PENNON GROUP PLC **29 May 2012**

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2012

Pennon Group announces its unaudited results for the year ended 31 March 2012.

A presentation for City audiences will be held today, Tuesday 29 May 2012, at 9am at Haberdashers' Hall, 18 West Smithfield, 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, 29 May 2012, please contact :

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FINANCIAL HIGHLIGHTS

- Profit before tax up 6.4% to £200.5m
  - South West Water up 9.8% to £141.5m
  - Viridor down 8.4% to £57.6m
- Earnings per share before deferred tax up 11.8% to 47.3p[(1)]
- Dividend
  - Full year dividend up 7.6% to 26.52p
  - Recommended final dividend per share up 6.7% to 18.30p
- Strong liquidity and funding position
  - £566m new/refinanced facilities since 31 March 2011
  - £1,084m cash and facilities at 31 March 2012
- £257.4m invested in key infrastructure
- Group businesses well positioned for the future

[(1)] Basic earnings per share were 48.1p

OPERATIONAL HIGHLIGHTS

- **South West Water:**
  - Strong performance against 2010 – 2015 regulatory contract
  - Average funding cost 4.1%
  - Substantial progress in operating efficiency
  - Strong water resource position: 2012 expected to be the sixteenth consecutive summer without hosepipe bans or drought orders due to:
    - Industry-leading leakage control. Targets met every year since inception
    - Two new reservoirs, Park and Stannon Lakes, now fully operational
    - Long-term improvements to distribution network
    - 73.4% of households now metered
  - Repeated best ever drinking water quality at 99.98% compliance
  - Record percentage of bathing waters achieving excellent status
  - Private sewers transferred to SWW on 1 October 2011 – estimated network length increased by over 50%
  - Further improvements in Service Incentive Mechanism (SIM) performance
    - Customer complaints halved over two years
  - Government support for customer bills from 2013/14 welcomed

OPERATIONAL HIGHLIGHTS (continued)

- **Viridor:**
  - Continuing growth in profits from recycling, contracts and joint ventures offset this year by reduction in landfill plus increased bid costs associated with its developing project pipeline
  - As flagged previously, recyclate prices have fallen from their first half 2011/12 peak reflecting world economic conditions
    - Cost base adjusted accordingly: more than 50% of impact recovered via terms of customer supply contracts and by cost reductions
  - Significant progress in developing pipeline of long-term projects including:
    - Becoming preferred bidder for the 25 year South London Waste Partnership residual waste PPP
    - Confirmation as successful participant for the 25 year Glasgow residual waste PPP
    - The successful resolution of the legal challenge for the Ardley EfW plant with the Oxford PPP Notice to Proceed issued and construction commenced
    - Construction commenced on Exeter EfW
    - Construction contract signed (post year-end) for Cardiff EfW
    - Strong pipeline of future opportunities
  - Five acquisitions in 2011/12 for c£40m
  - Transforming waste:
    - c50% of profits from recovering value in waste

Ken Harvey, Chairman said:

“Overall, this has been another very successful twelve months for the Group.

“During the year South West Water continued its very strong operational performance and is well placed to outperform the assumptions for the current K5 regulatory period. As we highlighted in March, we are confident this summer will be our sixteenth successive summer without water restrictions. This reflects our industry-leading record on tackling leakage; the addition of two new reservoirs – Park and Stannon Lakes – and long-term improvements to our distribution networks.

“Viridor made very substantial progress during the year in progressing its pipeline of PPP and EfW projects. However, as expected the full year profits for Viridor are below those of last year. Viridor experienced a reduction in recyclate prices in the second half of the year, reflecting world economic conditions and increased bid costs associated with the company’s growing pipeline of long-term projects. Accordingly, we took action to reduce the cost base which recovered more than 50% of the impact of reduced recyclate prices. Viridor’s financial performance will continue to be impacted by trends in recycling and landfill. We are cautious about the prospect for a recovery in recyclate prices in the near-term. Looking further ahead, our growing pipeline of projects will ensure the future success of the company and could more than double Viridor’s EBITDA within the next five years.”

GROUP OVERVIEW

- Revenue rose by 6.4% to £1,233.1m

- Operating profit up by 3.0% to £268.8m

- Net interest payable down by 5.7% to £72.3m

- Profit before tax up 6.4% to £200.5m

- Earnings per share before deferred tax up by 11.8% to 47.3p. Basic earnings per share decreased from 48.4p to 48.1p

- Group capital expenditure up 29% to £257.4m (2010/11 – £199.0m)

- Investment in joint ventures of £13.4m (2010/11 – £12.5m)

- Net borrowings £2,105m, an increase of £171m since 31 March 2011. Gearing, being net borrowings to (shareholders' funds plus net borrowings), was 71.9% (2010/11 – 71.3%). Net debt includes £143m for EfW plants under construction (Runcorn II, Oxford and Exeter)

- The Group has substantial cash resources and facilities of £1,084m - well placed in current financial market conditions

- South West Water net debt to RCV was 56.1% (31 March 2011 – 57.1%)

- Net interest cover (excluding pensions net interest, IFRIC 12 contract interest receivable and discount unwind on provisions) was 3.6 times (2010/11 – 3.4 times)

DIVIDENDS

The Board has recommended a final dividend of 18.30p, up 6.7%, subject to shareholder approval at the Annual General Meeting. Together with the interim dividend of 8.22p, this will result in a total dividend for the year of 26.52p, an increase of 7.6% on the total dividend for 2010/11. This is 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. RPI for the twelve months to March 2012 was 3.6%.

The dividend will be paid on 5 October 2012 to shareholders on the register on 10 August 2012. 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 17 September 2012.

SOUTH WEST WATER

South West Water's robust operational performance and high standards of customer service have been underpinned by strong financial results with the company continuing to outperform Ofwat's targeted operating cost reductions.

Financial Highlights

South West Water's operating profit increased by £14.9m (7.9%) to £204.7m.

Revenues rose 5.6% to £474.0m as a result of tariff increases and new connections offset by an anticipated overall reduction in demand and the effects of customers switching to a metered tariff. Approved tariff increases, including the 3.4% K factor, amounted to £36.4m and 6,000 new customer connections contributed £2.8m of additional revenue. Customers switching from unmeasured to metered charging reduced revenues by £7.2m. 73.4% of South West Water's domestic customers are now metered. Customer demand has fallen in line with expectations by 2.6% (£6.8m) compared with last year, impacted by general economic conditions.

