PENNON
GROUP PLC

HALF YEAR REPORT 2010/11

25 November 2010

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Pennon Group Plc ("Pennon Group")

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H1 2010/11 Financial Highlights

- Profit before tax up 0.7% to £96.2m[(1)]
  - South West Water down 0.6% to £70.2m[(1)]
  - Viridor up 28.8% to £28.6m
- Underlying earnings per share[(2)] up 1.4% to 21.0p[(1)]
- Dividend
  - interim dividend per share up 7.9% to 7.5p
- Strong liquidity and funding position
  - £175m new/refinanced facilities since 31 March 2010
  - £790m cash/committed facilities at 30 September 2010 (includes restricted cash of £86m)
- Group businesses well positioned in current economic conditions

(1) *Reflects the application of IFRIC18 "Transfers of assets from customers", effective from 1 July 2009*

(2) *Underlying – before deferred tax*

Pennon Group Plc

H1 2010/11 Operational and Business Highlights

South West Water

- Strong start to the new 2010 – 2015 regulatory contract
- Step change in operating efficiency delivered
- Average funding cost 4.0%
- Industry leader in tackling leakage - lowest ever leakage in 2009/10
- 2010 fourteenth consecutive summer without hosepipe bans or drought orders
- Drinking water quality industry leading at 99.98%
- H1 benefited from strong summer demand and asset sales not expected to be repeated in H2

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H1 2010/11 Operational and Business Highlights

Viridor

- Continued strong growth in PBIT plus joint ventures[(1)] and PBT
  - contributions from Greater Manchester 25 year waste PFI contract and Lakeside Energy from Waste (EfW) plant
  - recyclate prices recovered
- c.45% of profits from recovering value in waste
- Runcorn - EfW Plant Phases I and II under construction
- Planning permission achieved for Cardiff EfW plant
- Reconomy recycling companies acquired for £23.8m during the period and Pearsons acquired for £16.0m in November 2010
  - Viridor largest operator of MRFs[(2)] in the UK

[(1)] *Comprises share of PAT and interest receivable on shareholder loans*

[(2)] *Materials Recycling Facilities*

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Pennon Group Plc

Summary Financial Results

	For the half year ended 30 September 2010 £m	2009 (Restated)[1] £m	Change	Full Year 2009/10 (Restated)[1] £m
Group revenue	593.2	535.5	10.8%	1,068.9
Group operating profit	133.3	133.3	-	266.3
- SWW	100.4	100.7	(0.3)%	193.5
- Viridor	33.4	32.0	4.4%	72.8
Viridor PBIT plus joint ventures	*38.4*	*33.1*	*16.0%*	*77.0*
Group profit before tax	96.2	95.5	0.7%	185.8
- SWW	70.2	70.6	(0.6)%	129.5
- Viridor	28.6	22.2	28.8%	55.1
Earnings per share[2]	21.0p	20.7p	1.4%	40.8p
Dividend per share	7.50p	6.95p	7.9%	22.55p

- **SWW results include**
  - **increased demand from summer usage during dry weather**
  - **asset sales in H1**
- **Viridor results include recyclate prices recovered from the low levels of H1 2009/10**

(1) Restated for the application of IFRIC18, effective from 1 July 2009

(2) Underlying – before deferred tax

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Cash Flow

	For the half year ended 30 September		Full Year
	2010	2009 (Restated) [1]	2009/10 (Restated)[1]
	£m	£m	£m
Cash inflow from operations	194.7	183.2	381.8
Net interest paid	(37.1)	(23.6)	(69.7)
Dividends paid	(17.5)	(23.6)	(63.8)
Tax paid	(20.4)	(13.1)	(3.8)
Capital expenditure	(68.5)	(102.0)	(193.7)
Acquisitions and investment in joint ventures	(12.5)	(30.9)	(40.1)
Pension contributions	(6.9)	(2.3)	(16.4)
Net cash inflow/(outflow)	31.8	(12.3)	(5.7)
Shares issued	1.3	1.6	1.9
Equity component of convertible bond issued	-	10.0	10.0
Debt acquired with acquisitions	(17.3)	(5.4)	(5.4)
Non-cash movements	2.5	0.2	(4.1)
Decrease/(increase) in net borrowings	18.3	(5.9)	(3.3)

- **Reduction in net borrowings from lower capital expenditure in H1, capex expected to be materially higher in H2**

[1] *Restated for the application of IFRIC18 (effective from 1July 2009) and loans advanced to joint ventures*

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Net Borrowings

	As at 30 September		As at 31 March
	2010 £m	2009 £m	2010 £m
Loans and finance leases			
- over one year	2,339	2,009	2,160
- under one year	78	317	229
	2,417	2,326	2,389
Less: cash and cash equivalents	(540)	(428)	(494)
Net borrowings	1,877	1,898	1,895
Net gearing [1]	74%	77%	74%
SWW debt/RCV	58%	62%	61%

