

Pennon Group Plc

Interim Results 2002

For the half year ended 30 September 2002

Pennon Group Plc

Financial Highlights

- Profit before tax up 3% to £41.7m
- Earnings per share (before deferred tax) maintained at 29.5p
- Interim dividend per share up 4.1% to 12.6p
- Share capital consolidation undertaken on 2 September 2002 coupled with a return to shareholders of a special interim dividend of 70p per share from proceeds of the sale of Viridor Instrumentation on 1 October 2002
- Further financing initiatives to take advantage of lower costs of borrowing

Pennon Group Plc

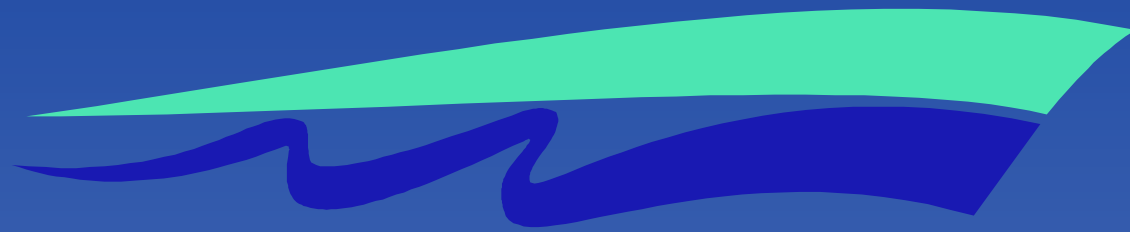
Operational Highlights

South West Water

- Continuing to improve efficiency whilst delivering record levels of drinking water and bathing water compliance
- “Clean Sweep” now virtually complete

Viridor Waste

- Operating profit before goodwill up 7.3%
- Two acquisitions made last year and two further acquisitions made in the half year to 30 September 2002 already earnings enhancing



Pennon Group Plc



Pennon Group Plc

Pennon Group Plc

Summary Financial Results

For the half year ended 30 September

	2002 £m	2001 £m	Change %	2001/02 £m
<u>Overall</u>				
Group turnover	209.0	219.7	(4.8)	423.9
Group operating profit	66.7	64.9	2.8	121.8
Group profit before tax	41.7	40.5	3.0	77.4
<u>Continuing Businesses</u>				
Turnover	209.0	192.0	8.9	381.0
Operating profit	66.7	62.3	7.1	119.1
Profit before tax	41.7	37.8	10.3	69.3

First half includes interest benefit from Viridor Instrumentation sale proceeds

Pennon Group Plc

Cash Flow

For the half year ended 30 September

	2002 £m	2001 £m	2001/02 £m
Cash inflow from operations	108.4	107.3	196.2
Net interest paid	(7.0)	(14.5)	(44.3)
Dividends and tax paid	(16.1)	(15.8)	(49.0)
Capital expenditure	(95.4)	(85.2)	(182.3)
Acquisitions and disposals	(19.7)	-	85.0
Net cash (outflow)/inflow	(29.8)	(8.2)	5.6
Shares issued for cash	0.9	0.3	0.3
Non-cash movements	(10.7)	(1.2)	(5.4)
(Increase)/Decrease in net debt	(39.6)	(9.1)	0.5

Cash outflow reflects higher SWW capex and Viridor Waste acquisitions

Pennon Group Plc

Net Debt

	As at 30 September		As at
	2002	2001	31 March
	£m	£m	2002
		(Restate d)	£m
Loans and finance leases			
- over one year	1039.8	929.0	932.1
- under one year	91.1	62.2	111.2
	<u>1130.9</u>	<u>991.2</u>	<u>1,043.3</u>
<u>Less: investments and cash</u>	<u>(340.0)</u>	<u>(230.8)</u>	<u>(292.0)</u>
Net debt	<u>790.9</u>	<u>760.4</u>	<u>751.3</u>

Significant drawdowns from EIB and finance leases

Pennon Group Plc

Financing Strategy

	£m	£m
Net funding & re-financing requirement for K3		500-550
K3 funding already arranged		
- finance lease facilities	170	
- European Investment Bank loan	100	270
Renewal of bank bilateral facilities		120
Funding to be arranged		110-160
		500-550

K3 funding already arranged at more than 100 basis points below Ofwat's specified cost of capital for debt funding

Pennon Group Plc

Net Interest Payable

For the half year ended 30
September

	2002	2001	2001/02
	£m	£m	£m
Interest payable	(30.2)	(26.9)	(61.2)
Interest receivable	5.7	2.7	12.2
Net interest payable	<u>(24.5)</u>	<u>(24.2)</u>	<u>(49.0)</u>
Average rate of interest	6.4%	6.7%	6.5%