Operating costs, including depreciation, increased from £259.0m to £269.3m. Good operational cost control has been achieved in a high inflation environment with cost increases (including business rates) of £6.7m (being below the 4.8% average inflation for the financial year) fully offset by £6.7m of efficiencies delivered in the year. Other cost drivers were:

- Costs from new capital schemes of £7.4m (£3.5m of depreciation and additional asset maintenance costs of £3.9m relating to the increased emphasis on maintenance in the investment programme)
- The adoption of private sewers from 1 October 2011 resulting in increased operating costs of £2.5m
- Cost changes of £1.9m predominantly as a result of lower property sales and the introduction of the Government's carbon reduction commitment levy
- Bad debt charges equivalent to 1.8% of revenue marginally higher than last year (up £0.6m) but reduced from the H1 2011/12 position reflecting improved collection initiatives

South West Water's programme of organisational restructuring continues with £2.5m (2010/11 - £4.0m) incurred in the year supporting the change programmes across the business.

Profit before tax increased by 9.8% to £141.5m.

The net interest charge of £63.2m was £2.3m above 2010/11, primarily as a result of higher November RPI on index-linked facilities compared to the prior year.

Capital expenditure in the year was £130.8m compared to £125.1m in 2010/11, Regulatory net capital expenditure[(1)] was £138.8m. The focus for the programme remains the maintenance of our existing assets; water resources and increasing the resilience of our infrastructure; improving water quality; and delivering environmental improvements.

The robustness of our networks and assets is illustrated by our achieving Ofwat's 'stable serviceability' status across all four areas. 2011/12 is the first assessment year for PR14.

Regulatory Capital Value at 31 March 2012 was £2,827m and growth over the year exceeded growth in net borrowings.

[(1)] capital expenditure including infrastructure renewals expenditure less grants and contributions

Efficiency

The company is front end loading delivery of the required 2.8%[(1)] p.a. average operating cost efficiencies with an average 5.1% p.a. delivered in the first two years of this K period. This targeted savings programme has delivered £6.7m of efficiencies in 2011/12, bringing the K5 total to date to £15.1m. This is being achieved through ongoing improvement programmes including:

- Operational ways of working (PUROS[(2)])
- Energy procurement and usage, with energy prices for K5 fixed at rates favourable to the Final Determination
- Rationalising administration and support services, and
- Right-sourcing and innovative contracting

South West Water continues to deliver capital projects in line with Ofwat, Drinking Water Inspectorate and Environment Agency expectations. Expenditure for the K5 period to date is favourable compared with the Capital Incentive Scheme baseline[3] and is targeted to achieve 5% outperformance of the Final Determination[4] K5 capital programme.

[1] average over K5 (2010-2015)

[2] PUROS – Phased Utilisation Remote Operating Systems

[3] based on current published Construction Output Price Index (COPI)

[4] using 2009 Final Determination estimates of COPI

Operational Highlights

South West Water's company-wide 'Pure Water, Pure Service, Pure Environment' strategy is the cornerstone of the company's operations, with the top priorities being to improve customer service and deliver operational efficiencies.

Pure Water

South West Water has successfully managed its water resources to enable a continued secure supply of water for the region. As announced in March, 2012 is expected to be the 16th consecutive summer with no water restrictions. Further comprehensive strategies were implemented during winter 2011/12 to support and maintain the security of future water supplies including the use of pumped storage schemes at 3 reservoirs to abstract water from rivers while levels were healthy to supplement the natural inflow to our reservoirs. Two former china clay pits, Park and Stannon Lakes, both now fully operational, represent a significant addition to water resources in Cornwall and further increase the robustness of the company's water supply system. Stannon Lake is Cornwall's second largest reservoir. Additionally, South West Water constructed a new £3m service reservoir to supply 9,000 homes near Newquay during the year and has constructed its first new borehole in 18 years.

The company has maintained its exemplary industry-leading performance in reducing leakage, as it has done every year since targets were introduced 15 years ago. In 2011/12 we achieved a new record low of 81Ml of water lost on average per day over a twelve month period and in addition we have beaten the rolling three year average target. Against the backdrop of a milder winter, the strong leakage performance has been the result of a number of proactive factors including: swift leak detection and response times; the efficiency of our remote PUROS system (which has significantly reduced the amount of time it takes for inspectors to process leaks); and improved communication with our customers using both traditional and web-based platforms.

A significant proportion of the company's capital programme is focused on drinking water quality to enable the near perfect compliance rate of 99.98%, achieved again during the 2011 calendar year, to be maintained. Our water quality has benefited from a rigorous mains improvement programme, enhanced maintenance performance and the implementation of a programme to improve taste. In 2012, South West Water made further significant investments in drinking water quality, including upgrades to water treatment works at Drift (West Cornwall) and Tottiford (Devon).

Pure Service

South West Water's emphasis on excellent service is delivering tangible improvements for customers and is reflected in reducing levels of contacts and customer complaints. South West Water is driving higher levels of customer satisfaction including increasing online customer 'self-service' support such as 'My Account' online account management, a smartphone app and 'Water Live', a new service which keeps customers informed about the progress of operational events. The company achieved a 15% improvement in customer service between 2010/11 and 2011/12 based on its Ofwat Service Improvement Mechanism (SIM) scores (and a 78% improvement over two years). Customer complaints have continued to fall since March 2011, with a further 25% reduction in the number of written complaints compared with last year. Over the last two years customer complaints have halved.

South West Water is also committed to delivering excellent service to its c70,000 business customers and has launched 'Source for Business', a new and enhanced range of tailored water, sewerage and environmental services for businesses. Many of these services will be available to customers outside the South West Water region.

Despite the challenging economic climate the increase in bad debt seen in the first half of 2011/12 was mitigated by improved collections in the second half. South West Water has a number of schemes in place to assist vulnerable customers. Targeted collections initiatives are being supported by debt advice.

We welcome the Government's commitment to fund a cut in household customer bills in the region by £50 per household from 2013/14. Legislation to enable this funding was enacted on 1 May 2012. The bill reduction will directly benefit customers and will be passed straight through to them, having no impact on the regulatory and financial structure of the business.

Pure Environment

The 2011 bathing season ended with best ever bathing water results with 137 out of 144 bathing waters (95.1%) achieving European ‘guideline’ standard (excellent status) performance. 142 (98.6%) achieved European ‘good’ standard (mandatory status) compared with 139 (96.5%) in the 2010 bathing season.