- **Gearing stable**
- **Significant pre-funding for SWW & Viridor**

[1] *Net debt / (equity + net debt)*

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Net Debt Analysis as at 30 September 2010

	£m
Finance leasing	1,221
Bank bilaterals - RCFs/term loans	350
EIB	276
Index linked bond 2057	219
Bond 2040	132
Private placements	100
Convertible bond	114
Other	5
Total gross debt	2,417
Less: Cash/liquid investments	(540)
Total net debt	1,877

- **Key role of finance leasing**
- **Diversified funding sources**

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Net Interest Payable[1]

	For the half year ended 30 September		Full Year
	2010 £m	2009 £m	2009/10 £m
Interest payable	(44.9)	(40.1)	(87.4)
Interest receivable on shareholder loans to joint ventures	3.1	1.2	3.1
Other interest receivable	2.6	3.4	6.1
Net interest payable	(39.2)	(35.5)	(78.2)
Average rate of interest	4.2%	3.7%	4.1%
Net interest cover	3.4x	3.8x	3.4x

- **Growing contribution from shareholder loans to JVs**
- **Effective management of interest rates**
  - **Group 4.2%**
  - **SWW 4.0%**
- **Average interest rate impacted by the cost of carry of pre-funding**
  - **SWW rate comprises debt interest cost 3.6% and cost of pre-funding 0.4%**
- **Higher Plc interest costs from the pre-funding of Viridor investment**

[1] *Excludes pensions net interest, discount unwind on provisions and IFRIC12 “Contract interest receivable”*

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Efficient Financing Strategy

- Mix of fixed, floating and index-linked rate borrowings
  - locks in benefit of low interest rates versus OFWAT assumptions
  - c.24% of SWW current debt index-linked to 2041-2057
- At least 50% of SWW net debt fixed for K5 in line with Group Policy
  - weighted average rate of 3.8%
- Significant finance leasing with long maturity and secured margins
- New financing initiatives in 2010/11
  - £325m new/refinanced facilities since 31 March 2010 including the SWW £150m 2040 Bond
- £125m EIB loan under negotiation
- **Average debt maturity 23 years**
- **Index-linked debt: average real rate 1.66%**

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Fair Value of Borrowings

	As at 30 September 2010			As at 31 March 2010		
	Principal Value £m	Fair Value £m	Diff £m	Principal Value £m	Fair Value £m	Diff £m
Finance Leases	1,201	1,034	167	1,205	968	237
Bank bilaterals – RCFs/term loans	315	315	-	250	250	-
EIB	258	226	32	274	236	38
Index-linked bond 2057	219	169	50	219	190	29
Bond 2040	150	155	(5)	-	-	-
Private placements	100	88	12	200	199	1
Convertible bond	125	163	(38)	125	141	(16)
	2,368	2,150	218	2,273	1,984	289

- **‘Fair value’ benefit £218m**

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Liquidity

- Cash balances of £540m at 30 September 2010 (includes c.£86m deposits with Letter of Credit providers and lessors)

- Committed undrawn facilities of £250m at 30 September 2010

- Committed funding in place for South West Water
  - c.£200m will mature over the rest of K5 equivalent to 10% of SWW gross debt and 8% of RCV
  - c.£290m due to mature in K6

- Refinancing of existing facilities being progressed as required

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Taxation

	For the half year ended 30 September		Full Year
	2010	2009	2009/10
	£m	£m	£m
UK corporation tax	22.2	23.1	43.0
Deferred tax	(0.8)	3.0	1.3
Deferred tax reduction on change of corporation tax rate	(12.3)	-	-
	9.1	26.1	44.3

- **Mainstream tax charge 23% (H1 2009/10 - 24%)**

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Pensions as at 30 September 2010

- Gross pension deficit of £115m (March 2010 - £108m)
  - £84m net of tax (March 2010 - £78m)

	September 2010	March 2010
Pension schemes' assets	£409m	£402m
Pension schemes' liabilities	£524m	£510m
	£115m = £84m net of tax	£108m = £78m net of tax

- **Deficit broadly unchanged from the year end**

- **Actuarial valuation (as at 31 March 2010) under way**

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Dividends

- Interim dividend increased by 7.9% to 7.5p per share
- Enhanced progressive dividend policy: 4% real to end of K5 period (March 2015)
- Scrip dividend alternative

