



HSBC  
5<sup>th</sup> Small Mid/Cap Socially Responsible Investment Conference  
Frankfurt, 2-3 February 2010

## Group Overview

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

# Pennon Group Plc (“Pennon Group”)

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# Pennon Group Plc

## Overview

**Pennon Group Plc** is a large FTSE 250 company which operates and invests in water and sewerage services and waste management. It has assets of around £3.5 billion and a workforce of around 4,000 people

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** is one of the leading waste management, recycling and renewable energy businesses in the United Kingdom
- E-mail alert service available from website, [www.pennon-group.co.uk](http://www.pennon-group.co.uk)

# Pennon Group Plc

## *Investment Characteristics*

- Top end of FTSE 250
- Strong Socially Responsibility Investment credentials
- Clearly focussed strategy
- Steady growth
- Index linked asset base
- Defensive

# Pennon Group Plc

## Strategy

- Strategy clearly focused on water and sewerage services and waste management
- **South West Water**
  - successfully delivering K4
  - Final Determination from Ofwat accepted 18 January 2010
  - Platform for K5 in place
- **Viridor** delivering strong growth by
  - capitalising on its leading position in landfill waste disposal
  - proactively developing new waste management facilities to meet ambitious EU/UK targets
  - successfully exploiting the huge potential in waste based renewable energy generation
- Underpinned by efficient long-term financing

# Pennon Group Plc

## *Notable SRI Achievements*

- Member of **FTSE4Good Index** (responsible investment index)
- Member of **FTSE Environmental Opportunities All-Share Index**
  - one of only 30 UK companies included in international index of 472
- **2009 Carbon Disclosure Leadership Index**
  - score of 65 out of 100
- **South West Financial and Corporate Communications Awards 2008-2009**
  - winner overall Best Commitment to Carbon Reduction
  - highly commended for Environmental Commitment and Social Engagement
  - highly commended for 2008 Annual Report

# Pennon Group Plc

## 5 Year Summary Financial Results

As at 31 March	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	Compound Growth
<b>Group revenue</b>	554	655	756	879	958	14.7%
<b>Group operating profit</b>	153	178	203	243	257	13.9%
- SWW	122	142	157	185	192	11.9%
- Viridor	30	37	48	59	64	20.2%
<b>Group profit before tax</b>	<b>91</b>	<b>114</b>	<b>135</b>	<b>158</b>	<b>166</b>	<b>16.2%</b>
- SWW	70	87	99	121	122	14.9%
- Viridor	22	25	32	38	41	16.9%
<b>Earnings per share</b>	<b>21.9p</b>	<b>26.0p</b>	<b>31.4p</b>	<b>37.5p</b>	<b>38.0p</b>	<b>14.8%</b>
<b>Dividend per share</b>	<b>14.3p</b>	<b>17.2p</b>	<b>18.6p</b>	<b>19.8p</b>	<b>21.0p</b>	<b>10.1%</b>