South West Water is committed to delivering sustainable environmental improvements, focusing on the South West’s bathing waters:

- ‘Beach Live’, a trial website set up to give beach users real-time information about bathing water quality, was successfully launched last summer and expanded during the winter. It has been praised as a first-of-its kind in Europe
- Efforts to uncover the often hidden causes of pollution are ongoing. With assistance from the Environment Agency, South West Water has successfully traced and corrected a significant number of properties that had been incorrectly connected to the surface water drainage system or not connected to the sewerage system

To combat climate change, reduce the company’s carbon footprint and lower its energy bill, South West Water has expanded its use of renewable energy:

- During the year the company installed solar panels at 23 sites (nineteen 50kW schemes and four 100kW schemes) giving a total of 1.35MW installed capacity which is expected to generate 1.35GWh of electricity for use on South West Water sites. A carbon saving of 630 tonnes per annum of carbon dioxide equivalent is expected
- Hydro-electric schemes were developed at two of our reservoirs
- At Lowermoor Water Treatment Works in North Cornwall the company erected a 100KW wind turbine in order to similarly improve energy efficiency. The turbine is set to generate around 280MWh – approximately 60% of the site’s power needs

The company’s goal is to ensure that 30GWh of the energy used is generated from renewable sources by 2015. Ultimately South West Water aims to source 50% of its energy from renewables by 2050.

Work continues on the innovative industry-leading programme of work called ‘Upstream Thinking’ to improve raw water quality in a sustainable way. South West Water is working on six major catchment management projects, including a significant programme on the main moor sources on Exmoor and a pilot project on Dartmoor, to re-establish the wetlands that naturally cleanse water thereby improving water quality in rivers and reservoirs. With the help of farmers and landowners work is under way across the region to identify necessary investment projects that will protect rivers and watercourses from pollution and erosion, with the largest projects targeted around the company's biggest reservoirs – Roadford and Wimbleball. The delivery of the programme has gained momentum during the year and action delivered to date has been:

- 237 hectares of land restored
- Working with 495 farms across the catchments, supporting infrastructure investments on 96 farms
- Scientific equipment installed to monitor the impact of restoration
- Studies completed to inform future investment options

Private Sewers

The transfer of private sewers and lateral drains to South West Water's responsibility and ownership on 1 October 2011 followed nearly a year of intensive preparation.

The successful transition is estimated to have increased the company's existing sewer network by over 50%. Customer contacts and required activity have been within predicted levels. Proactive investigations are ongoing to ascertain the condition of assets transferred and scale of capital expenditure required.

£2.5m of operating costs were incurred for the year, including required system developments and data mapping, within the expected levels. Maintenance costs of £0.7m have been at the lower end of expectations. Plans are currently being developed to ensure a targeted approach to future investment by identifying those areas that have the largest impact for our customers.

	2011/12 Costs	**Expected future annual costs [(1)]**
Operating costs	£2.5m	£2 - 5m
Maintenance costs	£0.7m	£4 - 6m

[(1)] Including pumping stations

Expected annual costs as a result of the transfer reflect:

- Ongoing operating costs, for example sewer blockage removals
- Ongoing maintenance costs, for example minor sewer repair and replacement. Depending on the nature of this activity a proportion may be classified as infrastructure renewals expenditure (IRE) for regulatory reporting and transferred to operating costs for IFRS reporting purposes

Investigations are ongoing to determine the condition of the assets transferred and the required targeted programme to improve the infrastructure. These costs are estimated to be c£44m.

Private pumping stations are expected to be fully transferred by 1 October 2016. There are estimated to be in the order of 900 in South West Water's region. The costs are included in the estimates above.

Shareholders are expected to receive appropriate returns for K5 private sewers and pumping stations expenditure, provided that the money is spent efficiently, through the regulatory Interim Determination of K (IDoK) mechanism, with a submission currently planned for 2013 and revenue reflected in subsequent financial years.

<u>South West Water Outlook</u>

The company has delivered substantial efficiencies which benefit all stakeholders and is focusing on continued delivery of efficiencies whilst satisfying regulatory and legislative obligations and improving services to customers. Specifically the strategy:

- Targets outperformance of the regulatory contract
- Continues to rigorously control costs
- Delivers investment in the asset base to secure improvements made over the last 20 plus years whilst preparing for the next 20 plus years

In December 2011, the 'Water for Life' White Paper outlined the Government's long-term vision for a resilient, customer-focused and environmentally sustainable water sector. The company welcomes this approach and we believe that our achievements to date and future plans support the delivery of the Government's objectives.

The company is working towards the next Price Review, (PR14), and is actively engaged in the development of Ofwat's regulatory reform agenda.

We have already rolled out our initial phases of customer engagement and work is under way to determine investment scenarios for the next period.

A new development has been the recent implementation of our ‘WaterFuture’ customer challenge panel which comprises representatives from various stakeholder and consumer groups. Designed to ensure our customers’ priorities are kept central to our plans, the panel’s involvement will help shape our forthcoming updated Strategic Direction Statement which will provide a long-term context for the next business plan.

VIRIDOR

Viridor's strategy is to add value by:

- Growing in recycling
- Growing in Public Private Partnerships (PPPs)/Energy from Waste (EfW)
- Capitalising in the long-term on its strong position in the landfill market

From 2007/08 until 2010/11 growth in profits from recycling had more than offset the decline in annual landfill profits. However, Viridor is not immune to the difficult conditions in the world economy and as flagged previously, recyclate prices fell over the second half of 2011/12 from the peak seen in the first half of the year. Accordingly, we took action to reduce the cost base and more than 50% of the impact was recovered via terms of customer supply contracts and by cost reductions. Though recycling profits grew on a year on year basis in 2011/12 this was insufficient to offset the decline in landfill plus increased bid costs associated with our expanding project pipeline. Consequently 2011/12 full year profits for Viridor are below those of last year. Viridor's financial performance will continue to be impacted by trends in recycling and landfill. The company is cautious about the prospect for a recovery in recyclate prices in the near-term. Nonetheless recycling remains a very profitable business and is Viridor's largest profit generator. Longer-term, PPP and EfW projects already contribute to the bottom line and the healthy pipeline could more than double Viridor's EBITDA within the next five years as more plants come on stream from 2013/14 onwards.

Financial Highlights

Revenue was up 6.9% to £761.1m, of which the 2011/12 acquisitions (Storm Recycling, Community Waste, JWS Churngold and the Veolia South West collection businesses), and the full-year effect of the 2010/11 acquisitions (Reconomy recycling companies, Pearsons, Adapt Recycling, Swinnerton and Martock), accounted for £23.1m. Existing business increased by £26.0m (including an increase in landfill tax collected of £17.8m).