SOUTH WEST WATER

South West Water

Financial Performance Summary

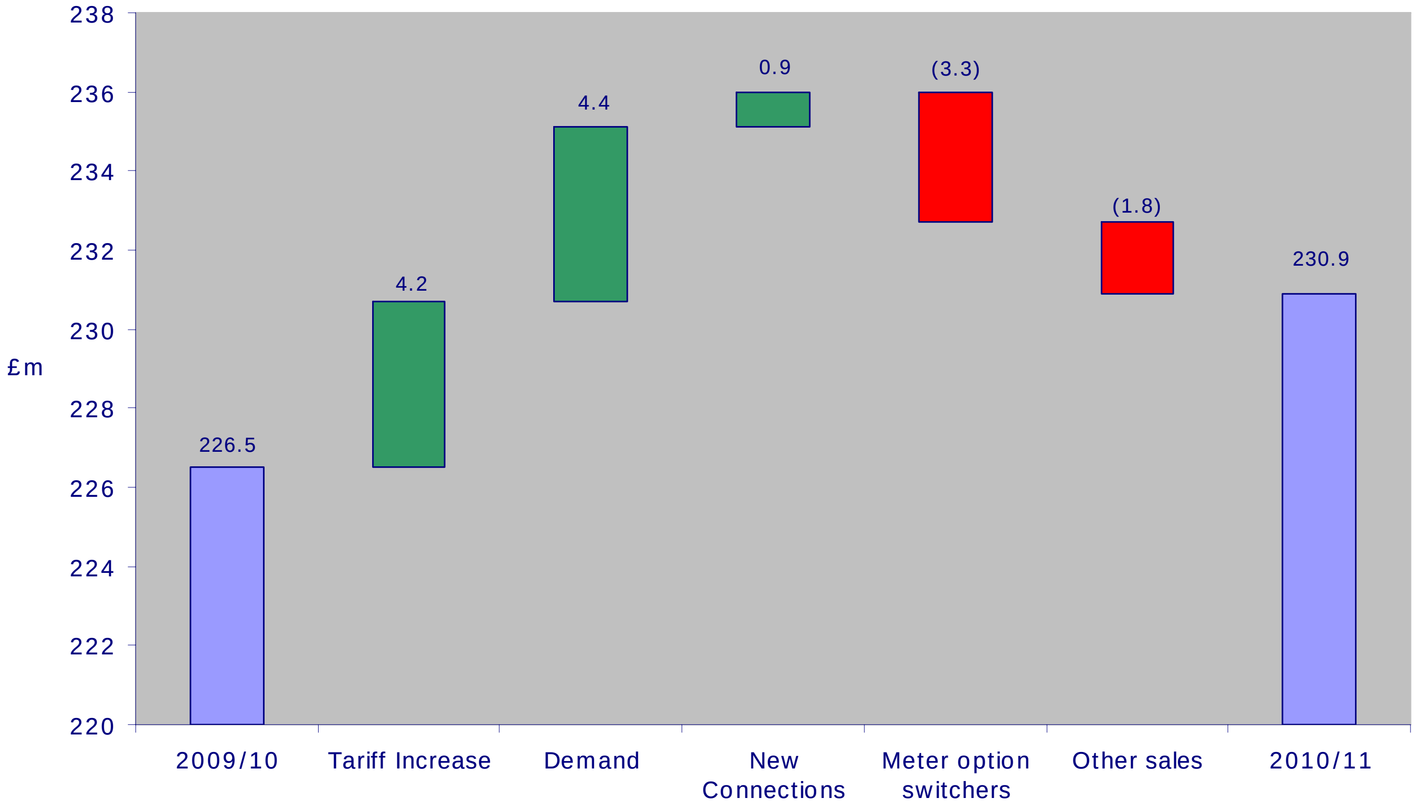
	For the half year ended 30 September		Full Year
	2010	2009 (Restated)[1]	2009/10 (Restated)[1]
	£m	£m	£m
Revenue	230.9	226.5	444.2
Operating profit before restructuring costs	102.8	102.6	198.5
Operating profit	100.4	100.7	193.5

- **H1 operating profit stable, despite reduced allowed rate of return**

(1) Restated for the application of IFRIC18 "Transfers of assets from customer", effective from 1 July 2009

