energy recovery from waste currently accounts for around 25% of total UK renewable energy (20% from landfill gas and 5% from thermal treatment). This 25% equates to 1.5% of total UK electricity production (from both renewable and non-renewable sources).

Viridor's landfill gas power generation output increased by a further 2% to 566 Gigawatt hours (GWh) (the figure excludes 3MW of sub-contract capacity in Suffolk) during the year. All of the increase was accredited for full Renewables Obligation Certificates (ROCs). As previously highlighted, we sold forward at peak prices in May 2008 to March 2010 to take advantage of favourable market conditions; these very high price contracts have now ended leading to reduced prices this year. Average revenues per Megawatt hour (MWh) fell by 9% to £82 per MWh from £90 per MWh in 2009/10. Our total landfill gas power generation operational capacity increased by 8MW during the year to 108MW, (excluding the sub-contract sites in Suffolk), of which 69% was eligible for ROCs. The remaining 31% is NFFO contracts. Viridor's NFFO contracts end in tranches, after which the capacity can transfer to ROCs (about 60% will move across in 2013/14 with the balance in the period up to 2016/17).

As well as the 108MW of landfill gas capacity, Viridor has an interest in the following operational renewable power facilities:

- The Lakeside EfW joint venture plant with Grundon Waste Management at Colnbrook near Heathrow, which treats 410,000 tonnes of waste per annum and has a capacity of up to 37MW.

- The Greater Manchester Waste PFI contract's existing Bolton EfW facility (120,000 tonnes per annum, 9MW).

- Greater Manchester's first Mechanical and Biological Treatment (MBT) plant with Anaerobic Digestion (AD) facility at Reliance Street which became operational post year-end. The 50,000 tonnes per annum, 2MW AD plant is the first of four anaerobic digestion facilities due to be built by the PFI.

In addition to the above operational projects, Viridor is pursuing a number of other renewable energy opportunities:

- Planning permission was achieved in September 2008 and both phases of the 750,000 tonnes, 120MW Runcorn/Ineos Chlor EfW/CHP plant are under construction.

- Contracts were signed (subject to planning permission) in March 2011 for the 300,000 tonnes, 25MW plant at Ardley, near Oxford. The Secretary of State's decision to grant planning permission for the site is currently subject to challenge from a local pressure group.

- Planning permission has been achieved for the 60,000 tonnes, 3MW Exeter EfW. Contracts are being finalised.

- Planning permission has also been achieved for the 350,000 tonnes, 30MW plant at Trident Park, Cardiff.

- In December 2010 a planning appeal was successful for a 300,000 tonnes, 40MW EfW/CHP plant at Dunbar, near Edinburgh.

- A planning appeal was also successful, with costs, for a 350,000 tonnes, 30MW EfW at Avonmouth in April 2011. The Secretary of State's decision to grant planning permission for the site is currently subject to challenge.

- Construction of four anaerobic digestion (AD) plants for Greater Manchester totalling 8MW of electricity has commenced and one plant, as described above, is already complete. Planning permission has also been obtained for two further plants at Beddington (near Croydon) and Walpole (Somerset).

Viridor's total operational renewable energy capacity is currently 136.5MW with around a further circa 190MW (electricity plus heat) consented but not operational (these figures include joint venture capacity on a pro-rata basis). Viridor is targeting total renewable energy capacity of over 300MW in five years' time.

PPPs/PFIs

Financial Close on the 25 year Greater Manchester Waste PFI contract was achieved by Viridor Laing (Greater Manchester) Limited (VLGM) in April 2009. It is the UK's largest ever combined waste and renewable energy project. VLGM is a joint venture between Viridor and John Laing Infrastructure. Operation of the associated facilities (both existing facilities and those which are to be developed) is being carried out on a sub-contract basis by Viridor. In October 2009 it was confirmed that all required VLGM facilities planned for development had received planning permission. As of 31 March 2011, 31 of these 42 facilities had been completed and handed over to Viridor to operate.

As reported previously, solid recovered fuel produced from the waste will be used to produce heat and power at a plant being built at Runcorn in Cheshire. In October 2010 Viridor signed the Engineering Procurement and Construction (EPC) contract for the second phase of the Runcorn plant. Phase I is being built primarily for the Greater Manchester Waste PFI contract and Phase II will be available for the market generally, as steeply rising landfill tax drives residual waste disposal away from landfill towards EfW. Phase II will come on stream in 2014/15 when landfill tax will reach £80 per tonne.