Viridor's earnings before interest, tax, depreciation and amortisation (EBITDA) for the full year decreased by £6.2m (5.3%) to £110.3m. PBIT decreased by £7.9m (11.0%) to £63.7m. As noted above, continued growth in recycling, contracts and joint ventures was insufficient to offset the decline in landfill and increased bid costs. Contributions from landfill gas power generation and collection were stable. PBIT plus joint ventures taking account of the above decreased by £7.4m (9.0%) to £75.2m. Profit before tax decreased £5.3m (8.4%) to £57.6m. Performance in the second half of 2011/12 was less strong than in the first half.

Capital expenditure and investment in joint ventures for the year was £140.0m (2010/11 - £86.2m) of which c£93m was for Viridor growth projects (largely EfW), £13.4m investment in joint ventures and the balance maintenance of existing assets.

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 form of biomass and is a significant source of renewable energy already accounting for approaching 2% of total UK electricity production. Viridor believes that up to 6% of electricity could come from waste sources by 2015.

The Government's main mechanism for diverting waste from landfill and incentivising recycling and energy from waste facilities remains landfill tax. The Chancellor's Budget announcement in March 2012 reconfirmed the continuation of the increase in landfill tax of £8 a year from £64 per tonne from 1 April 2012 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 add value by expanding in recycling and waste based renewable energy whilst exploiting our existing landfill void. Around 50% of Viridor's profits are now derived from recovering value in waste, either by recycling or renewable energy generation.

Recycling

Recycling remains a very profitable business for Viridor – it is our largest profit generator with profit per tonne approximately three times that of landfill.

Viridor's strategy is to maximise recyclate quality and hence revenue and margin per tonne. During the year recycling volumes traded increased by 124k tonnes (7.2%) to 1.8m tonnes, with a continuing improvement in mix. Higher value recyclates were up 17.4% or 198k tonnes (110k tonnes from acquisitions) and lower value recyclates were down 12.8% or 74k tonnes. Overall average recycling revenues from gate fees and recyclate sales in 2011/12 were up 6.8% to £118 per tonne.

As previously flagged, Viridor experienced a reduction in recyclate prices over the second half of 2011/12 reflecting world economic conditions. Revenue per tonne eased from an above trend level of £125 in the first half of 2011/12 to £111 in the second half, which had a major impact on the business. Accordingly, we took action to reduce the cost base and more than 50% of the impact was recovered via terms of customer supply contracts and by cost reductions. We are, however, cautious about the prospect for a recovery in recyclate prices in the near-term.

Viridor now has the largest Materials Recycling Facilities (MRFs) capacity in the UK. To feed its recycling and renewable energy plants Viridor relies on both its own and third party collection services.

In June 2011, Viridor acquired Storm Recycling Limited, a family owned cardboard and plastics recycling business with associated collection based in Cheshire, for £1.7m; at acquisition the company had £0.2m of cash. It has an annual volume of around 20k tonnes of recyclate.

In October 2011, Viridor acquired Veolia's trade waste collection interests in Cornwall and North Devon for £0.6m; and in January 2012 Veolia's industrial and commercial collection interests in Devon and Somerset for a further £7.6m.

In November 2011, Viridor acquired JWS Churngold Limited for £14.3m; at acquisition the company had £0.4m of cash. The company provides transport and logistics solutions to the Lancashire Waste PFI.

Community Waste Recycling Limited, a specialist materials recycling and paper trading business based in Milton Keynes, was acquired in November 2011 for an initial consideration of £15.8m and further deferred consideration of £2.7m; at acquisition the company had £3.5m of cash. It has a number of medium and long-term municipal contracts and an annual volume of 90,000 tonnes of recyclate.

The above acquisitions are in line with Viridor's strategy of expanding its waste management activities, particularly in the recycling sector; they have significant operational synergies with Viridor's key strategic hubs in the UK and most also provide additional recyclate volumes for Viridor's national and international trading network. The acquisitions were made on a debt-free basis and are expected to be earnings enhancing in their first full year.

Contracts and collection

Profits in “Contracts & Other” were up overall across the 16 municipal contracts around the UK (the more significant ones include: Glasgow, Lakeside, Manchester, Somerset, W Sussex and Bedfordshire (last full year)) and Thames Water. Profits in the collection business were stable. As noted above, Viridor’s collection fleet plays an increasing role in feeding our recycling plants.

Renewable Energy

Energy can be recovered from waste in two ways, either via gas (notably landfill gas and potentially anaerobic digestion) or combustion (in EfW plants and similar facilities, some of which may be a part of Combined Heat and Power (CHP) schemes). Energy recovery from waste currently accounts for approaching 30% of total UK renewable energy (20% from landfill gas and the balance from combustion). As noted above, this equates to approaching 2% 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 576 Gigawatt hours (GWh) (the figure excludes a small amount of sub-contract capacity in Suffolk) during the year and is approaching its peak. Average revenue per Megawatt hour (MWh) rose by 1% to £83.5 per MWh from £82.5 per MWh in 2010/11 but was offset by unit cost increases. Our total landfill gas power generation operational capacity decreased by 1MW during the year to 107MW, (excluding 3MW capacity at sub-contract sites in Suffolk), due to reductions on Somerset sub-contract sites. The proportion of operational capacity eligible for ROCs increased from 69% to 74%, with the remaining 26% being on (lower priced) NFFO contracts. Viridor’s NFFO contracts end in tranches, after which the capacity for all Viridor’s sites will 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 107MW of landfill gas capacity, Viridor has a further 29MW of renewable energy capacity across its share of the Lakeside EfW, the Bolton EfW facility and the Greater Manchester Anaerobic Digestion (AD) operations.

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

- Both phases of the 750,000 tonnes, 120MW Runcorn/Ineos Chlor EfW/CHP plant are under construction. Runcorn I is due to be completed by end March 2013 and Runcorn II during 2014/15

- Construction has commenced at the 60,000 tonnes, 3MW Exeter EfW plant

- In November 2011 the Notice to Proceed was issued for the 300,000 tonnes, 24MW EfW plant at Ardley, near Oxford, with the legal challenge having been successfully resolved. Bunker excavations have now been completed

- The Engineering Procurement and Construction (EPC) contract has been signed for the 350,000 tonnes, 28MW EfW plant at Trident Park, Cardiff. Construction is due to commence in H1 2012/13

- In April 2011 a planning appeal was successful, with costs awarded, for a 350,000 tonnes, 28MW EfW at Avonmouth. The challenge to the Secretary of State's decision to grant planning permission noted at the Half Year has now been successfully resolved

- In December 2010 a planning appeal was successful for a 300,000 tonnes, 40MW EfW/CHP plant at Dunbar, near Edinburgh. Discussions are ongoing re the associated planning hinterland

- Construction has begun on an AD plant at Walpole (Somerset)

As noted above, Viridor's total operational renewable energy capacity is currently 136MW with around a further 115MW (electricity plus heat) committed 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 four years' time.