South West Water

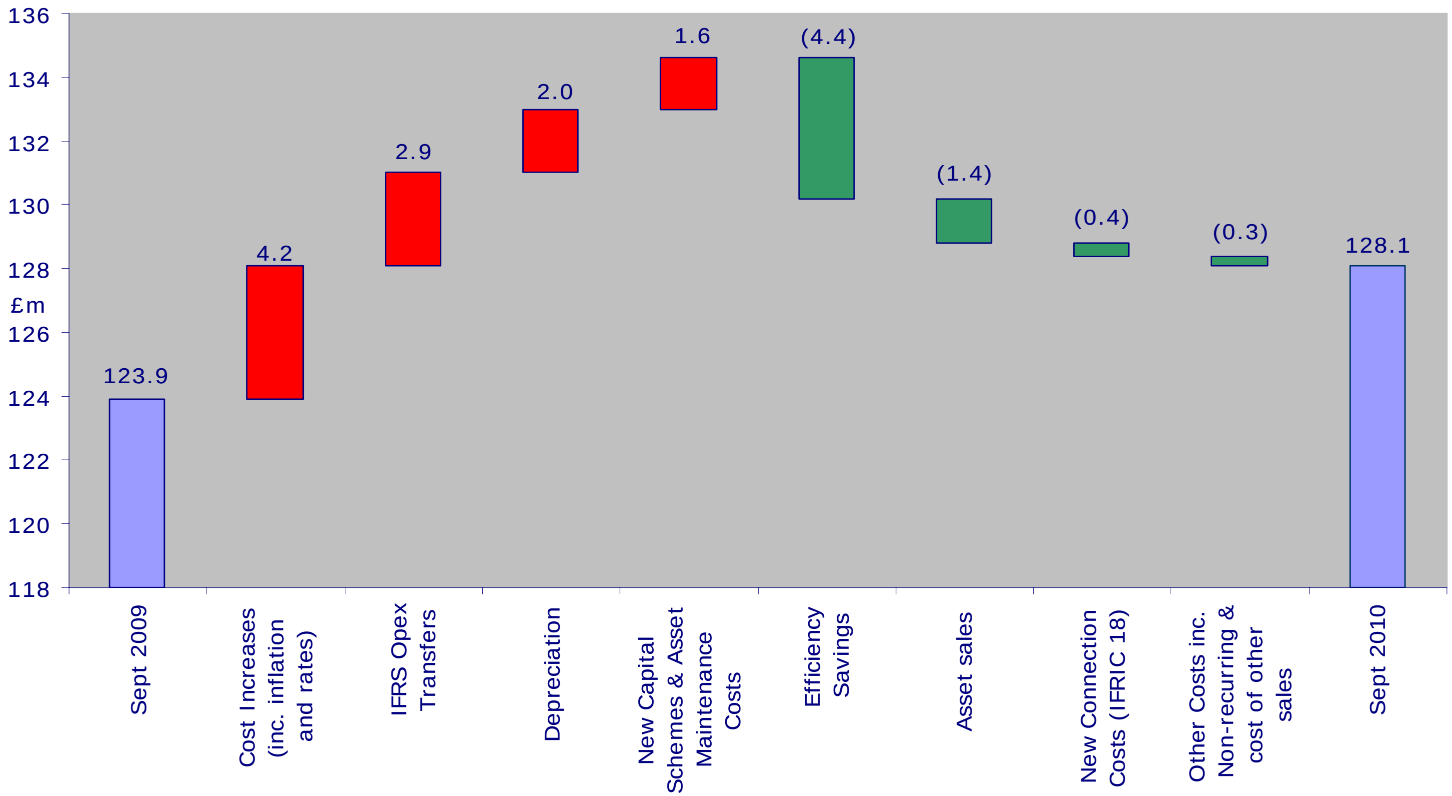
Revenue



- Tariff increase of 1.4% (inc RPI)
- Increased demand reflecting summer usage, H2 expected to be impacted by lower customer demand
- Continued programme of domestic meter optants – 70% domestic customers now metered

South West Water

Operating Costs (1)



- Step change in operating cost efficiency
- Cost increases from rates and higher accounting charges for pensions
- Cost increases lower than headline rate of inflation
- New capital scheme costs and depreciation reflect growing asset base
- Asset sales in H1

(1) *Before restructuring*

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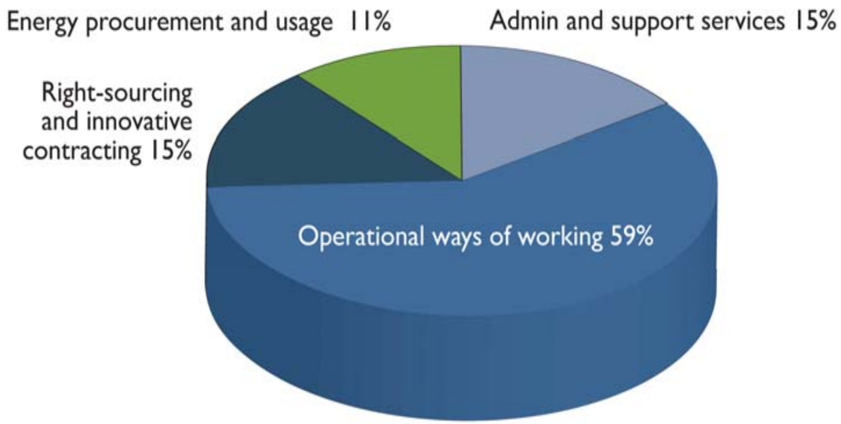
South West Water
Operating Cost Efficiency

- K5 opex efficiency 2.8%[1] pa
  - step change required
  - focus on front-end loaded delivery
  - targeting highest efficiency band rating

- Efficiency delivery
  - operational ways of working
  - right-sourcing and innovative contracting
  - energy procurement and usage
  - re-aligned admin & support services

2010-2015 (K5)