Pennon Group Plc

Financing Initiatives

- Funding strategy uses mix of fixed and floating rate borrowings
- Interest rate swaps are used to ensure at least 50% is fixed rate
- 54% fixed at 31 March 2002
- Additional swaps established during half year to give around 75% fixed up to 2005
- Locks in benefit of current low interest rates compared to Ofwat assumptions

Pennon Group Plc

Depreciation

For the half year ended 30 September

	2002 £m	2001 £m	2001/02 £m
South West Water			
- infrastructure assets	6.6	6.5	13.0
- other assets	22.8	20.7	42.9
	<u>29.4</u>	<u>27.2</u>	<u>55.9</u>
Viridor Waste	10.1	8.8	16.6
Other	-	0.5	0.7
	<u>39.5</u>	<u>36.5</u>	<u>73.2</u>

Pennon Group Plc

Taxation

For the half year ended 30
September

	2002 £m	2001 £m	2001/02 £m
UK tax charge			
- corporation tax	2.0	-	0.5
Overseas			
- tax credit	-	-	(0.5)
- tax	-	0.2	-
Deferred tax	7.3	5.3	3.3
	<u>9.3</u>	<u>5.5</u>	<u>3.3</u>

Deferred tax charge very sensitive to long term interest rates used for discounting

Pennon Group Plc

Key Financial Ratios

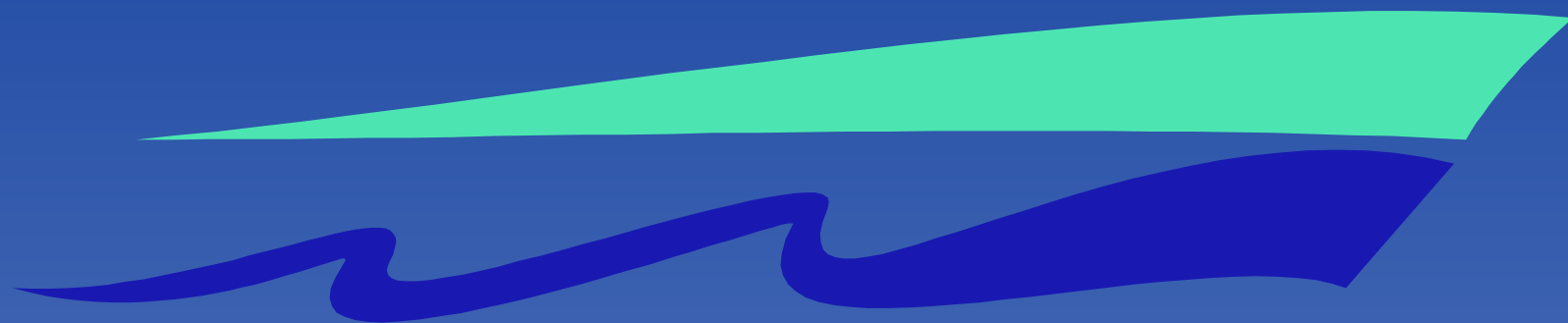
	For the half year ended 30 September		
	2002	2001	2001/02
Dividend cover*	2.5 times	2.4 times	1.4 times
Net interest cover*	2.7 times	2.7 times	2.5 times
Net gearing	88%	77%	77%
Pro forma gearing after special interim dividend	99%	-	96%

* Excluding exceptional item, special dividend and deferred tax

Pennon Group Plc

Dividends

- Interim dividend per share increased by 4.1% to 12.6p
- Special interim dividend of 70p per share returned to shareholders on 1 October 2002 from sale proceeds of Viridor Instrumentation
- Progressive dividend policy



SOUTH WEST WATER



Pennon Group Plc

South West Water

Financial Performance Summary

For the half year ended 30 September

	2002 £m	2001 £m	Change %	2001/02 £m
Turnover	136.6	130.3	4.8	260.4
Operating profit	58.5	54.1	8.1	107.0

South West Water Turnover

- Increase of £6.3m (4.8%) in half year. Reflects impact of:

	£m
- tariff increase	7.1
- meter option switchers	(2.4)
- new connections	0.9
- demand	0.8
- other changes	(0.1)
	<hr/>
	6.3
	<hr/>

- Number of meter switchers 14,000
- Number of new customers 3,700
- Higher demand reflects recovery from foot & mouth impact in 2001