PPPs/PFIs

The 25 year Greater Manchester Waste PFI contract through Viridor Laing (Greater Manchester) Limited (VLGM) 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. At 31 March 2012, 39 of the 43 facilities now planned were operational. The client, Greater Manchester Waste Disposal Authority, has reported 99.7% customer satisfaction with the Household Waste Recycling Centres (HWRCs).

As reported previously, solid recovered fuel produced from the waste will be used to generate heat and power at a plant being built at Runcorn in Cheshire. 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 recycling and EfW.

As well as the Greater Manchester project, Viridor is currently operating PPP/PFI projects for the South London Waste Partnership, Somerset, and West Sussex. As noted above, construction has commenced on the Exeter EfW plant and the EfW required for the Oxfordshire PPP contract.

In addition to the above contracts, Viridor continues to bid selectively for other PPP projects. Viridor is preferred bidder for South London Waste Partnership residual waste, Glasgow recycling and residual waste, and South Lanarkshire recycling and residual waste (subject to challenge); and is one of the last two for Peterborough recycling and residual waste, Central Bedfordshire residual waste, South East Wales (Prosiect Gwyrdd) residual waste, West Lothian residual waste and Edinburgh and Midlothian food waste.

Joint Ventures

Lakeside, the first of our EfW pipeline projects, continues to perform very strongly with a total 2011/12 contribution of £7.8m. Interest receivable on shareholder loans was £1.4m, down £1.1m due to the partial repayment of shareholder loans. Share of profit after tax from Lakeside was £3.7m (up £0.2m on the previous year) and £2.7m was the sub-contract profit.

The Lakeside project has won the 2011 Chartered Institute of Wastes Management's "Peel People's Cup" for the best run waste management facility in the UK, and the "Energy from Waste Facility of the Year" and "Best Designed Renewable Energy Facility" categories in the UK Renewable Infrastructure Awards 2011.

Interest receivable on shareholder loans from the Viridor Laing Greater Manchester joint venture was £6.1m, up £1.9m due to increased shareholder loans. Share of profit after tax from Viridor Laing Greater Manchester was £0.3m. As noted above, there has been a very high level of customer satisfaction at the Greater Manchester HWRCs.

Total joint ventures' contribution, consisting of interest on shareholder's loans and share of profit after tax, rose 4.5% to £11.5m.

Landfill

Viridor's strategy is based on expanding recycling and renewable energy activities as landfill declines in line with Government policies. Viridor's landfill disposal volumes decreased by 0.4m tonnes (11.4%) to 3.1m tonnes in 2011/12. The closure of the landfill site at Horton (0.2m tonnes) accounted for approaching half the decline. Increased recycling and landfill diversion by third party industrial and commercial customers and the weak UK economy were also important factors. Average gate fees increased by 5.8% to £23 per tonne but the gain was offset by increased costs on lower volumes. Consented landfill void reduced from 69 million cubic metres (mcm) at 31 March 2011 to 65mcm at 31 March 2012, reflecting usage during the period.

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. Around 50% of its profits in 2011/12 came from recovering value in waste. Recycling is now the company's largest profit generator and will be key to profits in the next year or so. Viridor is not immune to the difficult conditions in the world economy which have impacted on results in the shorter-term. We are cautious about the prospect for a recovery in recyclate prices in the near-term. PPP and EfW projects are already making a significant contribution to Viridor's bottom line and our growing pipeline of current and future projects underpins our long-term profit momentum.

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 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 c3.4%. In addition, £374m of South West Water's debt is index-linked at an overall real rate of 1.66%. Pennon Group's average interest rate for the year to 31 March 2012 was 3.9% and South West Water's was 4.1%.

The Group had a strong liquidity and funding position as at 31 March 2012 and is well placed in current financial market conditions:

- £425m cash balances (SWW £294m), including £123m restricted cash
- £659m undrawn facilities

During the twelve months to 31 March 2012 the Group raised or renewed £566m of facilities:

- £205m new leasing facilities
- £55m revolving credit facility renewed
- £181m of new term loans and RCFs
- £125m EIB loan for South West Water

In addition, the Group entered into further swaps to fix the interest rate on £100m of South West Water debt.

The Group's average debt maturity is 23 years.

During the year the Group recorded fair value losses of £25m on swaps, as indicated in the Statement of Comprehensive Income on page 29. These swaps are expected to be held to maturity and hence these losses will reverse over time.

PENSIONS

The Group's defined benefit pension schemes had a deficit (net of deferred tax) under IAS 19 at 31 March 2012 of c£75m (£99m gross).

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

Schemes' assets increased from £454m to £517m (of which £33m represents deficit recovery contributions paid to the end of K5) and schemes' liabilities increased from £540m to £616m, reflecting market volatility in long-term interest rates used to discount liabilities.

During the year the Group recorded losses of £52m in the Statement of Comprehensive Income on page 29 from changes in actuarial assumptions, being principally the reduction in the net discount rate of 0.63%, reflecting lower AA bond yields.

South West Water's pension cash contributions to the schemes remain within the allowance in Ofwat's Final Determination for K5.

TAXATION

The current tax charge for the year was £30.9m (2010/11 – £38.6m) giving an effective current tax rate of 15% (2010/11 – 20%). The reduced rate reflects the 2% reduction in the corporation tax rate and higher pension deficit recovery contribution as noted above.

Deferred tax for the year was a credit of £2.8m (2010/11 credit – £21.7m) which included a credit of £26.4m from the impact of the 2% reduction in the rate of corporation tax from April 2012.

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, renewable energy and waste management.

South West Water has continued its excellent start to K5 with very strong operational delivery, high standards of customer service and a robust financial performance.

Viridor is successfully leading the way in exploiting opportunities arising from the Government's landfill diversion, recycling and renewable energy targets – around 50% of its profits already come from recovering value in waste. Although we are cautious about the prospect for a recovery in recyclate prices in the near-term, our recycling business is Viridor's largest profit generator and key to profits over the next couple of years. Major EfW planning successes and the company's strong PPP pipeline underpin its expected long-term profit momentum from 2013/14 onwards.