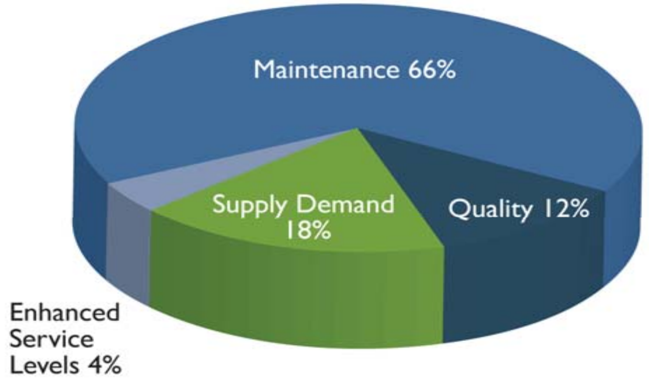
- Efficiency of £4.4m (6.1%)[2] delivered in H1 2010/11 (H1 2009/10 £2m)

[1] Average over K5
[2] Annual equivalent

South West Water
Capital Programme

2005-2010 (K4)

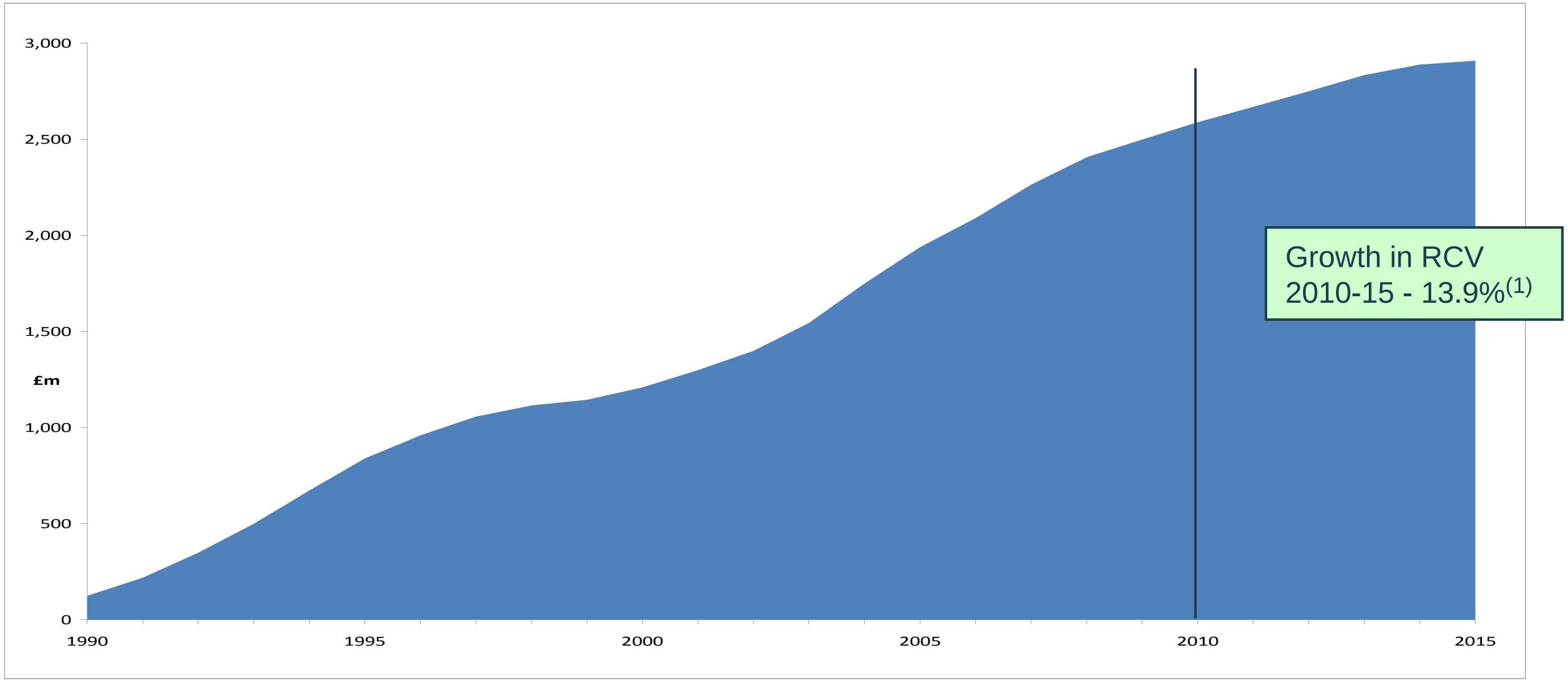
2010-2015 (K5)



- K5 maintenance focused investment programme
- Targeting 5% outperformance of Final Determination(1)
- Expenditure £40.3m in H1 2010/11 (H1 2009/10 £71.5m(2))
  - construction works on an Exeter WTW flood defence scheme
  - connected Stannon Lake (4th largest reservoir) into network

(1) Using COPI assumed by Ofwat in FD09 – targeting better than Capital Expenditure Incentive Scheme (CIS) baseline performance
(2) Prior year includes £18.3m water mains rehabilitation project

South West Water
Shareholder Value



- Expect growth in RCV to continue to exceed growth in net debt
- Gearing at H1 58%
  - expect to increase slightly at year end due to timing of dividend payments
- Potential for future investment to further increase RCV growth
  - e.g. private sewers adoption