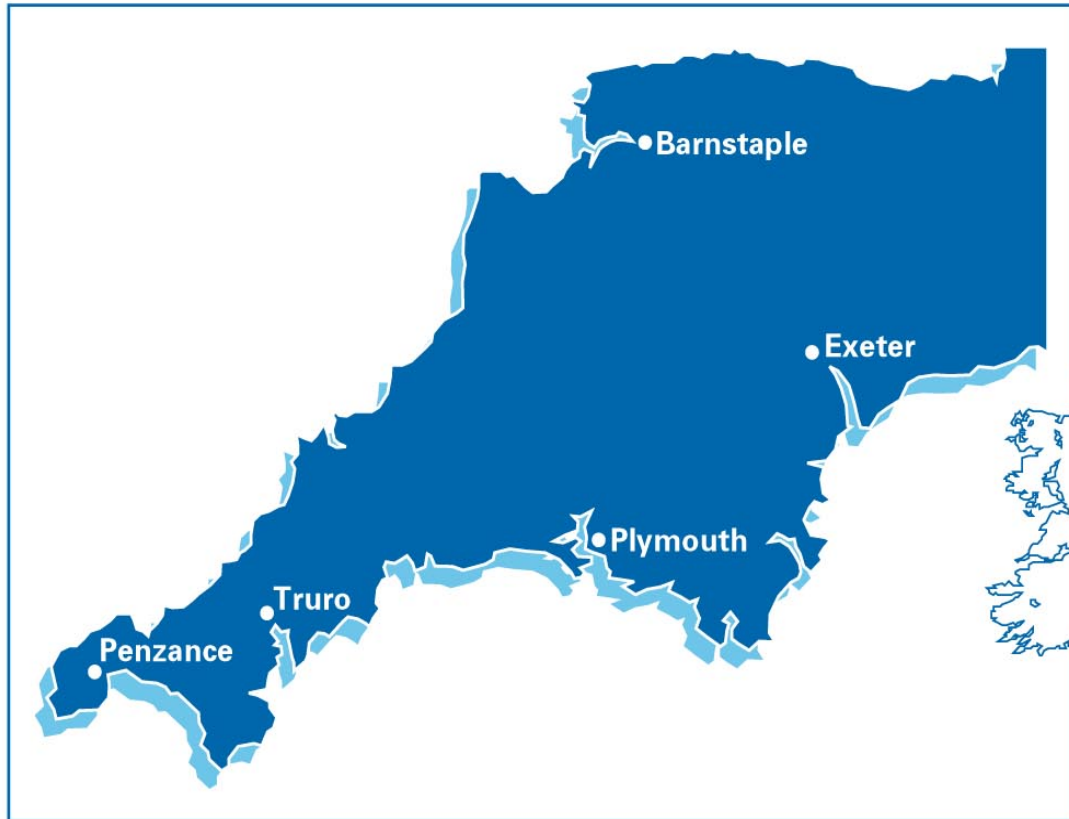


# **SOUTH WEST WATER**





# South West Water Regional Context



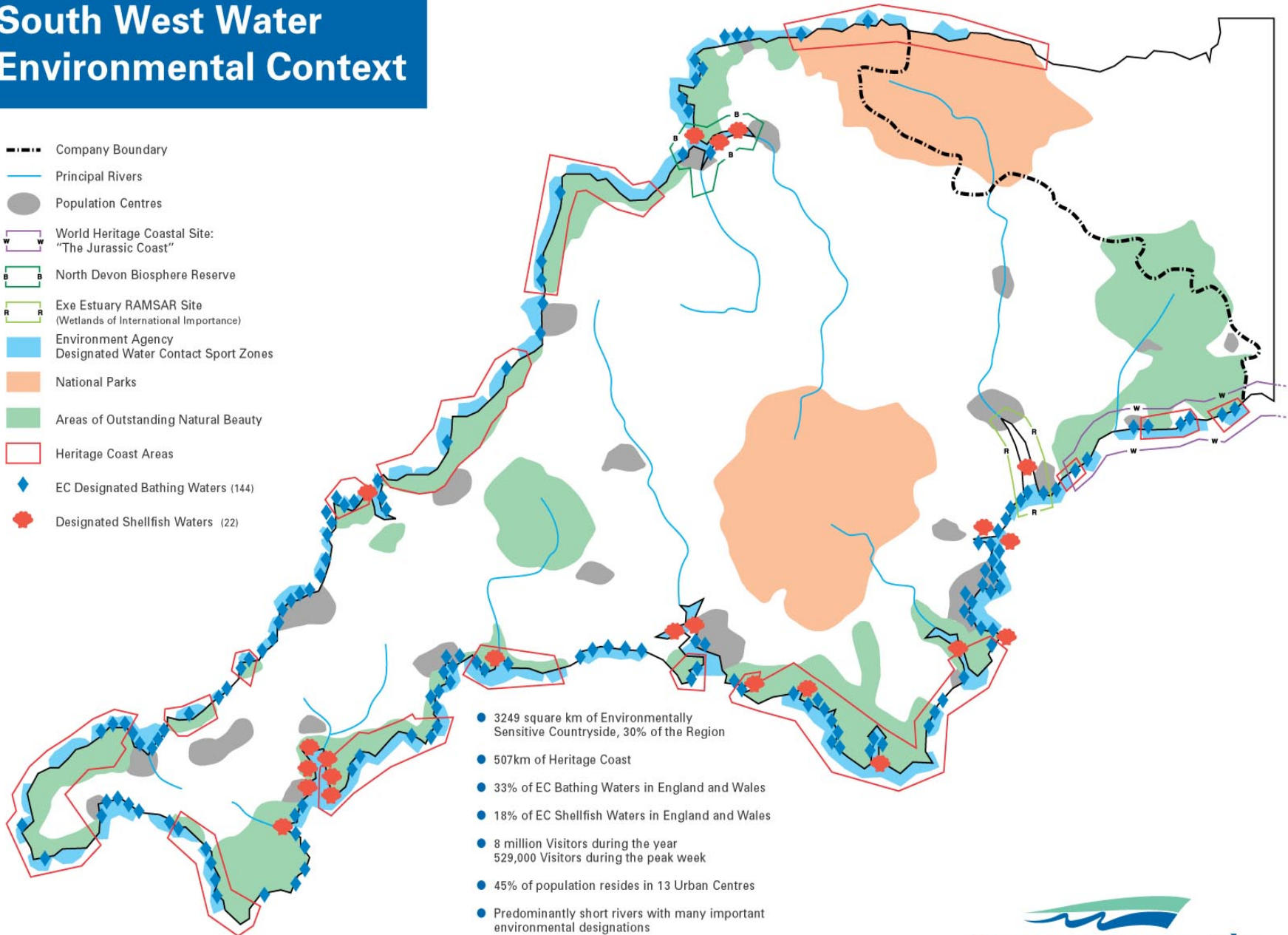
## South West Water

### *Key Business Statistics*

- 1.65m resident population; 10m annual visitors
- Water and sewerage undertaker serving a region of nearly 10,300 km<sup>2</sup>
- 15,000 km of water distribution mains; 9,200 km of sewers
- 15 impounding reservoirs; 40 water treatment works; 630 waste water treatment works
- 66% domestic customers metered
- Over 1,200 employees