The Greater Manchester Waste PFI project was listed among the top 100 infrastructure projects worldwide in the Infrastructure Journal/KPMG global review and was the winner of the social infrastructure category for its "world-class facilities".

As well as the Greater Manchester project, Viridor is currently operating PPP and PFI projects for the South London Waste Partnership, Somerset, and West Sussex and signed the Oxfordshire PPP contract in March 2011.

In addition to the above contracts, Viridor continues to bid selectively for other PPP projects. Viridor is provisional preferred bidder for Cheshire, one of the last two for the South Lanarkshire, Glasgow, South London Waste Partnership, Peterborough (EfW and MRF), and West Lothian projects; and one of the last three in both South East Wales (Gwyrdd) and Heads of the Valleys. Most of these contracts include renewable energy plants and recycling opportunities and some also will have Combined Heat and Power.

The Government announced in 2010 the withdrawal of PFI credits from seven major local authority waste treatment projects. Viridor is bidding for some of these; we believe that steeply increasing landfill tax is the fundamental driver of the proposed investments which will be needed, with or without PFI credits. The cuts outlined in the Government's Spending Review may lead to some delays or changes in the nature of the contracts (PPP versus merchant facilities).

Contracts & Other

Profits in "Contracts & Other" were well ahead with significant contributions from Lakeside local authority volumes and various PFI/PPP contracts and sub-contracts (Somerset, West Sussex and Greater Manchester). Other municipal contracts were also ahead, more than offsetting reduced profits from sludge contracts.

Landfill

Our strategy is based on expanding recycling and renewable energy activities as landfill declines in line with Government policies. Viridor's total landfill disposal volumes decreased by 0.4m tonnes (11%) to 3.5m tonnes in the year primarily as a result of increased recycling and landfill diversion by our third party industrial and commercial customers. The weak UK economy was also a factor. Average gate fees increased by 2.0% to £22.15 per tonne. Consented landfill void reduced from 77 million cubic metres (mcm) at 31 March 2010 to 69mcm at 31 March 2011, principally as a result of usage during the period of 4.1mcm, the lapse of planning permission at a redundant site of 2.0mcm, and use of void at Ardley (Oxfordshire) for the new EfW facility and other items of 2.2mcm. Post the year-end Viridor secured planning permission for a further 1.8mcm at Pilsworth.

Outlook for Viridor

Viridor has successfully transformed itself over the last ten years from predominantly a landfill operator to being one of the country's leading recycling, renewable energy and waste management companies. Recycling is now the company's largest single segment and will be key to profit growth in the next two years. EfW/PPP projects are already starting to contribute to the bottom line and our healthy pipeline is expected to underpin the profit momentum of the company longer-term.

GROUP FINANCIAL POSITION

The Group funding strategy utilises a mix of fixed, floating and index-linked rate borrowings. A substantial portion of debt is finance leasing which provides a long maturity profile and secured credit margins.

The Group has now fixed or put in place swaps to fix the interest rate on at least 50% of South West Water's net debt for the entire K5 period. The average rate achieved on the fixed rate debt is circa 3.8%. In addition, £363m of South West Water's debt is index-linked at an overall real rate of 1.66%. The Group's average interest rate is impacted by the cost of carry of pre-funding, with interest rates on cash deposits currently at very low levels. SWW's average rate for 2010/11 comprises debt interest of 3.5% and pre-funding costs of 0.5%. Pennon Group Plc incurred net interest costs of £3m, reflecting funding raised to support future Viridor investment. South West Water's and Pennon Group Plc's average interest rates for the year to 31 March 2011 were 4.0%.

The Group had a strong liquidity and funding position as at 31 March 2011 and is well placed in current financial market conditions:

- cash balances of £555m (SWW £302m), including £123m restricted cash
- undrawn facilities of £270m

During the twelve months to 31 March 2011 the following finance initiatives were implemented:

- replacement of £100m Put Bond with £150m 2040 $5^{7}/_{8}$% Bond
- renewal of £75m term loans
- £115m of new term loans and revolving credit facilities
- US$100m longer-term facility

In addition to the above, European Investment Bank funding of £125m is currently under negotiation.

The fair value benefit (ie the difference between the principal value and fair value) of Group debt has remained unchanged over the year at £289m at 31 March 2011. The Group's average debt maturity remains at 23 years.

