



Pennon Group Plc

2007/08 Half Yearly Report

29 November 2007

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2007/08 H1 Financial Highlights

- Operating profit⁽¹⁾ up 17.0% to £123.6m
 - SWW up 15.2% to £97.0m
 - Viridor⁽¹⁾ up 24.3% to £27.1m
- Profit before tax up 15.8% to £82.3m
- Earnings per share (before deferred tax) up 8.5% to 17.8p
- Interim dividend per share up 6.8% to 6.25p
- £55m share buyback programme approaching completion with £52.8m bought back to date

⁽¹⁾ Before amortisation of intangibles

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2007/08 H1 Operational and Business Highlights

South West Water:

- On target to deliver 2005 – 2010 Regulatory Contract
- Profit increase reflecting strong growth expected in Regulatory Capital Value 2005 – 2010
- Eleventh consecutive year without hosepipe bans and drought orders
- 2006/07 - best ever leakage performance
- Capital investment of £76.6m in the half year
- All major projects delivered in line with Regulators' expectations
- Preparing for PR09
 - customer consultation launched

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2007/08 H1 Operational and Business Highlights

Viridor:

- Particularly strong growth in operating profits, especially from landfill and recycling
- Viridor / Laing consortium preferred bidder for Greater Manchester Waste PFI contract
 - contract negotiation and planning applications ongoing
 - new strategic location selected for Energy from Waste (EfW) plant
- Lakeside EfW plant (joint venture with Grundon) under construction and on schedule to open for commissioning in second half of 2008
- Progressing possible EfW sites at Cardiff and Dunbar
- Planning permissions achieved for 60kt EfW plant in Exeter, and a MBT/AD facility in Somerset



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Summary Financial Results

	For the half year ended 30 September			Full Year
	2007 £m	2006 £m	Change	2006/07 £m
Group revenue	435.9	373.6	16.7%	748.3
Group operating profit ⁽¹⁾	123.6	105.6	17.0%	201.8
Group profit before tax	82.3	71.1	15.8%	131.1
Earnings per share ⁽²⁾	17.8p	16.4p	8.5%	30.3p

⁽¹⁾ Before amortisation of intangibles

⁽²⁾ Before deferred tax

- **Continuing strong growth**

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Cash Flow

	For the half year ended 30 September		Full Year
	2007 £m	2006 £m	2006/07 £m
Cash inflow from operations (before pension prepayment)	165.1	145.2	313.7
Net interest paid	(31.4)	(20.1)	(51.4)
Dividends and tax paid	(23.9)	(19.5)	(73.0)
Capital expenditure	(111.7)	(120.3)	(246.4)
Acquisitions/disposals	-	(21.8)	(36.3)
Pension prepayment	-	(8.6)	(8.6)
Net cash outflow	(1.9)	(45.1)	(102.0)
Shares issued	-	1.7	1.9
Own shares acquired (net of proceeds on reissue)	(45.6)	(5.8)	(5.8)
B Share payments	-	(5.7)	(5.7)
Non-cash movements	(9.2)	(12.3)	(18.6)
Increase in net borrowings	(56.7)	(67.2)	(130.2)

- **Cash outflow mainly due to share buyback**

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Net Borrowings

	As at 30 September		As at
	2007	2006	31 March
	£m	£m	2007
			£m
Loans and finance leases			
- over one year	1,868.1	1,513.6	1,599.4
- under one year	86.2	71.1	85.8
	<u>1,954.3</u>	<u>1,584.7</u>	<u>1,685.2</u>
Less: cash and cash equivalents	(340.3)	(90.4)	(127.9)
Net borrowings	<u>1,614.0</u>	<u>1,494.3</u>	<u>1,557.3</u>
Net gearing ⁽¹⁾	73%	72%	71%
SWW debt/RCV	60%	64%	62%

- **Gearing stable**

⁽¹⁾ Debt to equity + debt

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Net Debt Analysis as at 30 September 2007