South West Water

Operating Costs

	For the half year ended 30 September	
	2002 £m	2001 £m
Total operating costs	78.1	76.2
<u>Less</u> depreciation charges	(29.4)	(27.2)
Operating costs before depreciation	<u>48.7</u>	<u>49.0</u>
Increase in total operating costs due to:		
	£m	
- inflation	1.3	
- new works (including depreciation)	4.4	
- other	(0.5)	
- efficiency savings	(3.3)	
	<u>1.9</u>	

South West Water

Analysis of Efficiency Savings

	£m
Manpower	1.1
Procurement benefits	1.0
Power costs	0.5
Contracted services	0.7
	<hr/>
	3.3
	<hr/> <hr/>

Cumulative K3 saving of £13.1m (£40.7m since 1995)

South West Water

Operational Performance Summary

- Highest ever drinking water quality
- “Clean Sweep” now virtually complete
 - bathing water compliance at all time high in South West
 - best performing region in UK to guideline standards
- Remains an industry leader in managing leakage and for security of supply
- Continued progress on service standards requiring capital investment
- Continued high performance on customer “Levels of Service Indicators”
- Changing emphasis of capital programme

South West Water Capital Programme

- Capital programme since privatisation totals just under £2bn (over 1,000 schemes): delivered to target and below budget
- Capital expenditure half year to 30 September 2002 - £80.1m (2001 - £61.8m)
 - Dartmouth commissioned
 - 200km water mains replaced/refurbished
- Regulatory contract K3:
 - Ofwat provision £725m (May 1999 prices)
 - targeting outperformance of 10%
 - on track to achieve

South West Water Regulatory Capital Value

	March			
Year end	2002	2003	2004	2005
	£m	£m	£m	£m
At 2000/01 prices (1)	1440	1532	1613	1687
Actual/Predicted Outturn prices (2)	1471	1593	1717	1839

Strong growth in RAB 2002-05

(1) Source: Ofwat

(2) Source: SWW

South West Water

Looking Towards PR04

- October 2002 Ofwat framework document
- January 2003 Initial ministerial guidance
- August 2003 Draft Business Plan
- January 2004 Final ministerial guidance
- April 2004 Final Business Plan
- July 2004 Draft Determination
- November 2004 Final Determination
- April 2005 New price limits apply

Viridor

Viridor Waste

Financial Performance Summary

For the half year
ended 30 September

	2002	2001	2001/02
	£m	£m	£m
Turnover	74.4	64.4	125.3
EBITDA	19.0	17.0	32.1
Operating Profit			
- before goodwill	8.8	8.2	15.2
- after goodwill	8.3	8.2	14.9
Operating Margin %			
(before goodwill and excluding landfill tax)	16.6%	18.5%	17.4%

Viridor Waste Strategy

- Capitalise on landfill asset base (78m cubic metres consented)
- Exploit landfill gas power generation opportunities
 - capacity increased by 25% (to 35MW)
 - government target 10% of electricity from renewable sources by 2010
 - Renewables Obligation Certificates (ROCs)
- Continue to pursue profitable opportunities in line with the Government's developing waste strategy
 - including transfer stations and specialist recycling
- Pursue selective acquisitions
- Generate increased profit and shareholder value

Viridor Waste

Operational and Business Highlights (1)

- In May projected continued moderate full year growth in operating profit before goodwill
 - stressed first half comparison not meaningful due to one-off items in 2001/02
- Total turnover increased by £10.0m - primarily acquisitions plus landfill tax (£1.9m)
- Total operating profit before goodwill increased by £0.6m
 - last year's one-offs largely offset by subsequent acquisitions
 - underlying profits (excluding one-offs and acquisitions) grew 10%

Viridor Waste

Operational and Business Highlights (2)

- Landfill volumes increased by 5% to 1,708k tonnes
 - existing business excluding one-off contracts (70k tonnes) grew by 3% to 1,598k tonnes
 - acquisitions 110k tonnes
- Within existing volumes
 - domestic grew by 3% to 711k tonnes
 - industrial and commercial reduced by 2% to 729k tonnes
 - other grew by 32% to 158k tonnes
- Underlying gate fees increased by 8% to £13.78 per tonne
 - or by 6% to £13.45 excluding acquisitions
- For the full year remain confident of achieving moderate growth in operating profit before goodwill