PENSIONS

The Group's defined benefit pension schemes had a deficit (net of deferred tax) under IAS 19 at 31 March 2011 of circa £64m (£86m gross).

The net deficit represents less than 3% of current market capitalisation.

Schemes' assets increased from £402m to £454m and schemes' liabilities increased from £510m to £540m.

An Actuarial Valuation of the main scheme as at 31 March 2010 has now been completed. South West Water's cash contributions to the scheme are within Ofwat's Final Determination for the K5 period.

TAXATION

The mainstream corporation tax charge for the year was £38.6m (2009/10 – £43.0m) giving a mainstream effective current tax rate of 20% (2009/10 – 23%).

Deferred tax for the year was a credit of £21.7m (2009/10 charge – £1.3m) which included a credit of £25.1m from the impact of the reduction in the rate of corporation tax from April 2011.

In November 2010, as part of the PwC Building Public Trust Awards, Pennon Group Plc won the "Tax Reporting in the FTSE 250 Award". The awards reward commitment of the largest listed companies in the UK to communicating their sustainable performance. The tax award recognises the most transparent disclosure of tax strategy, tax performance and the wider impact of tax.

STRATEGY AND PROSPECTS

The Pennon Board's priority continues to be the creation of shareholder value through its strategic focus on water and sewerage services; recycling; waste management; and renewable energy.

South West Water has made a strong start to the K5 regulatory contract and believes it can outperform it. Viridor expects to continue to deliver strong long-term growth through successfully leading the way in exploiting opportunities arising from the Government's landfill diversion, recycling and renewable energy targets – 46% of its profits already come from recovering value in waste. Its recycling business, major EfW planning successes and its strong PPP pipeline underpin its long-term profit momentum.

Ken Harvey
Chairman
24 May 2011

FINANCIAL TIMETABLE FOR THE YEAR ENDED 31 MARCH 2011

24 May 2011	2010/11 Preliminary Results
28 June 2011	Annual Report and Accounts published
28 July 2011	Annual General Meeting
August 2011	Interim Management Statement
10 August 2011 *	Ordinary shares quoted ex-dividend
12 August 2011 *	Record date for final cash dividend
19 September 2011 *	Scrip election date for final dividend
7 October 2011 *	Final cash dividend payment date

* These dates are provisional and, in the case of the final dividend, subject to obtaining shareholder approval at the 2011 Annual General Meeting.

Pennon Group’s Half Year Results will be announced on 24 November 2011.

CAUTIONARY STATEMENT IN RESPECT OF FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements relating to the Pennon Group’s operations, performance and financial position based on current expectations of, and assumptions and forecasts made by, Pennon Group management. Words such as "anticipates", "aims", “believes", “continue”, "could", "due", "estimates“, "expects", "goal", “intends", "may", “plans", “project”, “seeks”, "should", "targets", “will” and related and similar expressions, as well as statements in the future tense, identify forward – looking statements in this Report. Various known and unknown risks, uncertainties and other factors could lead to substantial differences between the actual future results, financial situation development or performance of the Group and the estimates and historical results given herein. Undue reliance should not be placed on forward-looking statements which are made only as of the date of this document. Nothing in this report should be construed as a profit forecast. The Group accepts no obligation publicly to revise or update these forward-looking statements or adjust them as a result of new information or for future events or developments, except to the extent legally required.

PENNON GROUP PLC

Consolidated income statement for the year ended 31 March 2011

	Note	**2011 (Unaudited) £m**	2010 (Restated note 4) £m
Revenue	5	**1,159.2**	1,068.9
Operating costs			
Manpower costs		**(148.3)**	(137.3)
Raw materials and consumables used		**(121.6)**	(76.3)
Other operating expenses		**(486.7)**	(453.6)
Depreciation and amortisation		**(141.7)**	(135.4)
Operating profit	5	**260.9**	266.3
Finance income	6	**45.1**	34.4
Finance costs	6	**(121.8)**	(116.0)
Share of post-tax profit from joint ventures		**4.3**	1.1
Profit before tax	5	**188.5**	185.8
Taxation	7	**(16.9)**	(44.3)
Profit for the year		**171.6**	141.5
Profit attributable to equity shareholders		**171.6**	141.5
Earnings per share (pence per share)	8		
- Basic		**48.4**	40.4
- Diluted		**48.1**	40.3