	£m
Finance leasing	1,097
Bank bilaterals - RCFs/term loans	217
EIB	218
Index linked bond 2057	209
Private placements	200
Other	13
Total gross debt	1,954
Less: Cash/liquid investments	(340)
Total net debt	1,614

- **Key role of finance leasing**

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Net Interest Payable

	For the half year ended 30 September		Full Year
	2007 £m	2006 £m	2006/07 £m
Interest payable	(59.7)	(48.4)	(98.3)
Interest receivable	19.2	14.8	29.1
Net interest payable	<u>(40.5)</u>	<u>(33.6)</u>	<u>(69.2)</u>
Average rate of interest	5.1%	4.6%	4.6%
Net interest cover	3.0x	3.1x	2.9x

- **Effective management of interest rates – SWW 4.7%**

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Efficient Financing Strategy

- Funding strategy uses mix of fixed, floating and index linked rate borrowings:
 - Locks in benefit of low interest rates compared to Ofwat assumptions
 - Circa 60% of SWW projected net debt fixed to March 2010
 - Circa 25% of SWW current debt index linked to 2041-2057
- New financing initiatives in 2007/08 H1:
 - SWW: £200m 1.99% index linked bonds due 2057
 - Pennon: £100m bonds due 2022
 - Viridor: £10m sub LIBOR lease
- **Average debt maturity extended from 16 to 22 years**
- **Committed funding in place for SWW up to March 2010**
- **Index linked debt: average real rate 1.66%**

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Fair Value of Non-Current Borrowing as at 30 September 2007

	Book Value	Fair Value
	£m	£m
Finance leasing	1,045	955
Bank bilaterals – RCFs/term loans	210	210
EIB	204	199
Index linked bond 2057	209	192
Private placements	200	198
Total gross debt	<u>1,868</u>	<u>1,754</u>

- Debt 'fair value' benefit - £114m

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Taxation

	For the half year ended 30 September		Full Year
	2007 £m	2006 £m	2006/07 £m
UK corporation tax	19.7	13.0	23.9
Deferred tax	(17.9) ⁽¹⁾	4.6	13.3
	<u>1.8</u>	<u>17.6</u>	<u>37.2</u>

- **Mainstream tax charge 24% (H1 2006 - 18%)**

⁽¹⁾ Includes a non-recurring credit of £22.4m reflecting the reduction in the rate of UK corporation tax from 30% to 28% effective from 1 April 2008. Industrial Buildings Allowance abolition expected to increase deferred tax by an estimated £37m when enacted

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Pensions as at 30 September 2007

- Pension deficit of £37m (March 2007 - £41m)

- Pension fund assets £346m
Pension fund liabilities £383m
 £(37)m = £(27)m net of tax

- Net deficit represents just over 1% of market capitalisation

- Triennial Actuarial valuation 2007 progressing

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Dividends

- Interim dividend increased by 6.8% to 6.25p per share
- Progressive dividend policy: 3% real until 2009/10
- Dividend cover (before deferred tax): 2.9x (H1 2006/07: 2.8x)
- DRIP (Dividend Re-Investment Plan) alternative



SOUTH WEST WATER



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South West Water

Financial Performance Summary

	For the half year ended 30 September		Full Year
	2007 £m	2006 £m	2006/07 £m
Revenue	215.0	195.9	381.5
Operating profit	97.0	84.2	156.8

- Revenue up by 9.7%
- Operating profit up by 15.2%

South West Water Revenue

Increase of £19.1m (9.7%) in half year. Reflects impact of:

	£m
- tariff increase	26.8
- meter option switchers	(5.4)
- new connections	1.7
- demand	(4.6)
- other	0.6
	<hr/>
	19.1
	<hr/>

- **Number of meter switchers** **19,400** (up 26%)
- **Number of new customers** **4,200**
- **Domestic customers now metered** **61%**
- **Existing metered customers' volume usage** **-4.5%**

