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Pennon Group Plc (“Pennon Group”)

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Colin Drummond
Executive Director, Pennon Group Plc
Chief Executive, Viridor Limited

Viridor Overview

- Leading UK waste management and renewable energy business – one of the two principal subsidiaries of Pennon Group Plc (the other being South West Water)
- 2008/09 results
 - turnover £528m
 - EBITDA £105m
 - PBITA £64m
- Profits have grown 22% pa since year 2000/01
- Exploiting embedded value in waste stream
 - energy
 - recycle/raw materials
 - over 40% of Viridor's profits now come from recovering value from waste
- Very exciting future
 - huge required expenditure on UK waste infrastructure (£15bn by 2020)
 - world long-term shortage of energy and raw materials

Viridor

Strong Strategic Positioning

UK is a particularly attractive market

- Landfill an increasingly scarce resource
- Ambitious EU/UK waste management targets for recycling, energy from waste, landfill diversion
 - Landfill Directive/WEEE Directive etc
 - backed by steeply rising landfill tax and other mechanisms
 - c£15bn investment required in UK by 2020
- Ambitious EU/UK renewable energy targets
 - waste provides low cost, base load, distributed energy
 - key technologies: methane capture (landfill gas/anaerobic digestion) and combustion (especially CHP)
 - waste already the major source of renewable energy in UK (1.5% of total UK electricity with potential to reach 6% by 2015)
- World resource constraints increasingly recognised (oil/pulp/metals/aggregates/topsoil)
 - pressure on manufacturers to prove green credentials
 - recycles substantially cheaper than virgin materials; now an established market
- Significant planning barriers for waste and renewable energy infrastructure

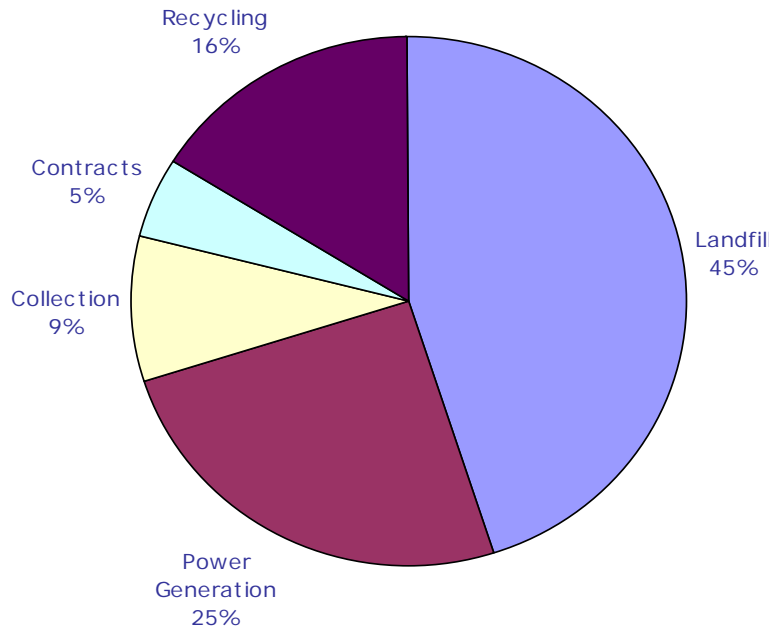
Viridor Strategy

- Capitalise on strong position in **landfill**
 - 78m cubic metres/14 years consented void
 - an increasingly scarce resource (total UK capacity 6-7 years, declining annually)
- Exploit **recycling** opportunities
- Maximise **renewable energy generation**
 - currently 102MW landfill gas and 9MW Energy from Waste (EfW)
 - total expected to treble in next 5 years
- **PPP/PFI contracts**
- **Selected acquisitions**