PENNON GROUP PLC

Consolidated statement of comprehensive income for the year ended 31 March 2011

	2011 (Unaudited) £m	2010 (Restated note 4) £m
Profit for the year	**171.6**	141.5
Other comprehensive income/(loss)		
Actuarial gains/(losses) on defined benefit pension schemes	**2.4**	(44.4)
Cash flow hedges		
Net fair value losses	**(0.1)**	-
Share of other comprehensive loss from joint ventures	**(3.0)**	(3.2)
Tax on items taken directly to or transferred from equity	**(3.3)**	17.4
Other comprehensive loss for the year net of tax	**(4.0)**	(30.2)
Total comprehensive income for the year	**167.6**	111.3
Total comprehensive income attributable to equity shareholders	**167.6**	111.3

PENNON GROUP PLC

Consolidated balance sheet at 31 March 2011

	Note	2011 (Unaudited) £m	2010 (Restated note 4) £m
ASSETS			
Non-current assets			
Goodwill		**292.4**	257.4
Other intangible assets		**4.4**	5.1
Property, plant and equipment		**2,927.5**	2,825.7
Other non-current assets		**116.0**	101.0
Financial assets at fair value through profit		**2.6**	-
Investments in joint ventures		**1.5**	0.2
		3,344.4	3,189.4
Current assets			
Inventories		**7.4**	6.4
Trade and other receivables		**220.6**	194.7
Derivative financial instruments		**6.9**	3.4
Financial assets at fair value through profit		**0.9**	-
Cash and cash deposits	12	**555.5**	493.9
		791.3	698.4
LIABILITIES			
Current liabilities			
Borrowings	12	**(99.2)**	(229.0)
Derivative financial instruments		**(5.3)**	(3.6)
Trade and other payables		**(258.9)**	(196.0)
Current tax liabilities		**(79.4)**	(83.8)
Provisions		**(16.3)**	(23.9)
		(459.1)	(536.3)
Net current assets		**332.2**	162.1
Non-current liabilities			
Borrowings	12	**(2,390.1)**	(2,160.2)
Other non-current liabilities		**(30.4)**	(16.0)
Derivative financial instruments		**(16.3)**	(14.1)
Retirement benefit obligations		**(85.8)**	(107.9)
Deferred tax liabilities		**(293.8)**	(312.2)
Provisions		**(80.7)**	(78.2)
		(2,897.1)	(2,688.6)
Net assets		**779.5**	662.9
Shareholders' equity			
Share capital	10	**147.0**	145.3
Share premium account		**9.2**	10.9
Capital redemption reserve		**144.2**	144.2
Retained earnings and other reserves		**479.1**	362.5
Total shareholders' equity		**779.5**	662.9

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Consolidated statement of changes in equity

	Share capital (note 10) £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves (Restated note 4) £m	Total equity (Restated note 4) £m
At 1 April 2009	144.5	11.7	144.2	300.2	600.6
Profit for the year	-	-	-	141.5	141.5
Other comprehensive loss for the year	-	-	-	(30.2)	(30.2)
Total comprehensive income for the year	-	-	-	111.3	111.3
Transactions with equity shareholders					
Dividends paid	-	-	-	(73.4)	(73.4)
Adjustment for shares issued under the scrip dividend alternative	0.8	(0.8)	-	9.6	9.6
Adjustment in respect of share-based payments	-	-	-	2.9	2.9
Equity component of convertible bond issued	-	-	-	10.0	10.0
Proceeds from treasury shares re-issued	-	-	-	1.9	1.9
	0.8	(0.8)	-	(49.0)	(49.0)
At 31 March 2010	145.3	10.9	144.2	362.5	662.9
					Unaudited
Profit for the year	-	-	-	171.6	171.6
Other comprehensive loss for the year	-	-	-	(4.0)	(4.0)
Total comprehensive income for the year	-	-	-	167.6	167.6
Transactions with equity shareholders					
Dividends paid	-	-	-	(79.6)	(79.6)
Adjustment for shares issued under the scrip dividend alternative	1.7	(1.7)	-	22.8	22.8
Adjustment in respect of share-based payments	-	-	-	3.9	3.9
Transfers from hedging reserve to property, plant and equipment	-	-	-	0.3	0.3
Proceeds from treasury shares re-issued	-	-	-	1.6	1.6
	1.7	(1.7)	-	(51.0)	(51.0)
At 31 March 2011	**147.0**	**9.2**	**144.2**	**479.1**	**779.5**