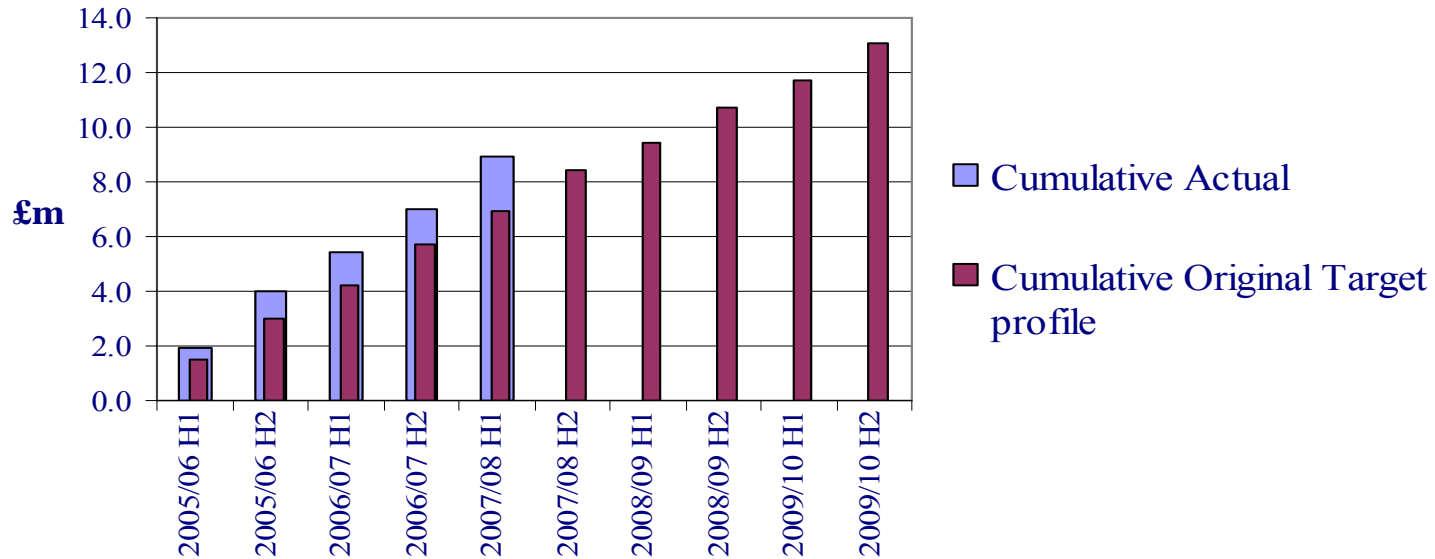
South West Water Operating Costs

	For the half year ended 30 September	
	2007	2006
	£m	£m
Total operating costs	118.0	111.7
<u>Less</u> depreciation charges	(41.7)	(37.8)
Operating costs before depreciation charges	<u>76.3</u>	<u>73.9</u>
Cost movements between the 2 years:		
- inflation	1.7	
- new capital schemes	0.7	
- restructuring cost	1.0	
- other (including infra opex)	0.9	
- efficiency savings	(1.9)	
	<u>2.4</u>	

- **H2 will be affected by further restructuring costs**
- **Power prices for 2007/08 fixed at c£2.5m better than 2006/07**

South West Water

Analysis of Efficiency Savings –2007/08 H1



- K4: £8.9m efficiency savings to date
- Targeting further outperformance

South West Water *Capital Programme*

- Capital expenditure half year to 30 September 2007 – £76.6m (H1 2006 - £83.7m)
 - 261km water mains replaced/refurbished (H1 2006 - 330km)
 - major upgrade to WTW serving 160,000 homes in Torbay
 - progress on remaining Clean Sweep schemes
- K4 capital programme on track
 - investment to date £452m (outturn prices)
 - all major projects delivered in line with OFWAT/DWI/EA expectations
- K4 capital programme of £762m (2002/03 price base)
 - **on track to achieve 5% outperformance**

South West Water Regulatory Capital Value

Year End	2005	2006	2007	2008	2009	2010
	£m	£m	£m	£m	£m	£m
At 2002/03 prices ⁽¹⁾	1,847	1,929	1,994	2,042	2,095	2,136
Actual/expected outturn prices ⁽²⁾	1,956	2,091	2,265	2,386	2,516	2,637