- Region of outstanding environmental quality

# South West Water Environmental Context

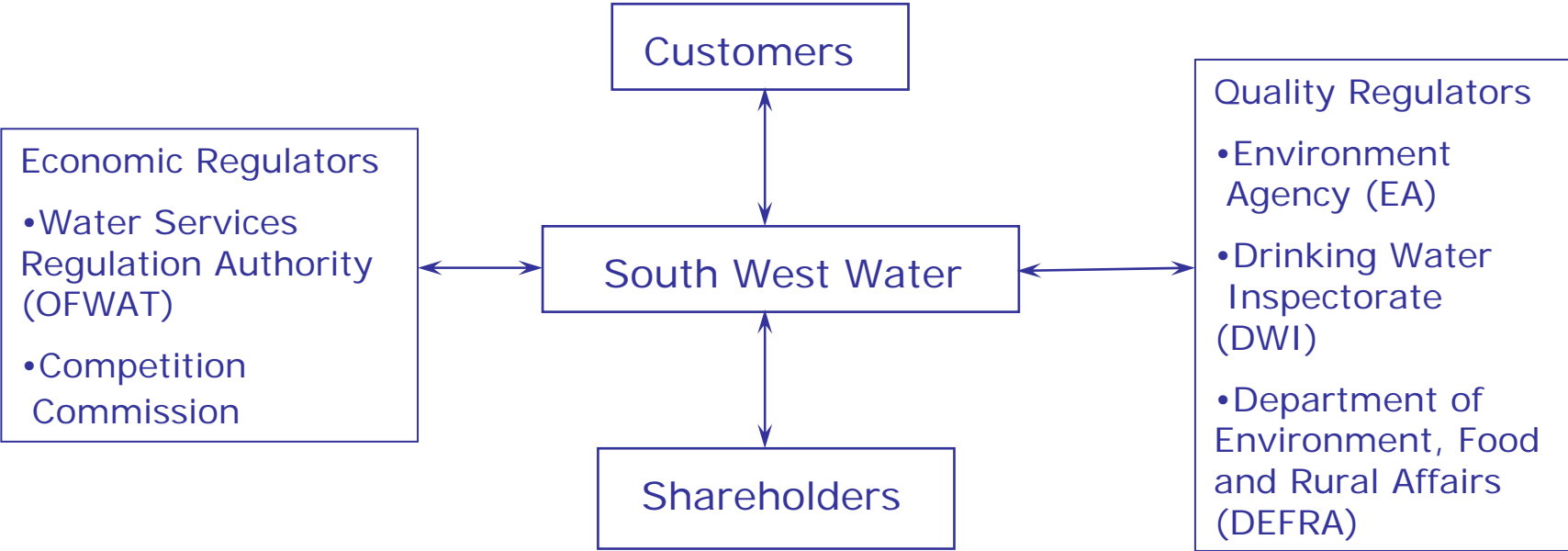
-  Company Boundary
-  Principal Rivers
-  Population Centres
-  World Heritage Coastal Site: "The Jurassic Coast"
-  North Devon Biosphere Reserve
-  Exe Estuary RAMSAR Site (Wetlands of International Importance)
-  Environment Agency Designated Water Contact Sport Zones
-  National Parks
-  Areas of Outstanding Natural Beauty
-  Heritage Coast Areas
-  EC Designated Bathing Waters (144)
-  Designated Shellfish Waters (22)