(1) Outturn prices growth for K5 based on RPI 3.4% 10/11, 2.9% average thereafter

South West Water

Operational Highlights: Delivering the Regulatory Contract - I

- Ofwat leakage target met every year since inception
  - 11th successive year
  - Industry-leading leakage performance

- Industry leading water quality 99.98% – well above national average

- No hosepipe bans or drought orders – 14th consecutive summer

- Stable serviceability

- Best ever OPA score (411) – highest amongst quoted companies
  - Service Incentive Mechanism (SIM) strategy and targets in place
  - customer complaints reduced for second year running

- Innovative partnerships delivering environmental improvements
  - bathing water management projects
  - upstream thinking and catchment management

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South West Water

Operational Highlights: Delivering the Regulatory Contract - II

- Step change in operational cost efficiency
  - organisational restructuring £4m costs planned in 2010/11 (H1 - £2.4m)
  - 94% of K5 energy purchased at lower price than in Final Determination
- Bad debt charge stable as a percentage of revenue
  - marginal increase in bad debt provision
    - slower collection of new debt offset by targeted collections of older debt
  - schemes assisting vulnerable customers in place
    - FreshStart and Watercare schemes
    - metering and debt advice campaign directed at vulnerable customers

South West Water

Operational Highlights: Delivering the Regulatory Contract - III

Logging up/IDoK potential

- Private sewers
  - adoption planned for October 2011
  - updating studies to ascertain scale of capital investment

- Water Framework Directive and Revised Bathing Water Directive
  - studies under way to ascertain scale of capital investment

- **Strong start to the new regulatory contract**

Viridor
Strategy

- To grow and add value by
  - proactively developing new recycling operations to meet ambitious EU/UK targets
  - successfully exploiting the huge potential in waste-based renewable energy generation
  - capitalising on strong position in landfill waste disposal

Viridor

2010/11 H1 Financial Performance Summary

	For the half year ended 30 September			Full Year
	2010 £m	2009 £m	Change %	2009/10 £m
Turnover [1]	363.1	309.8	17	626.5
EBITDA	55.6	55.0	1	114.8
PBIT	33.4	32.0	4	72.8
PBIT plus joint ventures [2]	38.4	33.1	16	77.0
PBT	28.6	22.2	29	55.1

- **PBIT plus joint ventures up 16%**
- **PBT up 29%**

[1] Including landfill tax
[2] Interest receivable on shareholder loans plus share of PAT

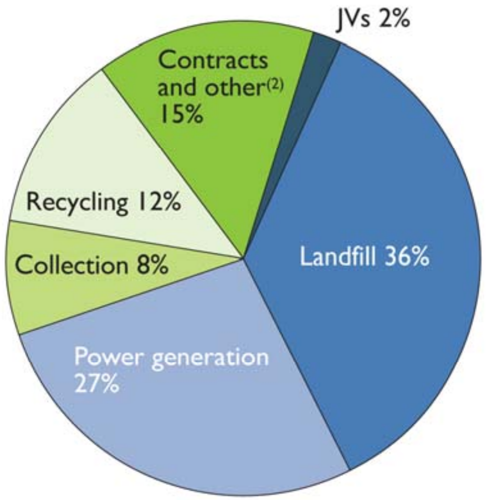
Viridor
2010/11 H1 Financial Highlights

- Revenue increased by £53.3m (17%) to £363.1m
  - acquisitions[1] accounted for £17.8m
  - existing business increased by £35.5m (including increase in landfill tax of £8.2m)
- EBITDA increased by £0.6m to £55.6m
- PBIT increased by £1.4m (4%) to £33.4m
- Joint ventures (Lakeside and VLGM) interest receivable on shareholder loans £3.1m (H1 2009/10 - £1.2m) and share of profit after tax £1.9m (H1 2009/10 - £(0.1)m)
- PBIT plus joint ventures increased by £5.3m (16%) to £38.4m
- PBT increased by £6.4m (29%) to £28.6m
- Capex £30.5m (H1 2009/10 - £26.4m)
- Investment in joint ventures £7.2m (H1 2009/10 - £22.5m)

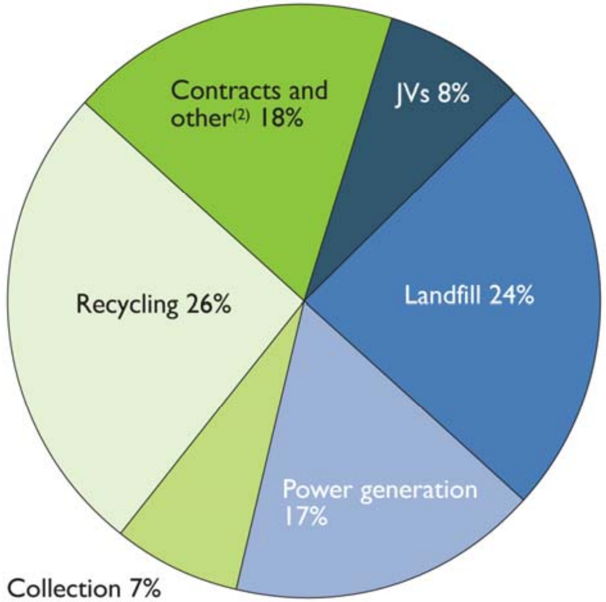
[1] *London Recycling and Intercontinental Recycling (2009); Reconomy businesses (2010)*