- 35% growth in RCV 2005-10 – highest projected percentage increase of any quoted water company
- Growth in RCV significantly exceeding growth in net debt (excluding effect of capital return)

⁽¹⁾ Source: Ofwat

⁽²⁾ Source: South West Water

South West Water

Operational and Business Highlights

- No hosepipe bans or drought orders - 11th consecutive year
- Continued industry leadership in managing leakage
 - OFWAT target met for 8th consecutive year
- Drinking water quality – high standards maintained
- Waste water quality – 2006/07 all time high
- Highest ever OPA ranking in 2006/07
- Good asset serviceability indicators
 - 'stable' in all service areas
- New customer contact/billing contract announced
- Efficiencies delivered including major organisational restructuring

South West Water

PR09 - Strategic Direction Statement

- Customer consultation document launched on 8 November
- Delivering further real benefits to customers and the environment
- Continued innovation, including 'WaterCare', debt management and tariffs
- Service delivery efficiencies from 'Puros' and other technology-led investment
- Meeting the challenges of climate change and new legislative requirements
- Strategic Direction Statement to be published in December

South West Water

PR09 – Likely Investment Drivers

- Quality
 - revised bathing water directive
 - water framework directive
 - groundwater directive
- Adoption of private sewers
- Supply/demand focus
- Climate change impacts
- Enhanced focus on sustainability and energy efficiency
- Capital maintenance – reinvestment in 1990s asset stock
- Above average population growth

South West Water

PR09 – Timetable

- Strategic Direction Statement December 2007
- Final OFWAT methodology March 2008
- Draft Business Plan August 2008
- Final Business Plan April 2009
- Draft Determination July 2009
- Final Determination November 2009

Viridor

Viridor

Financial Performance Summary

	For the half year ended 30 September			Full Year
	2007 £m	2006 £m	Change	2006/07 £m
Turnover ⁽¹⁾	221.3	178.2	24.2%	367.7
EBITDA	49.1	39.8	23.4%	82.8
PBITA	27.1	21.8	24.3%	46.8

- **Particularly strong growth in turnover, EBITDA and PBITA**

⁽¹⁾ Including landfill tax

Viridor

Financial Highlights

- At beginning of year projected moderate growth in operating profit before intangibles
 - after strong growth in each of previous six years
 - whilst noting that power generation prices would be below high level of preceding year
- H1 revenue up 24.2% or £43.1m (£25.9m excluding landfill tax)
- EBITDA up 23.4% to £49.1m
- PBITA up £5.3m or 24.3% to £27.1m
 - excluding acquisitions ⁽¹⁾ and one-off item ⁽²⁾ underlying business grew by 13%
- Particularly strong growth in landfill and recycling
- Capex £32.3m (H1 2006 - £29.9m)

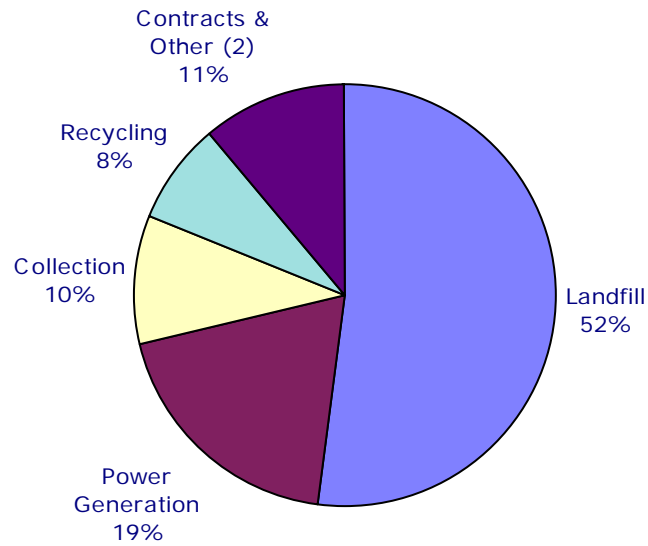
(1) Skipaway acquired February 2007; Wyvern Waste acquired May 2006