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Consolidated statement of cash flows for the year ended 31 March 2011

	Note	**2011 (Unaudited) £m**	2010 (Restated note 4) £m
Cash flows from operating activities			
Cash generated from operations	11	**376.2**	365.4
Interest paid		**(78.2)**	(84.2)
Tax paid		**(43.2)**	(3.8)
Net cash generated from operating activities		**254.8**	277.4
Cash flows from investing activities			
Interest received		**14.4**	14.5
Acquisition of subsidiary undertakings (net of cash and debt acquired)		**(25.1)**	(9.3)
Investment in joint ventures		**-**	(0.1)
Loans advanced to joint ventures		**(12.5)**	(30.7)
Loan repayments received from joint ventures		**3.5**	-
Purchase of property, plant and equipment		**(190.3)**	(197.2)
Proceeds from sale of property, plant and equipment		**4.7**	3.5
Net cash used in investing activities		**(205.3)**	(219.3)
Cash flows from financing activities			
Proceeds from treasury shares re-issued		**1.6**	1.9
Convertible bond issued (net proceeds)		**-**	121.9
Deposit of restricted funds		**(30.8)**	(73.3)
Proceeds from new borrowing		**187.0**	237.2
Repayment of borrowings		**(104.6)**	(234.9)
Finance lease sale and leaseback		**-**	38.9
Finance lease principal repayments		**(20.5)**	(18.5)
Dividends paid		**(56.8)**	(63.8)
Net cash (used in)/received from financing activities		**(24.1)**	9.4
Net increase in cash and cash equivalents		**25.4**	67.5
Cash and cash equivalents at beginning of year	12	**389.5**	322.0
Cash and cash equivalents at end of year	12	**414.9**	389.5

PENNON GROUP PLC

Notes

1. **General information**

Pennon Group Plc is a company registered in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 36. Pennon Group's business is operated through two main subsidiaries. South West Water Limited holds the water and sewerage appointments for Devon, Cornwall and parts of Dorset and Somerset. Viridor Limited's business is waste management, recycling and renewable energy.

The financial information for the years ended 31 March 2011 and 31 March 2010 does not constitute full financial statements within the meaning of section 434 of the Companies Act 2006. The full financial statements for 31 March 2010 were approved by the Board of Directors on 24 June 2010 and have been delivered to the Registrar of Companies. The independent auditors' report on these financial statements was unqualified, and did not contain a statement under section 498 of the Companies Act 2006.

2. **Basis of preparation**

Except as described below, the accounting policies adopted in this unaudited financial information are consistent with those applied and set out in the Pennon Group Plc Annual Report and Accounts for the year ended 31 March 2010 and are also in accordance with all IFRS and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) applicable for the year ended 31 March 2011 in issue which have been adopted by the European Union.

3. **Accounting policies**

The following revised standard and new standard, which are mandatory for the first time in the financial year beginning 1 April 2010, are relevant for the Group.

IFRS 3 "Business combinations" (revised)

The revised standard requires all payments to purchase a business to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income. All transaction costs are to be expensed. The Group has accounted for the acquisitions made during the year in accordance with this revised standard. In the year transaction costs of £1.1m were expensed that previously would have been included as consideration.

IFRIC 18 "Transfers of assets from customers"

From 1 July 2009 where an item of property, plant and equipment provided by a customer, or an equivalent payment to provide such property, plant and equipment, gives access to the supply of goods or services then the asset exchanged generates revenue. The application of this interpretation has resulted in the new accounting policy below and the restatement of the comparative figures, as detailed in note 4. In the year assets with a value of £17.4m have been transferred to the Group, increasing deferred income by £14.7m and profit by £2.7m.

Transfers of assets from customers

Where an item of property, plant & equipment that must be used to connect customers to the network is received from a customer, or where cash is received from a customer for the acquisition or construction of such an item, that asset is recorded and measured on initial recognition at its fair value. The credit created by the recognition of the asset is recognised in the income statement. The period over which the credit is recognised depends upon the nature of the service provided by the company as determined by the agreement with the customer. Where the service provided is solely a connection to the network, the credit is recognised at the point of connection. If an ongoing service is identified as part of the agreement, the period over which revenue is generally determined, is by the terms of the agreement with the customer. If the agreement does not specify a period, the revenue is recognised over a period no longer than the useful life of the transferred asset used to provide the ongoing service.