- 3249 square km of Environmentally Sensitive Countryside, 30% of the Region
- 507km of Heritage Coast
- 33% of EC Bathing Waters in England and Wales
- 18% of EC Shellfish Waters in England and Wales
- 8 million Visitors during the year  
529,000 Visitors during the peak week
- 45% of population resides in 13 Urban Centres
- Predominantly short rivers with many important environmental designations

# South West Water

## Stakeholders and Regulators



## South West Water

### *Notable 2008/09 SRI Achievements - I*

- OFWAT K4 **efficiency** target achieved
  - energy savings target achieved (Megawatt Challenge)
- OFWAT **leakage** target met every year
  - impact of exceptionally cold winter successfully managed
  - leakage performance amongst the best in the industry
- 2008 **drinking water quality** – 99.96%
- 2008 step change **reduction** in waste water related pollution incidents
- **No** hosepipe bans or drought orders – 2009 13th consecutive summer

## South West Water

### *Notable 2008/09 SRI Achievements - II*

- Investor in People (**IIP**) Silver status on reaccreditation
- 18.7GWh hydro/anaerobic digestion **renewable energy** generation
- **99.5%** population served by sanitary-compliant waste water treatment works – third successive year
- 2009 **Water Industry Achievement Award** for Sustainable Drainage and Flood Management
- **Gold Green Apple Award** for Environmental Best Practice

# South West Water

## *PR09 Final Determination - I*

- **Customers**

- average bill decreases £1 pa before inflation
- c 80% domestic customers metered by 2015
- discoloured water targeted with investment
- targeted programmes to deal with odours at sewage treatment works and sewage flooding

- **Environment**

- £705m investment (2007/08 prices)
- protect and maintain improvements made over the last 20 years through increased levels of capital maintenance expenditure
- further improvements to meet EU Directives
- investment to deliver opex savings and reduced carbon footprint

# South West Water

## *PR09 Final Determination - II*

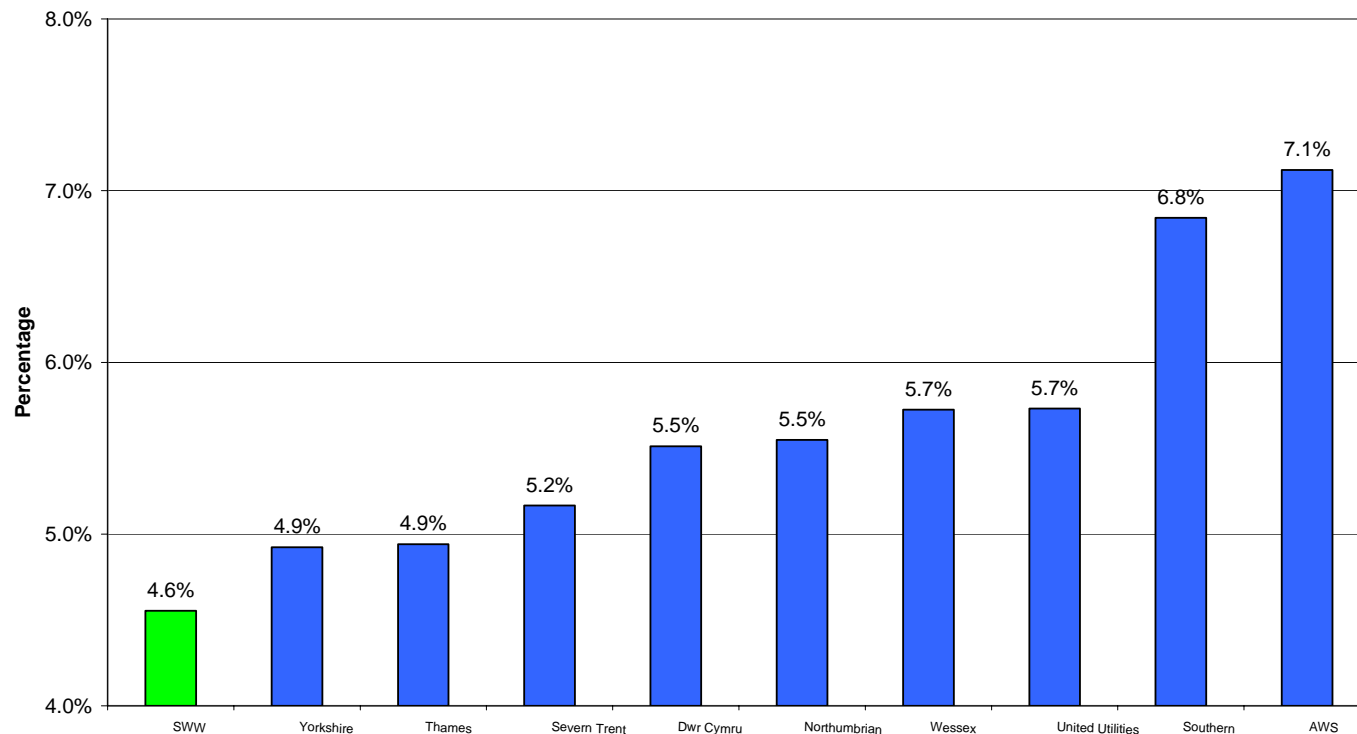
- **Efficiency target**
  - c 2.8% pa opex efficiencies off base costs from 2010/11
  - 6% capex efficiencies
- **Investors**
  - headline 4.5% post tax real rate of return
  - efficiently financed asset base
  - capital incentive scheme ratio improved and around industry average
  - risk reduction from notified items and revenue correction mechanism
- Logging up/IDoK potential for K5
  - Water Framework Directive
  - revised Bathing Water Directive
  - adoption of private sewers