Viridor
Profit Contribution by Segment[1]

Half Year ended 30 September 2009



Half Year ended 30 September 2010



- **Business successfully evolving**
- **c.45% of profits from recovering value in waste[3]**

(1) Contribution plus joint ventures (share of PAT and interest) before intangibles and overheads (including pensions)
(2) "Contracts" includes West Sussex PFI, Greater Manchester sub-contract, other municipal contracts and sludge contracts and "Other" includes asset disposals
(3) Including 2% energy generation in joint ventures

Viridor

Operational Highlights – Joint Ventures

- Joint ventures' contribution increased to £5.0m (from £1.1m in H1 2009/10)
- **Lakeside** (handed over in January 2010)
  - £1.7m share of PAT
  - £1.3m interest on shareholder loans
- **Viridor Laing Greater Manchester**
  - £0.2m share of PAT, IFRIC 12 basis (£1.6m UK GAAP)
  - £1.8m interest on shareholder loans
  - 29 of the total 42 new planned facilities now completed and operational

Viridor
Operational Highlights – Landfill

- Total volumes decreased by 0.3m tonnes or 12% to 1.8m tonnes
  - decrease is primarily third party industrial and commercial
  - impact of landfill diversion/recycling and recession
- Average gate fees increased by 0.4% (to £21.76 per tonne)
- Consented landfill capacity fell from 77m cubic metres (mcm) at 31 March 2010 to 73mcm at 30 September 2010 reflecting usage in the period and lapse of planning at a redundant site

Viridor

Operational Highlights – Contracts & Other

- Profits well ahead
  - Lakeside local authority volumes
  - increased profits from municipal PFI/PPP contracts/sub-contracts
  - other municipal contracts also ahead more than offsetting reduced profits from sludge contracts

Viridor

Operational Highlights – Recycling

- Volumes traded increased by 172kt (25%) to a little over 0.9m tonnes with improved mix
  - existing business 119kt (18% increase)
  - acquisitions 53kt
- Overall recycling revenues per tonne back up to H1 2008/09 peak levels (after the deterioration in H2 2008/09 and H1 2009/10)
  - recyclate very economical compared to virgin materials
- Landfill tax to increase by £8 per year from current £48 per tonne to £80 per tonne in 2014/15
  - enhances long-term economics of recycling and energy recovery
- Recycling and Waste Management Business of the Year (National Recycling Awards, July 2010)

- **Profit per tonne in recycling appreciably above the level in landfill**

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Viridor
Acquisitions

- Viridor continues to grow its business by targeted acquisitions where positive synergies will add value for shareholders

- In June Viridor acquired the Reconomy recycling businesses for a debt-free consideration of £23.8m
  - three MRFs in East Anglia and the South Midlands

- In November Viridor acquired Pearsons Group Holdings for a debt-free consideration of £16.0m
  - MRF and associated facilities in Norfolk

- Both the above acquisitions have significant operational synergies with Viridor’s existing operations in the East of England. They also provide additional recyclate volumes for Viridor’s national and international trading network

- Reinforces Viridor’s position as the largest operator of MRFs in the UK

Viridor

Operational Highlights – Landfill Gas Power Generation

- Total landfill gas power generation increased by 3% to 280GWh[(1)]
- As flagged, average price down 15% to £69 per MWh (£82 per MWh at 30 September 2009)
  - ROC-able electricity output (brown energy component) sold forward to March 2010 at peak May 2008 forward prices
- Total operational capacity[(1)] 103MW at 30 September
  - 64% ROCs, 36% NFFO plus small amount of sub-contract
  - c.60% of NFFOs migrate to ROCs in 2013/14; balance split between 2011/12 and 2016/17

[(1)] *Excludes 3MW contribution from sub-contract sites in Suffolk*

Viridor

Renewable Energy Summary - I

- **Landfill gas**
  - 103MW (as at 30 September 2010)
- **Lakeside EfW** joint venture with Grundon Waste Management now operational
  - 410kt pa and up to 37MW EfW plant at Colnbrook near Heathrow
- **Bolton EfW** facility (part of GMW sub-contract) already operational (120kt pa and 9MW)
- **Runcorn/Ineos Chlor CHP** (planning permission achieved September 2008; 750kt pa, 120MW, Phases I and II)
  - preliminary works for both phases under way
- **Exeter EfW**
  - 60kt pa, 3MW
  - planning permission achieved and contracts being finalised
- **Cardiff EfW** (Trident Park)
  - 350kt pa, 30MW
  - planning permission achieved