Notes (continued)

3. **Accounting policies (continued)**

The following new standards and interpretations, which are mandatory for the first time in the financial year beginning 1 April 2010, are relevant but have had no material impact.

IFRS 1 “First-time adoption of IFRS” (revised)
IFRS 1 “First-time adoption of IFRS” (amendment)
IFRS 2 “Share-based payment” (amendment)
Improvements to IFRS 2009
IAS 27 “Consolidated and separated financial statements” (revised)
IAS 32 “Financial instruments: Presentation” (amendment)
IAS 39 “Financial instruments: Recognition and measurement”
IFRIC 15 “Agreement for the construction of real estate”
IFRIC 16 “Hedges of a net investment in a foreign operation”
IFRIC 17 “Distribution of non-cash assets to owners”

At the date of the approval of this unaudited financial information the following standards and interpretations, which have not been applied in this financial information, were in issue, but not yet effective :

IFRS 1 “First-time adoption of IFRS” (amendment) (limited exemption from IFRS 7 disclosure)
IFRS 9 “Financial instruments” (not yet endorsed for use in the EU)
IAS 24 “Related party disclosure” (revised)
IFRIC 19 “Extinguishing financial liabilities with equity instruments”

4. **Prior year adjustment and restatements**

The application of IFRIC 18, effective from 1 July 2009, has resulted in the following restatements to the financial information reported at 31 March 2010. A decrease in other operating expenses of £2.0m, an increase in profit of £2.0m and an increase in property, plant and equipment of £2.0m.

At 31 March 2010 the accounting for the acquisitions of London Recycling Limited (renamed Viridor London Recycling Limited) and Intercontinental Recycling Limited (renamed Viridor Polymer Recycling Limited) was provisional. Completion of the accounting for the acquisitions has resulted in an increase to goodwill of £4.4m, a decrease in property, plant and equipment of £0.4m, a decrease in trade and other receivables of £0.2m, an increase in trade and other payables of £0.2m, an increase in current tax liabilities of £0.2m, an increase in provisions of £2.4m and an increase in deferred tax of £1.0m. Comparative figures have been restated accordingly.

In addition the acquisition accounting for Greater Manchester Waste Limited (now renamed Viridor Waste (Greater Manchester Limited) has been reanalysed at 31 March 2010 decreasing goodwill by £1.4m and increasing property, plant and equipment by £1.4m.

Notes (continued)

5. **Operating segments**

Operating segments are reported in a manner consistent with internal reporting provided to the Chief Operating Decision-Maker, which has been identified as the Pennon Group Plc Board.

	2011 (Unaudited) £m	2010 (Restated note 4) £m
Revenue		
Water and sewerage	**448.8**	444.2
Waste management	**712.0**	626.5
Other	**9.5**	8.5
Less intra-segment trading *	**(11.1)**	(10.3)
	1,159.2	1,068.9
Segment result		
Operating profit before depreciation and amortisation (EBITDA)		
Water and sewerage	**286.8**	287.1
Waste management	**116.5**	114.8
Other	**(0.7)**	(0.2)
	402.6	401.7
Operating profit		
Water and sewerage	**189.8**	193.5
Waste management	**71.6**	72.8
Other	**(0.5)**	-
	260.9	266.3
Profit before tax		
Water and sewerage	**128.9**	129.5
Waste management	**62.9**	55.1
Other	**(3.3)**	1.2
	188.5	185.8

* Intra-segment trading between and to other segments by the water and sewerage and waste management segments is under normal commercial terms and conditions that would also be available to unrelated third parties. Intra-segment revenue of the other segment is at cost.

Notes (continued)

6. **Net finance costs**

	2011 (Unaudited) £m	2010 £m
Finance income		
Interest receivable	**6.1**	6.1
Interest receivable on shareholder loans to joint ventures	**6.7**	3.1
Interest receivable on service concession arrangements	**2.9**	2.7
Expected return on defined benefit pension schemes' assets	**29.4**	22.5
	45.1	34.4
Finance costs		
Bank and other borrowings	**(55.5)**	(41.6)
Interest element of finance lease rentals	**(30.6)**	(45.7)
Other finance costs	**(3.9)**	(2.2)
Interest cost on retirement benefit obligations	**(27.8)**	(24.8)
Unwinding of discounts on provisions	**(4.0)**	(3.8)
	(121.8)	(118.1)
Net gains on derivative instruments :		
On derivatives deemed held for trading	**-**	2.1
	(121.8)	(116.0)
Net finance costs	**(76.7)**	(81.6)

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Notes (continued)

7. **Taxation**

	2011 (Unaudited) £m	2010 £m
Analysis of charge :		
UK corporation tax	**38.6**	43.0
Deferred tax – other	**3.4**	1.3
Deferred tax arising on change of rate of corporation tax	**(25.1)**	-
Total deferred tax (credit)/charge	**(21.7)**	1.3
	16.9	44.3

UK corporation tax is calculated at 28% (2010 28%) of the estimated assessable profit for the year.