# Water Industry

## 2008/09 Average Interest Rate

Water Industry 2008/09 Average Interest Rate on Net Debt



Source: Pennon calculation based on company Annual Reports

Basis: Net interest payable (excluding pensions net interest) / average net debt

# Viridor\*

\* *Viridor from the Latin meaning 'to become green'*

# Viridor

## *Becoming Green is Good for Business - I*

- Three key related world issues increasingly recognised by governments, special interest groups and individuals
  - climate change/carbon emissions
  - excessive use of natural resources
  - environmental degradation/loss of biodiversity
- The waste industry is at the centre of these issues
  - particularly Viridor
- In order to meet its **recycling and renewable energy targets** EU/UK government has introduced a series of measures all of which impact the economics of business
  - renewable obligation (giving an enhanced price for renewable energy generation)
  - landfill tax and landfill allowance trading scheme (increasing the cost of landfill and thereby incentivising recycling)
  - WEEE\* evidence notes and packaging recovery notes (incentivising recycling)
  - etc

\* WEEE – Waste Electrical and Electronic Equipment

# Viridor

## *Becoming Green is Good for Business - II*

- Ten years ago waste management was simply about collecting and disposing of waste in a safe and non polluting manner
- These new EU/UK government regulations create huge profit opportunities
  - renewable energy
  - recycling
- A specific example is **landfill gas renewable energy generation**
  - landfill gas/methane 21 times as harmful as CO<sub>2</sub>
  - by collecting and burning it you avoid release of methane into atmosphere and generate renewable energy
    - 60% reduction in methane emissions from landfill in UK over past 10 years (probably the biggest reduction in greenhouse gases of any sector)
    - 600% increase in renewable energy generation from landfill gas (now 25% of total UK renewables)
  - at the same time you make good money for shareholders
    - a win:win situation
- Similar opportunities in **recycling**
  - UK domestic recycling rate has grown from c10% in 2000 to approaching 40% now