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Renewable Energy Summary - II

- **Ardley** (Oxfordshire) EfW
  - 300kt, 24MW
  - Oxfordshire County Council resolved to grant planning permission; awaiting Secretary of State consideration
- Other possible long-term **EfW** sites include
  - **Dunbar** (turned down locally; being appealed)
  - **Avonmouth** (turned down locally; being appealed)
  - **Plymouth**
- 6 planned **Anaerobic Digestion** (AD) plants
  - **Greater Manchester**: planning permission achieved for 4 ADs (up to 8MW); construction programme commenced
  - **Walpole**, Somerset: planning permission achieved
  - **Beddington**, Croydon: planning permission achieved

- **Total operational capacity: 130MW[1]**
- **Total consented but not operational capacity: c.110MW[1]**
- **Target total capacity 300MW+[1] in 5 years' time**

[1] *Includes share of joint venture capacity*

Viridor

PPP Prospects

- Preferred bidder for **Oxfordshire**
- Provisional preferred bidder for **Cheshire***
- One of last two for **South West Devon Waste Partnership**
- One of last two for **South Lanarkshire**
- One of last three for **South London Waste Partnership***
- One of last three for each of **Peterborough EfW and MRF**
- One of last four for **Gloucestershire***
- One of last five for **South East Wales**
- Viridor continues to bid selectively for other contracts

- **Increasing landfill tax is the fundamental driver for the above projects**
- **Healthy list of prospects including renewable energy/Combined Heat & Power (CHP) and recycling opportunities**

* *Government PFI cutbacks may lead to some delays or changes (PPP vs merchant)*

Viridor
Summary

- Continues to deliver strong growth
- Successfully exploiting opportunities in
  - recycling
  - renewable energy
- c.45% of profits from recovering value in waste
- Growing contribution from joint ventures

- **Strong strategic positioning and favourable long-term trends**

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Summary

- Strategy clearly focused on water and sewerage services; waste management; recycling and renewable energy

- **South West Water**
  - strong start to the K5 contract
  - targeting outperformance

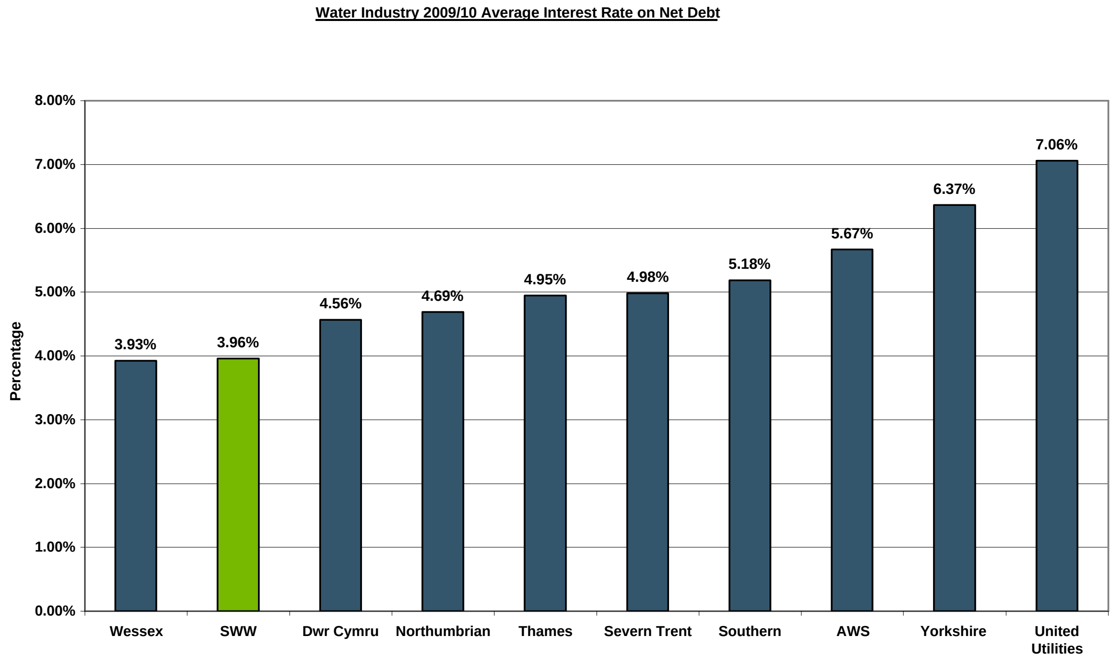
- **Viridor** delivering strong growth by exploiting opportunities in recycling and renewable energy
  - c.45% of profits from recovering value in waste

- Well funded with efficient long-term financing

- **Group businesses well positioned in current economic conditions**

Appendix

Water Industry
2009/10 Average Interest Rate



- **One-off benefit from 2009/10 low/negative RPI for companies with high level of index-linked debt**
- **SWW interest rate consistently low**

Source: Pennon calculation based on company Annual Reports

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