Deferred tax includes a non-recurring credit of £25.1m reflecting the reduction in the rate of UK corporation tax from 28% to 26% effective from 1 April 2011.

The effective tax rate for the year was 20% and after the deferred tax credit 9%.

Tax on amounts included in the consolidated statement of comprehensive income, or directly in equity, is included in those statements respectively.

8. **Basic and diluted earnings per share**

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in the employee share trust which are treated as cancelled. For diluted earnings per share the weighted average number of ordinary shares is adjusted to include all dilutive potential ordinary shares.

The weighted average number of shares and earnings used in the calculations were:

	2011 (Unaudited)	2010
Number of shares (millions)		
For basic earnings per share	**354.6**	350.0
Effect of dilutive potential ordinary shares from share options	**2.0**	1.5
For diluted earnings per share	**356.6**	351.5

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Notes (continued)

8. **Basic and diluted earnings per share (continued)**

Underlying basic and diluted earnings per share

Underlying earnings per share are presented to provide a more useful comparison on business trends and performance. The term underlying is not a defined term under IFRS and may not be comparable with a similarly titled profit measure reported by other companies. Underlying earnings have been calculated:

	2011 (Unaudited)			2010 (Restated note 4)		
	Profit after tax £m	**Earnings per share Basic p**	**Earnings per share Diluted p**	Profit after tax £m	Earnings per share Basic p	Earnings per share Diluted p
Statutory earnings per share	**171.6**	**48.4**	**48.1**	141.5	40.4	40.3
Deferred tax	**(21.7)**	**(6.1)**	**(6.1)**	1.3	0.4	0.4
Underlying earnings per share	**149.9**	**42.3**	**42.0**	142.8	40.8	40.7

9. **Dividends**

Amounts recognised as distributions to equity holders in the year:

	2011 (Unaudited) £m	2010 £m
Interim dividend paid for the year ended 31 March 2010 : 6.95p (2009 6.75p) per share	24.5	23.6
Final dividend paid for the year ended 31 March 2010 : 15.60p (2009 14.25p) per share	55.1	49.8
	79.6	73.4

Proposed dividends

Proposed interim dividend for the year ended 31 March 2011 : 7.50p (2010 6.95p) per share	26.8	24.5
Proposed final dividend for the year ended 31 March 2011 : 17.15p (2010 15.60p) per share	61.4	55.1
	88.2	79.6

The proposed interim and final dividends have not been included as liabilities in these financial statements. The proposed interim dividend for 2011 was paid on 1 April 2011 and the proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 28 July 2011.

If approved at the Annual General Meeting the final dividend of 17.15p per share will be paid on 7 October 2011 to shareholders on the register at 12 August 2011.

Notes (continued)

10. **Share capital**

Allotted, called up and fully paid

	Number of shares: Treasury shares	Number of shares: Ordinary shares	£m
At 1 April 2009 Ordinary shares of 40.7p each	5,724,131	349,440,143	144.5
Shares issued under the scrip dividend alternative	-	1,986,553	0.8
For consideration of £1.9m, shares re-issued under the Company's Sharesave Scheme	(631,557)	631,557	-
At 31 March 2010 ordinary shares of 40.7p each	5,092,574	352,058,253	145.3
			Unaudited
Shares issued under the scrip dividend alternative	-	4,129,038	1.7
Shares re-issued under the Company's Performance and Co-investment Plan	(328,240)	328,240	-
For consideration of £1.6m, shares re-issued under the Company's Sharesave Scheme	(454,767)	454,767	-
At 31 March 2011 ordinary shares of 40.7p each	**4,309,567**	**356,970,298**	**147.0**

Shares held as treasury shares may be sold, re-issued for any of the Company's share schemes, or cancelled.