# Viridor

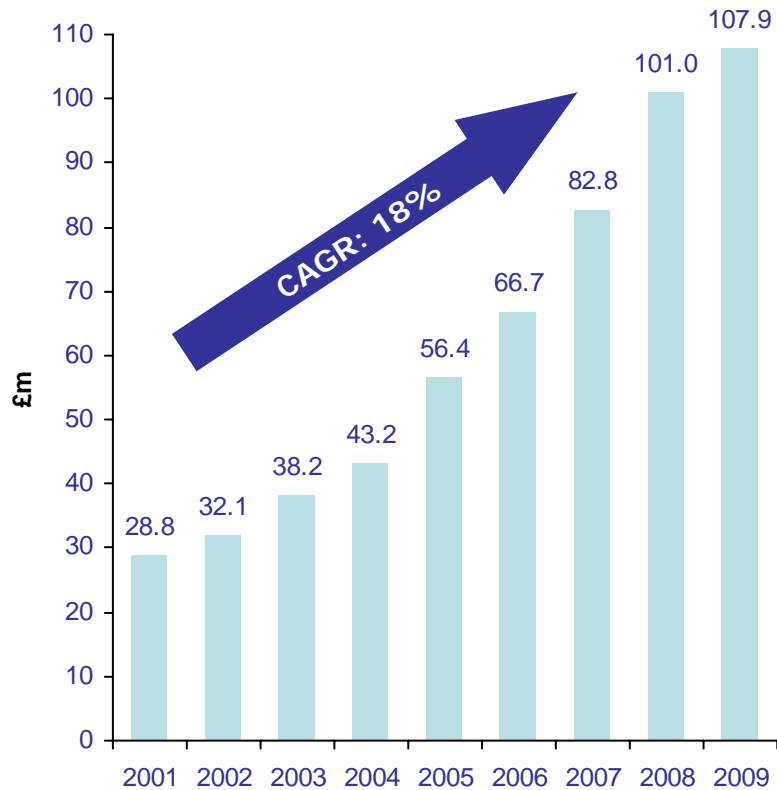
## *Becoming Green is Good for Business - III*

- In 2000/01 Viridor's profits totalled £13m
  - 69% landfill
  - 10% collection
  - 21% other
- Since then Viridor has invested around £400m particularly in renewable energy and recycling
- In 2008/09 Viridor's profits totalled £64m (an increase of 22% pa since 2000/01)
  - 45% landfill
  - 25% renewable energy
  - 16% recycling
  - 5% contracts
  - 9% collection