Ken Harvey
Chairman
28 May 2012

FINANCIAL TIMETABLE FOR THE YEAR ENDED 31 MARCH 2012

29 May 2012	2011/12 Preliminary Results
27 June 2012	Annual Report & accounts published
26 July 2012	Annual General Meeting
August 2012	Interim Management Statement
8 August 2012 *	Ordinary shares quoted ex-dividend
10 August 2012 *	Record date for final cash dividend
17 September 2012 *	Scrip election date for final dividend
5 October 2012 *	Final cash dividend paid and Scrip shares issued

* These dates are provisional and, in the case of the final dividend, subject to obtaining shareholder approval at the 2012 Annual General Meeting.

Pennon Group's Half Year Results will be announced on 29 November 2012.

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.

UNSOLICITED COMMUNICATIONS WITH SHAREHOLDERS

A number of companies, including Pennon Group Plc, continue to be aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters which imply a connection to the company concerned. These are typically from overseas based 'brokers' who target UK shareholders offering to buy their shares. Shareholders are advised to be wary of any unsolicited advice, offers to buy shares or offers of free reports on the Company. Details of any share dealing facilities that the Company endorses will be included in Company mailings.

PENNON GROUP PLC

Consolidated income statement for the year ended 31 March 2012

	Note	**2012 (Unaudited) £m**	2011 £m
Revenue	4	**1,233.1**	1,159.2
Operating costs			
Manpower costs		**(155.4)**	(148.3)
Raw materials and consumables used		**(133.9)**	(121.6)
Other operating expenses		**(528.0)**	(486.7)
Depreciation and amortisation		**(147.0)**	(141.7)
Operating profit	4	**268.8**	260.9
Finance income	5	**119.3**	45.1
Finance costs	5	**(191.6)**	(121.8)
Net finance costs	5	**(72.3)**	(76.7)
Share of post-tax profit from joint ventures		**4.0**	4.3
Profit before tax	4	**200.5**	188.5
Taxation	6	**(28.1)**	(16.9)
Profit for the year		**172.4**	171.6
Profit attributable to equity shareholders		**172.4**	171.6
Earnings per share (pence per share)	7		
- Basic		**48.1**	48.4
- Diluted		**47.8**	48.1

PENNON GROUP PLC

Consolidated statement of comprehensive income for the year ended 31 March 2012

	2012 (Unaudited) £m	2011 £m
Profit for the year	**172.4**	171.6
Other comprehensive loss		
Actuarial (losses)/gains on defined benefit pension schemes	**(51.7)**	2.4
Cash flow hedges		
Net fair value losses	**(24.7)**	(0.1)
Share of other comprehensive loss from joint ventures	**(5.4)**	(3.0)
Tax credit/(charge) on items taken directly to or transferred from equity	**16.0**	(3.3)
Other comprehensive loss for the year net of tax	**(65.8)**	(4.0)
Total comprehensive income for the year	**106.6**	167.6
Total comprehensive income attributable to equity shareholders	**106.6**	167.6

PENNON GROUP PLC

Consolidated balance sheet at 31 March 2012

	Note	2012 (Unaudited) £m	2011 (Restated note 3) £m
ASSETS			
Non-current assets			
Goodwill		**327.1**	300.4
Other intangible assets		**17.5**	4.4
Property, plant and equipment		**3,082.8**	2,922.7
Other non-current assets		**138.4**	116.0
Derivative financial instruments		**21.9**	-
Financial assets at fair value through profit		**-**	2.6
Investments in joint ventures		**0.1**	1.5
		3,587.8	3,347.6
Current assets			
Inventories		**9.0**	7.2
Trade and other receivables		**238.4**	219.0
Derivative financial instruments		**9.7**	6.9
Financial assets at fair value through profit		**0.5**	0.9
Cash and cash deposits	11	**425.3**	555.5
		682.9	789.5
LIABILITIES			
Current liabilities			
Borrowings	11	**(325.5)**	(99.2)
Derivative financial instruments		**(16.6)**	(5.3)
Trade and other payables		**(242.5)**	(253.5)
Current tax liabilities		**(59.7)**	(79.5)
Provisions		**(25.6)**	(16.3)
		(669.9)	(453.8)
Net current assets		**13.0**	335.7
Non-current liabilities			
Borrowings	11	**(2,204.4)**	(2,390.1)
Other non-current liabilities		**(76.9)**	(30.4)
Financial liabilities at fair value through profit		**(16.7)**	-
Derivative financial instruments		**(32.0)**	(16.3)
Retirement benefit obligations		**(98.6)**	(85.8)
Deferred tax liabilities		**(273.8)**	(292.5)
Provisions		**(76.3)**	(88.7)
		(2,778.7)	(2,903.8)
Net assets		**822.1**	779.5
Shareholders' equity			
Share capital	9	**148.2**	147.0
Share premium account		**8.0**	9.2
Capital redemption reserve		**144.2**	144.2
Retained earnings and other reserves		**521.7**	479.1
Total shareholders' equity		**822.1**	779.5

PENNON GROUP PLC

Consolidated statement of changes in equity for the year ended 31 March 2012

	Share capital (note 9) £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Total equity £m
At 1 April 2010	145.3	10.9	144.2	362.5	662.9
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
					Unaudited
Profit for the year	-	-	-	172.4	172.4
Other comprehensive loss for the year	-	-	-	(65.8)	(65.8)
Total comprehensive income for the year	-	-	-	106.6	106.6
Transactions with equity shareholders					
Dividends paid	-	-	-	(88.2)	(88.2)
Adjustment for shares issued under the scrip dividend alternative	1.2	(1.2)	-	19.1	19.1
Adjustment in respect of share-based payments	-	-	-	3.5	3.5
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	-	(0.3)	(0.3)
Proceeds from treasury shares re-issued	-	-	-	1.9	1.9
	1.2	(1.2)	-	(64.0)	(64.0)
At 31 March 2012	**148.2**	**8.0**	**144.2**	**521.7**	**822.1**