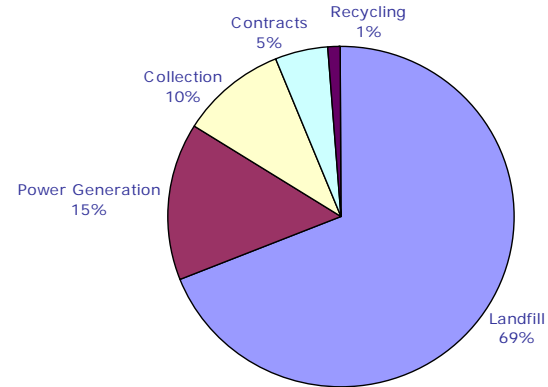
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Profit Contribution by Segment

Year Ended 31 March 2009



Year Ended 31 March 2001



- Business successfully evolving
- Over 40% of profits from recovering value in waste

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Waste and Renewable Energy - I

Waste provides base load low cost distributed renewable energy

- Significant energy embedded in residual waste even after recycling is maximised
- Two principal ways of recovering embedded energy
 - as methane (landfill gas and anaerobic digestion)
 - by combustion (energy from waste and developing technologies such as pyrolysis and gasification)
- EfW and landfill gas particularly well proven technologies
- Energy recovery is maximised in combined heat and power (CHP) solutions but to date there have been few in the UK
- Revenue is received for required waste treatment
 - thus energy production cost is effectively low
 - waste industry effectively has a free or negative cost energy source

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Waste and Renewable Energy - II

Waste provides base load low cost distributed renewable energy

- Because energy recovery from waste is a by-product of required waste treatment, its effective cost is low
- Waste based renewable energy provides base load power
 - typical plant operates 90% of the time
- Waste is distributed round the Grid typically close to users of energy rather than being in remote locations

Waste provides base load low cost distributed renewable energy

- UK targets to generate 15% of total electricity from renewables by 2015 and 15% of total energy (30% to 40% of electricity) by 2020
 - compared to 5% of electricity at present
- Waste currently accounts for around 30% of UK renewables and has grown six-fold over the past 10 years
 - landfill gas 24% and incineration 6%
 - around 1.5% of total UK electricity
- Could account for 6% total UK electricity by 2015
- Renewable Obligation provides market related financial incentives

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Renewable Obligation (RO) - I

- Up to 2002 renewable energy was incentivised by NFFO
 - long-term contracts with fixed prices going up by inflation
 - some NFFO contracts have a few years still to run
 - typically lower price than available under RO
 - NFFO contracts change to RO when contract ends
- Complicated rules as regards eligibility for ROCs
- Landfill gas schemes accredited by April 2009 receive 1 ROC per MWh
- Schemes accredited since then receive 0.25 ROCs per MWh
- Anaerobic digestion receive 2 ROCs per MWh
- EfW not eligible unless part of good quality CHP
- Renewable heat obligation expected April 2011
 - details unclear but may provide upside
- Feed-in tariffs available for AD from April 2010
 - fixed price but lower than under ROCs currently

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Renewable Obligation (RO) - II

- Under RO generators of renewable energy are paid
 - base wholesale/brown energy price
 - value of renewable obligation certificate (ROC)
 - (climate change) levy exemption certificate
- Brown energy price set by world supply/demand
 - depressed at moment
- ROC value depends on actual renewable production versus government target; if we fall behind target the price will go up
 - target 5% of electricity in 2005 rising to 10% in 2010 and 15% in 2015
 - ROC face value £30 per MWh (plus inflation)
 - if target 10% and actual production 5% then ROC value £60 (plus inflation)
- Total price 2009 c£100/MWh
- Has led to 600% increase in landfill gas power generation in past 10 years and 60% reduction in methane emitted from landfills
 - huge environmental benefits (methane 21 times as harmful as CO₂) and good news for shareholders