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Notes (continued)

11. **Cash flow from operating activities**

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

Cash generated from operations	**2011 (Unaudited) £m**	2010 (Restated note 4) £m
Profit for the year	**171.6**	141.5
Adjustments for:		
Share-based payments	**3.4**	2.8
Profit on disposal of property, plant and Equipment	**(2.3)**	(3.6)
Depreciation charge	**141.0**	135.1
Amortisation of intangible assets	**0.7**	0.3
Share of post-tax profit from joint ventures	**(4.3)**	(1.1)
Finance income	**(45.1)**	(34.4)
Finance costs	**121.8**	116.0
Taxation charge	**16.9**	44.3
Changes in working capital *(excluding the effect of acquisition of subsidiaries) :*		
(Increase)/decrease in inventories	**(0.6)**	0.3
Increase in trade and other receivables	**(25.5)**	(32.4)
Increase in trade and other payables	**30.3**	9.3
Decrease in retirement benefit obligations	**(18.1)**	(4.8)
Decrease in provisions	**(13.6)**	(7.9)
Cash generated from operations	**376.2**	365.4

12. Net borrowings

	2011 (Unaudited) £m	2010 £m
Cash and cash deposits	**555.5**	493.9
Borrowings – current		
Bank overdrafts	**(18.1)**	(12.7)
Other current borrowings	**(56.4)**	(184.1)
Finance lease obligations	**(24.7)**	(32.2)
Total current borrowings	**(99.2)**	(229.0)
Borrowings – non-current		
Bank and other loans	**(948.4)**	(681.5)
Other non-current borrowings	**(252.5)**	(273.6)
Finance lease obligations	**(1,189.2)**	(1,205.1)
Total non-current borrowings	**(2,390.1)**	(2,160.2)
Total net borrowings	**(1,933.8)**	(1,895.3)

For the purposes of the cash flow statement cash and cash equivalents comprise:

	2011 (Unaudited) £m	2010 £m
Cash and cash deposits as above	**555.5**	493.9
Bank overdrafts as above	**(18.1)**	(12.7)
	537.4	481.2
Less : deposits with a maturity of three months or more (restricted funds)	**(122.5)**	(91.7)
	414.9	389.5

Bank overdrafts at the balance sheet dates arise from the timing of the payment of unpresented cheques.

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Notes (continued)

13. **Acquisitions**

On 24 June 2010 the entire issued share capital of the following subsidiaries of Reconomy (Acquisition) Limited were acquired for a cash consideration of £4.2m plus net debt acquired of £16.7m by Viridor Waste Management Limited :

Oakley Waste Management Limited (renamed Viridor Waste (Corby) Limited)
Basecall Limited

These companies also own :

Alibone Recycling Limited (renamed Viridor Waste (Earls Barton) Limited)
Anglia Recycling Limited (renamed Viridor Waste (East Anglia) Limited)

The acquisitions have been accounted for using the acquisition method. Provisional goodwill of £14.3m has been capitalised.

On 4 November 2010 the entire issued share capital of Pearsons Group Holdings Limited was purchased by Viridor Waste Management Limited for a cash consideration of £12.7m plus net debt acquired of £3.7m. Pearsons (Thetford) Limited (renamed Viridor Waste (Thetford) Limited) is a wholly owned subsidiary of Pearsons Group Holdings Limited. The acquisition has been accounted for using the acquisition method. Provisional goodwill of £12.3m has been capitalised.

On 20 December 2010 the entire issued share capital of Adapt Recycling Limited (renamed Viridor Waste (Adapt) Limited) was purchased by Viridor Waste Management Limited for a cash consideration of £0.7m. The acquisition has been accounted for using the acquisition method. Provisional goodwill of £0.5m has been capitalised.

On 14 January 2011 the entire issued share capital of Swinnerton Environmental Limited (renamed Viridor Waste (Bury) Limited) was purchased by Viridor Waste Management Limited for a cash consideration of £1.9m plus net debt acquired of £0.1m. The acquisition has been accounted for using the acquisition method. Provisional goodwill of £1.6m has been capitalised.

On 4 February 2011 the entire issued share capital of Martock Waste Paper Company Limited (renamed Viridor (Martock) Limited) was purchased by Viridor Waste Management Limited for a cash consideration of £7.3m net cash acquired of £0.2m. The acquisition has been accounted for using the acquisition method. Provisional goodwill of £6.3m has been capitalised.

The provisional goodwill arising on these acquisitions is attributed to the profitability of the acquired business and the anticipated future operating synergies arising from the combination.

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