PENNON GROUP PLC

Consolidated statement of cash flows for the year ended 31 March 2012

	Note	2012 (Unaudited) £m	2011 £m
Cash flows from operating activities			
Cash generated from operations	10	**324.7**	376.2
Interest paid		**(74.5)**	(78.2)
Tax paid		**(41.4)**	(43.2)
Net cash generated from operating activities		**208.8**	254.8
Cash flows from investing activities			
Interest received		**13.2**	14.4
Acquisition of subsidiary undertakings (net of cash and debt acquired)		**(29.2)**	(25.1)
Loans advanced to joint ventures		**(13.4)**	(12.5)
Loan repayments received from joint ventures		**3.6**	3.5
Purchase of property, plant and equipment		**(262.2)**	(190.3)
Proceeds from sale of property, plant and equipment		**4.6**	4.7
Net cash used in investing activities		**(283.4)**	(205.3)
Cash flows from financing activities			
Proceeds from treasury shares re-issued		**1.9**	1.6
Purchase of ordinary shares by the Pennon		**-**	-
Employee Share Trust		**(0.3)**	-
Deposit of restricted funds		**(0.1)**	(30.8)
Proceeds from new borrowing		**25.0**	187.0
Repayment of borrowings		**(71.0)**	(104.6)
Finance lease sale and leaseback		**79.5**	-
Finance lease principal repayments		**(14.0)**	(20.5)
Dividends paid		**(69.1)**	(56.8)
Net cash used in financing activities		**(48.1)**	(24.1)
Net (decrease)/increase in cash and cash equivalents		**(122.7)**	25.4
Cash and cash equivalents at beginning of year	11	**414.9**	389.5
Cash and cash equivalents at end of year	11	**292.2**	414.9

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 41. 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 recycling, renewable energy and waste management.

The financial information for the years ended 31 March 2012 and 31 March 2011 does not constitute full financial statements within the meaning of section 434 of the Companies Act 2006. The full financial statements for 31 March 2011 were approved by the Board of Directors on 22 June 2011 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 and accounting policies**

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 2011 (which are available on the Company website www.pennon-group.co.uk) and are also in accordance with all International Financial Reporting Standards and interpretations of the International Financial Reporting Interpretations Committee applicable for the year ended 31 March 2012 in issue which have been adopted by the European Union.

3. **Restatement of prior year acquisitions**

At 31 March 2011 the accounting for the following acquisitions was provisional:

- Oakley Waste Management Limited (renamed Viridor Waste (Corby) Limited) and Basecall Limited, acquired from Reconomy (Acquisitions) Limited
- Pearsons Group Holdings Limited
- Adapt Recycling Limited (renamed Viridor Waste (Adapt) Limited)
- Swinnerton Environmental Limited (renamed Viridor Waste (Bury) Limited)
- Martock Waste Paper Company Limited (renamed Viridor (Martock) Limited)

Completion of the accounting for the acquisitions has resulted in an increase to goodwill of £8.0m, a decrease in property, plant and equipment of £4.8m, a decrease in inventories of £0.2m, a decrease in trade and other receivables of £1.6m, a decrease in trade and other payables of £5.4m, an increase in current tax payable of £0.1m, a decrease in deferred tax of £1.3m and an increase of £8.0m in provisions.

Notes (continued)

4. **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.

	2012 (Unaudited) £m	2011 £m
Revenue		
Water and sewerage	**474.0**	448.8
Waste management	**761.1**	712.0
Other	**9.8**	9.5
Less intra-segment trading *	**(11.8)**	(11.1)
	1,233.1	1,159.2
Segment result		
Operating profit before depreciation and amortisation (EBITDA)		
Water and sewerage	**305.2**	286.8
Waste management	**110.3**	116.5
Other	**0.3**	(0.7)
	415.8	402.6
Operating profit		
Water and sewerage	**204.7**	189.8
Waste management	**63.7**	71.6
Other	**0.4**	(0.5)
	268.8	260.9
Profit before tax		
Water and sewerage	**141.5**	128.9
Waste management	**57.6**	62.9
Other	**1.4**	(3.3)
	200.5	188.5

* 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.

Factors such as seasonal weather patterns can affect sales volumes, income and costs in both the water and sewerage and waste management segments.

Geographic analysis of revenue based on location of customers

	2012 (unaudited) £m	2011 £m
UK	**1,162.4**	1,091.8
Rest of European Union	**13.3**	11.1
China	**51.0**	49.5
Rest of World	**6.4**	6.8
	1,233.1	1,159.2

The UK is the Group's country of domicile and generates the majority of its revenue from external customers in the UK. The Group's non-current assets are located in the UK.

PENNON GROUP PLC

Notes (continued)

5. **Net finance costs**

	2012 (Unaudited)			2011		
	Finance cost £m	**Finance income £m**	**Total £m**	Finance cost £m	Finance income £m	Total £m
Cost of servicing debt						
Bank borrowings and overdrafts	**(50.0)**	**-**	**(50.0)**	(55.5)	-	(55.5)
Interest element of finance lease rentals	**(38.8)**	**-**	**(38.8)**	(30.6)	-	(30.6)
Other finance costs	**(5.5)**	**-**	**(5.5)**	(3.9)	-	(3.9)
Interest receivable	**-**	**6.2**	**6.2**	-	6.1	6.1
Interest receivable on shareholder loans to joint ventures	**-**	**7.5**	**7.5**	-	6.7	6.7
	(94.3)	**13.7**	**(80.6)**	(90.0)	12.8	(77.2)
Other finance income						
Investment income received	**-**	**67.3**	**67.3**	-	-	-
Fair value losses on derivative financial instruments providing commercial hedges	**(63.9)**	**-**	**(63.9)**	-	-	-
	(63.9)	**67.3**	**3.4**	-	-	-
Notional interest						
Interest receivable on service concession arrangements	**-**	**3.3**	**3.3**	-	2.9	2.9
Retirement benefit obligations	**(29.1)**	**32.7**	**3.6**	(27.8)	29.4	1.6
Unwinding of discounts on provisions	**(4.3)**	**-**	**(4.3)**	(4.0)	-	(4.0)
	(33.4)	**36.0**	**2.6**	(31.8)	32.3	0.5
Net gains on non-designated derivative financial instruments hedging interest rate risk	**-**	**2.3**	**2.3**	**-**	**-**	-
	(191.6)	**119.3**	**(72.3)**	(121.8)	45.1	(76.7)

Other finance income represents enhanced yields from investment income received on deposits held partially offset by fair value losses on derivative financial instruments which provided commercial hedges against these short-term structured deposits. These transactions commenced and matured during the year.

Notes (continued)

6. **Taxation**

	2012 (Unaudited) £m	2011 £m
Analysis of charge :		
UK corporation tax	**30.9**	38.6
Deferred tax – other	**23.6**	3.4
Deferred tax arising on change of rate of corporation tax	**(26.4)**	(25.1)
Total deferred tax credit	**(2.8)**	(21.7)
	28.1	16.9

UK corporation tax is calculated at 26% (2011 28%) of the estimated assessable profit for the year.