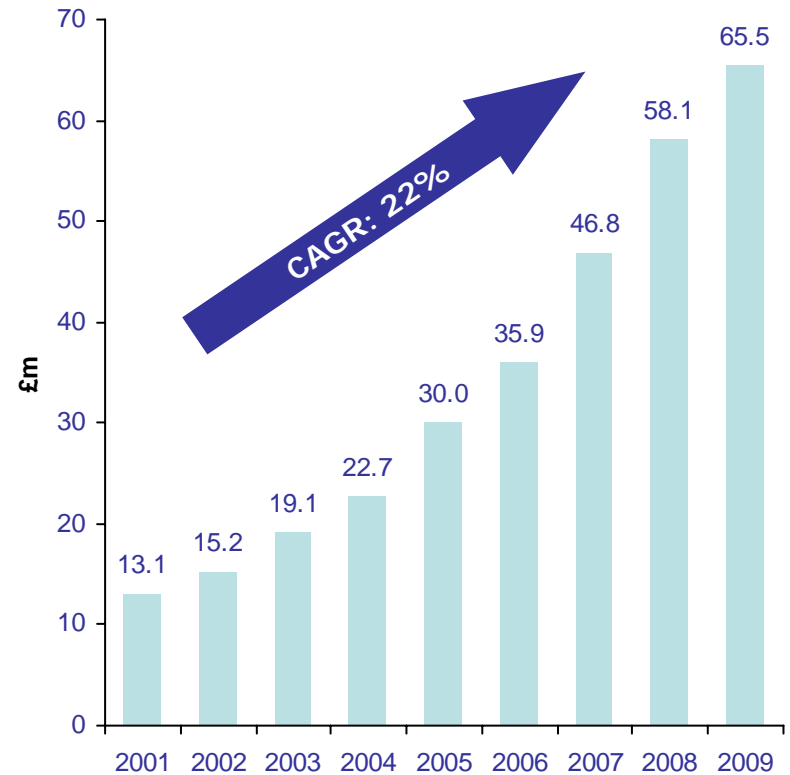
# Viridor

## Continuing to Deliver Strong Financial Performance

### EBITDA



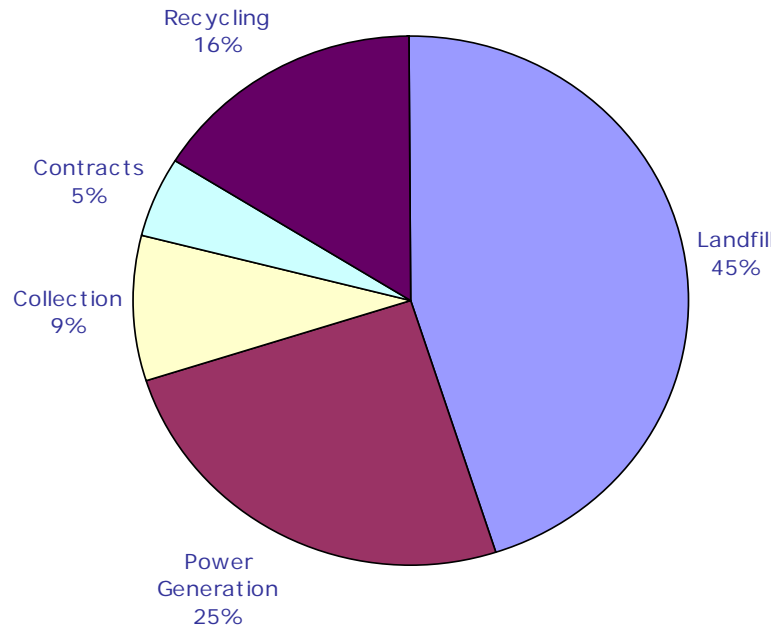
### PBITA



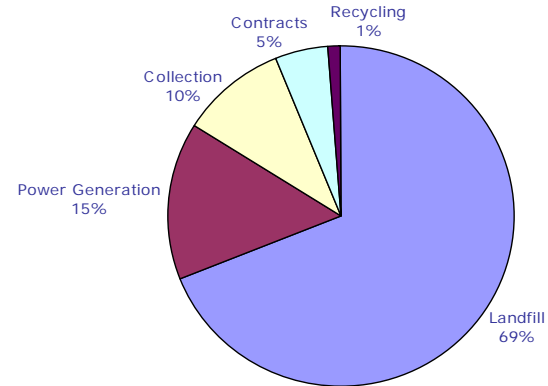
# Viridor

## Profit Contribution by Segment

Year Ended 31 March 2009



Year Ended 31 March 2001



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

# 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 EfW\*
  - total expected to treble in next 5 years
- **PPP/PFI\*\* contracts**
- **Selected acquisitions**

\* EfW- Energy from Waste

\*\* PPP/PFI – Public Private Partnership/Private Finance Initiative

# Viridor

## Viridor Recent Strategic Initiatives

- Won and commenced operation of **Greater Manchester waste and renewable energy project** in April 2009 (believed to be Europe's largest ever such project)
- Recent recycling acquisitions
  - **Grosvenor** (December 2007; £79.5m + net debt of c£1.5m) - leading UK materials recycling company
  - **Shore** (March 2008; £23m) - leading UK 'WEEE' recycling company
  - **London Recycling** (June 2009; £10.6m + £1.8m debt) - company provides full range of recycling operations around London
  - **Intercontinental Recycling** (July 2009; £4.2m + £3.9m debt) - converts HDPE and PET plastic bottles to pellet/flake
- 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**
  - Viridor continues to bid selectively for other contracts

# Viridor

## Notable 2008/09 SRI Achievements

- Financial Close reached on **UKs largest ever combined waste and renewable energy** project (1.3m tonnes of waste, up to 130 MW) (Greater Manchester PFI)
- 1.8m tonnes **composted** or **recycled**
  - up 7.9% on previous year
  - 21% total waste inputs recycled
- Integration and investment in the previous year's **recycling** acquisitions (Grosvenor and Shore)
- Advanced **MRFs**\* being constructed in West Sussex, Glasgow and Greater Manchester
- 6% increase in **landfill gas power generation** to 504GWh - enough to meet the domestic needs of around 300,000 people
- Construction programme commenced for six **anaerobic** digestion plants
- Reduction in **RIDDOR** accidents of 20% and incident rates of 29.7%
- £9.7m funding to independent **charity** Viridor Credits for local environmental and amenity improvements

\* MRF's - *Materials Recycling Facilities*



# **Pennon Group Plc**



# Pennon Group Plc

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  - capitalising on its leading position in landfill waste disposal
  - proactively developing new waste management facilities to meet ambitious EU/UK targets
  - successfully exploiting the huge potential in waste based renewable energy generation
- Well funded with efficient long-term financing
- Group businesses well positioned in the current economic slow-down