(2) Business disposal profit in 2006/07

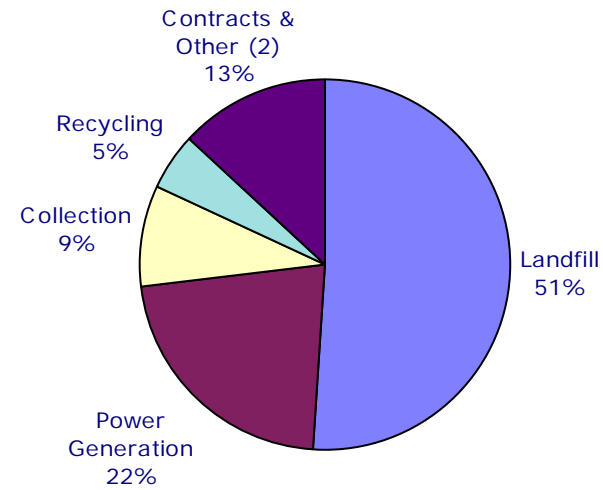
Viridor

Profit Contribution by Segment ⁽¹⁾

Half Year Ended 30 September 2007



Half Year Ended 30 September 2006



⁽¹⁾ Contribution before intangibles and overheads (incl pensions)

⁽²⁾ "Contracts" include West Sussex PFI, other civic amenity contracts and sludge contracts and "Other" includes asset disposals

Viridor

Operational and Business Highlights – Landfill

- Total volumes increased by 21% to 2.7m tonnes
 - excluding acquisitions increased by 16% reflecting non-recurring items and underlying trade in the first half
- Average gate fees unchanged at £19 per tonne reflecting mix and additional volumes
 - overall costs up 30p per tonne due to adverse weather conditions (leachate etc)
- Increased landfill cover revenue
- Consented landfill capacity fell from 90m cubic metres at 31 March 2007 to 87m cubic metres at 30 September 2007 reflecting usage during the period offset by a small planning gain
- Pre-treatment requirements introduced 30 October

Viridor

Operational and Business Highlights – Power Generation

- Total landfill gas generation increased by 11% to 230GWH
- Average price declined by £6 to £56 per MWH
 - 2006/07 prices reflected strong energy prices
 - 2007/08 brown energy price lower as flagged at beginning of year
- Total capacity⁽¹⁾ increased from 75MW at 31 March 2007 to 79MW at 30 September 2007
- ROCs component increased to 52% compared to 50% at 31 March 2007

(1) Excludes 3 MW sub-contract in Suffolk

Viridor

Wyvern Waste and Skipaway Acquisitions

- Both acquisitions fully integrated and earnings enhancing post amortisation of intangibles in the half year
 - ahead of schedule
- Planning permission achieved for a MBT and AD facility at Walpole (Somerset)
- Skipaway transfer station volumes diverted to Shelford landfill

Viridor

Greater Manchester Waste PFI Contract

- Viridor/Laing consortium announced as preferred bidder in January 2007
 - 1.4m tonnes per annum
 - contract negotiations ongoing
- Alternative power plant solution selected
 - solid recovered fuel produced, to go to proposed combined heat and power plant (with rail access) at Ineos Chlor, Runcorn (Viridor/Laing reserve site), subject to planning permission
 - improved solution for all parties (on site CHP requirement; larger plant; strategic location)
 - delays contract completion but likely to permit quicker overall development of power plant
- Planning already being progressed
 - Rochdale in-vessel composting and MRF facility planning permission achieved
- In addition, Viridor one of the nominated landfill contractors for 5 years from April 2008

Viridor

Lakeside Energy from Waste Plant

- Joint venture with Grundon Waste Management
 - 400kt and up to 37MW energy from waste ('EfW') plant at Colnbrook near Heathrow
 - £160m capex, 86% non-recourse debt with balance split equally between equity providers
 - due to open for commissioning during second half calendar 2008
 - profit contribution in 2009/10