Deferred tax includes a non-recurring credit of £26.4m reflecting the reduction in the rate of UK corporation tax from 26% to 24% effective from 1 April 2012.

The effective tax rate for the year was 15% and after the deferred tax credit 14%.

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

7. **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 :

Number of shares (millions)	**2012 (Unaudited)**	2011
For basic earnings per share	**358.7**	354.6
Effect of dilutive potential ordinary shares from share options	**2.2**	2.0
For diluted earnings per share	**360.9**	356.6

Notes (continued)

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

Basic and diluted earnings per share before deferred tax

Earnings per share before deferred tax are presented to provide a more useful comparison on business trends and performance. Earnings per share have been calculated:

	2012 (Unaudited)			2011		
	Profit after tax £m	**Earnings per share Basic p**	**Diluted p**	Profit after tax £m	Earnings per share Basic p	Diluted p
Statutory earnings per share	**172.4**	**48.1**	**47.8**	171.6	48.4	48.1
Deferred tax	**(2.8)**	**(0.8)**	**(0.8)**	(21.7)	(6.1)	(6.1)
Earnings per share before deferred tax	**169.6**	**47.3**	**47.0**	149.9	42.3	42.0

8. **Dividends**

Amounts recognised as distributions to equity holders in the year :

	2012 (Unaudited) £m	2011 £m
Interim dividend paid for the year ended 31 March 2011 : 7.50p (2010 6.95p) per share	26.8	24.5
Final dividend paid for the year ended 31 March 2011 : 17.15p (2010 15.60p) per share	61.4	55.1
	88.2	79.6
Proposed dividends		
Proposed interim dividend for the year ended 31 March 2012 : 8.22p (2011 7.50p) per share	29.6	26.8
Proposed final dividend for the year ended 31 March 2012 : 18.30p (2011 17.15p) per share	66.3	61.4
	95.9	88.2

The proposed interim and final dividends have not been included as liabilities in these financial statements. The proposed interim dividend for 2012 was paid on 3 April 2012 and the proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 26 July 2012.

If approved at the Annual General Meeting the final dividend of 18.30p per share will be paid on 5 October 2012 to shareholders on the register at 10 August 2012.

9. Share capital

Allotted, called up and fully paid

	Number of shares		
	Treasury shares	Ordinary shares	£m
At 1 April 2010 Ordinary shares of 40.7p each	5,092,574	352,058,253	145.3
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
			Unaudited
Shares issued under the scrip dividend alternative	-	2,941,306	1.2
Shares re-issued under the Company's Performance and Co-investment Plan	(246,793)	246,793	-
For consideration of £0.3m, shares re-issued to the Pennon Employee Share Trust	(44,667)	44,667	-
For consideration of £1.6m, shares re-issued under the Company's Sharesave Scheme	(385,402)	385,402	-
At 31 March 2012 ordinary shares of 40.7p each	**3,632,705**	**360,588,466**	**148.2**

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

PENNON GROUP PLC

Notes (continued)

10. **Cash flow from operating activities**

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

Cash generated from operations	**2012 (Unaudited) £m**	2011 £m
Profit for the year	**172.4**	171.6
Adjustments for:		
Share-based payments	**3.6**	3.4
Profit on disposal of property, plant and equipment	**(2.8)**	(2.3)
Depreciation charge	**145.6**	141.0
Amortisation of intangible assets	**1.4**	0.7
Share of post-tax profit from joint ventures	**(4.0)**	(4.3)
Finance income	**(119.3)**	(45.1)
Finance costs	**191.6**	121.8
Taxation charge	**28.1**	16.9
Changes in working capital *(excluding the effect of the acquisition of subsidiaries) :*		
Increase in inventories	**(1.7)**	(0.6)
Increase in trade and other receivables	**(27.3)**	(25.5)
(Decrease)/increase in trade and other payables	**(13.2)**	30.3
Decrease in retirement benefit obligations	**(35.3)**	(18.1)
Decrease in provisions	**(14.4)**	(13.6)
Cash generated from operations	**324.7**	376.2

PENNON GROUP PLC

Notes (continued)

11. **Net borrowings**

	2012 (Unaudited) £m	2011 £m
Cash and cash deposits	**425.3**	555.5
Borrowings – current		
Bank overdrafts	**(10.5)**	(18.1)
Other current borrowings	**(274.3)**	(56.4)
Finance lease obligations	**(40.7)**	(24.7)
Total current borrowings	**(325.5)**	(99.2)
Borrowings – non-current		
Bank and other loans	**(729.4)**	(948.4)
Other non-current borrowings	**(231.5)**	(252.5)
Finance lease obligations	**(1,243.5)**	(1,189.2)
Total non-current borrowings	**(2,204.4)**	(2,390.1)
Total net borrowings	**(2,104.6)**	(1,933.8)

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

	2012 (Unaudited) £m	2011 £m
Cash and cash deposits as above	**425.3**	555.5
Bank overdrafts as above	**(10.5)**	(18.1)
	414.8	537.4
Less : deposits with a maturity of three months or more (restricted funds)	**(122.6)**	(122.5)
	292.2	414.9

Notes (continued)

12. **Acquisitions**

On 6 June 2011 the entire issued share capital of Storm Recycling Limited (renamed Viridor (Winsford) Limited) was purchased by Viridor Waste Management Limited for a cash consideration of £1.7m. The acquisition has been accounted for using the acquisition method. Provisional goodwill of £1.8m has been capitalised.

On 17 November 2011 the entire issued share capital of JWS Churngold Limited (renamed Viridor (Lancashire) Limited) was purchased by Viridor Waste Management Limited for a cash consideration of £14.3m. The acquisition has been accounted for using the acquisition method. Provisional goodwill of nil has been capitalised.

On 29 November 2011 the entire issued share capital of Community Waste Holding Limited (renamed Viridor (Community Recycling MKH) Limited) was purchased by Viridor Waste Management Limited for a consideration of £18.5m. Community Waste Recycling Limited (renamed Viridor (Community Recycling MK) Limited) is a wholly owned subsidiary of Viridor (Community Recycling MKH) Limited. The acquisition has been accounted for using the acquisition method. Provisional goodwill of £16.7m has been capitalised.

On 31 October 2011 Viridor Waste Management Limited acquired Veolia's trade waste collection interests in Cornwall and North Devon for £0.6m. On 1 January 2012 Viridor Waste Management Limited acquired Veolia's industrial and commercial collection interests in Devon and Somerset for £7.6m. The acquisition of these trades has been accounted for using the acquisition method. Provisional goodwill of £8.2m 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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