Viridor Waste

Operational and Business Highlights (3) Acquisitions

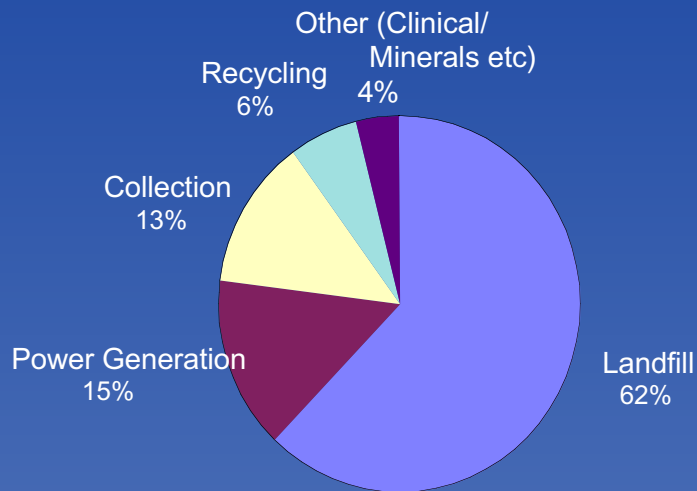
- Suffolk LAWDC, Lavelles, Richardson and Roseland all fully integrated and performing in line with expectations
 - total investment £32.7m
 - already earnings enhancing before goodwill

- Parkwood acquisition completed in October (£20.6m)
 - projected to be earnings enhancing before goodwill in 2003/04

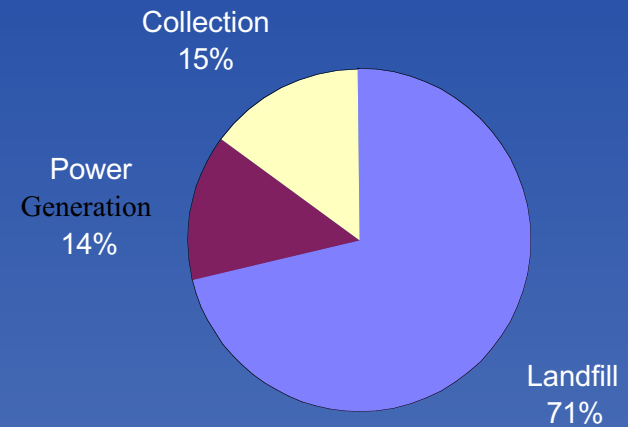
Viridor Waste

Profit Contribution by Segment *

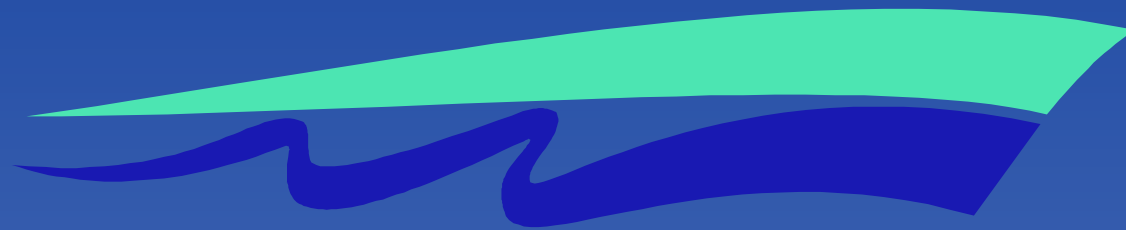
Half year ended 30 September 2002



Half year ended 30 September 2001



* Contribution before goodwill and central overheads



Pennon Group Plc

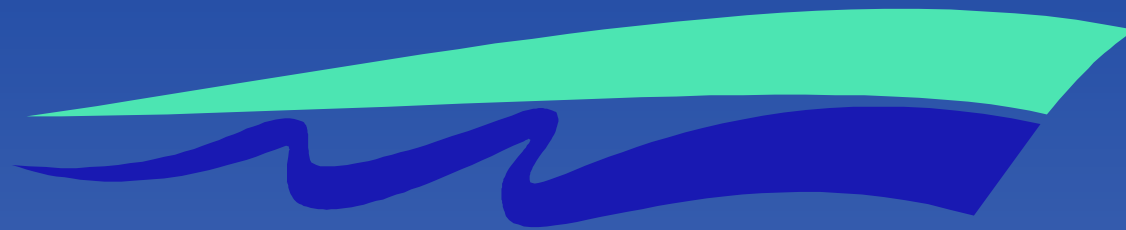


Pennon Group Plc

Pennon Group Plc

Summary

- Strategy clearly focused on water, sewerage and waste management
- South West Water remains confident of outperforming the Regulatory Contract to 2005
 - strong growth in RAB up to 2005
 - looking towards PR04
- Viridor Waste delivering steady growth by
 - capitalising on landfill asset base
 - exploiting landfill gas power generation opportunities
 - continuing to pursue profitable opportunities in line with the Government's developing waste strategy



Pennon Group Plc



Pennon Group Plc