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Renewable Energy Summary

- **Landfill gas**
 - 102 MW (as at 30 September 2009)
- **Lakeside EfW** joint venture with Grundon Waste Management now operational
 - 400kt pa and up to 37MW EfW plant at Colnbrook near Heathrow
 - £160m capex, 86% non-recourse debt with balance split equally between equity providers
- **Bolton EfW** facility (part of GMW PFI) already operational (120kt pa and 9MW)
- **Exeter EfW**
 - 60kt pa, 3MW
 - planning permission achieved and contracts being finalised
- **Runcorn/Ineos Chlor CHP** (planning permission achieved September 2008; 750kt pa, 120MW, Phases I and II)
 - preliminary works under way
- Planning approval is a lengthy process, often involving appeals. Other possible long-term **EfW** sites include
 - Trident Park, **Cardiff** (turned down locally; to be appealed)
 - **Dunbar** (turned down locally; to be appealed)
 - **Ardley** (near Oxford; turned down locally; to be appealed)
- 6 planned **Anaerobic Digestion** (AD) plants
 - **Greater Manchester**: planning permission achieved for 4 ADs (up to 8MW)
 - **Walpole**, Somerset: planning permission achieved
 - **Beddington**, Croydon: planning permission achieved
- **Viridor expects to triple its energy generation from current 111MW in next five years**

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Greater Manchester Waste PFI

- 25 year contract signed by Viridor/Laing consortium 8 April 2009 and now operational
- The UK's largest ever combined waste and renewable energy project
 - 1.3m tonnes pa of waste
 - total potential energy generation approaching 140MW (including Runcorn Phases I and II) Bolton EfW and up to 8MW AD
- Total PFI construction cost of £405m and an additional £235m for the associated Energy from Waste/Combined Heat and Power ('EfW/CHP') plant at Runcorn (Phase I)
- Viridor investing £85m (equity plus shareholder loans)
- In addition, Viridor has secured 100% of Phase II of planned EfW/CHP facility at Runcorn
 - significant upside given rising landfill tax, LATS and the shortage of competing capacity in the North West
- Already trading profitably. Profit streams for Viridor:
 - sub-contract
 - interest receivable on shareholder loans in SPV(s)
 - share of PAT in SPV(s)
- Runcorn Phase II longer-term opportunity

Viridor *PPP/PFI Pipeline*

- Preferred bidder for **Oxfordshire PPP** (September 2009)
- One of last two for **Cheshire PFI**
- One of last two for **South West Devon Waste Partnership**
- One of last three for each of **Peterborough EfW and MRF**
- One of last four for **Gloucester PFI**
- One of last four for **South London Waste Partnership**
- Viridor continues to bid selectively for other contracts

Most of above include renewable energy

Appendix Recycling

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Recycling Opportunities - I

- Tough UK Government recycling targets
- UK Chancellor's April 2010 Budget announcement enhances long-term economics of recycling
 - landfill tax to increase by £8 per year from current £48 per tonne to £80 per tonne in 2014/15
- Worldwide long-term shortage of raw materials
 - particularly in China/Far East
- Recycle lower cost than virgin materials
- Opportunity is to recycle/recover materials in UK and sell to mills/users world-wide
 - half of UK waste paper is reprocessed overseas, especially in China

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Recycling Opportunities - II

- Viridor largest operator of Materials Reclamation Facilities (MRFs) in UK
- Viridor recycles and composts around 1.4m tonnes per annum through network of
 - 18 MRFs
 - 14 municipal waste; 2 electronic waste; 2 glass
 - 71 Household Waste Recycling Centres (HWRCs)
 - 10 composting sites

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Recycling Companies Acquired H1 2009/10

- **London Recycling Limited**

- acquired in June for £10.6m cash consideration (plus £1.8m debt)
- HQ in London, E16
- full range of recycling operations, including collection fleet, 'WEEE' facility, paper processing, confidential destruction, MRF, waste auditing
- handles c50kt material pa

- **Intercontinental Recycling Limited**

- acquired in July for £4.2m cash consideration (plus £3.9m debt)
- HQ in Skelmersdale, Lancs
- converts HDPE and PET plastic bottles collected from MRFs to pellet or flake
- handles c40kt plastics waste pa

In total 15 waste acquisitions since 2001/02

- ***total investment around £300m***
- ***integrated and earnings enhancing in first full year after acquisition***



Pennon Group Plc