Viridor

Other Significant EfW Projects

- Planning application achieved for 60kt EfW facility in **Exeter**
 - PPC permit application submitted
- Other possible long-term EfW sites
 - Trident Park, **Cardiff** (site acquired)
 - **Dunbar** (existing Viridor site; initial consultation commenced)



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Summary

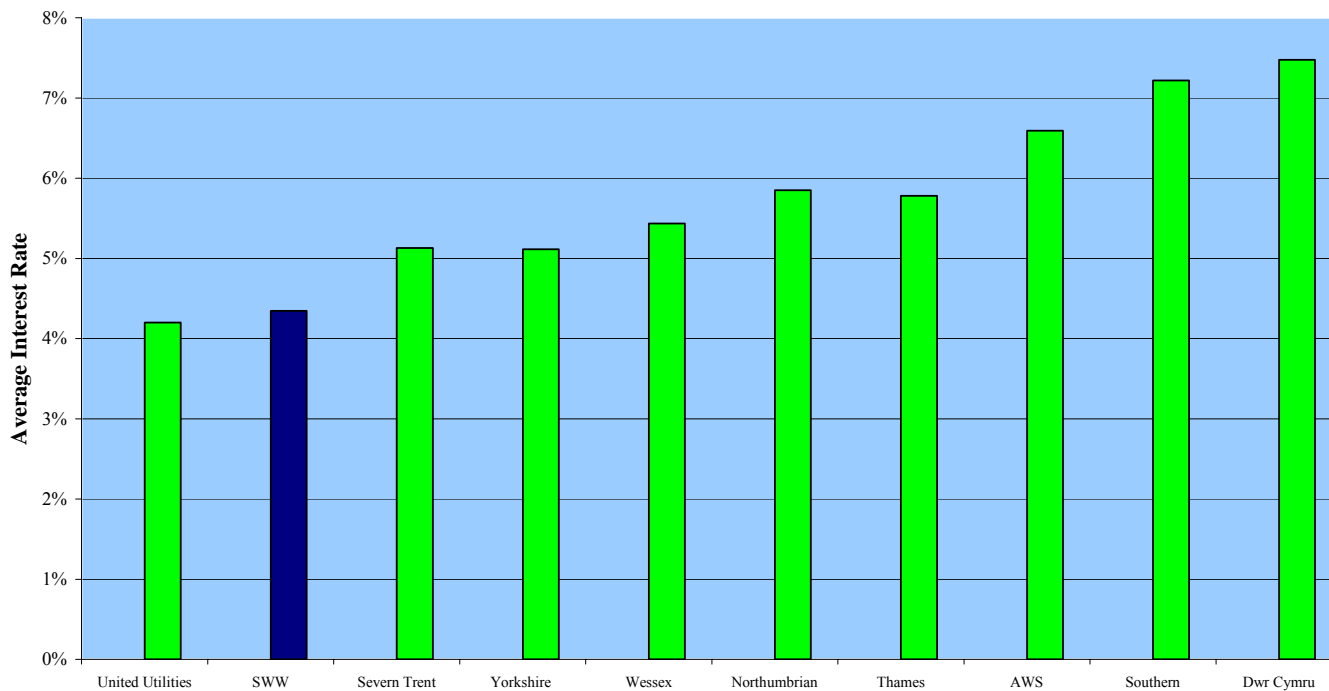
- Strategy clearly focused on water, sewerage and waste management
- South West Water
 - successfully delivering K4 regulatory contract
 - strong growth in K4 RCV due to reach £2.6bn by March 2010
 - PR09 preparation is progressing well
- Viridor delivering strong growth by
 - capitalising on landfill asset base
 - exploiting landfill gas power generation opportunities
 - PFIs/PPPs/Lakeside
- Efficient financing



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Appendix

**Water Industry 2006/07 Average Interest Rate
(Pre Exceptional Items)**



Source: Annual Reports and Regulated accounts

Basis: Net Interest Payable/Average Net Debt