Pennon Group Plc

Preliminary Results 2009/10

25 May 2010

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Pennon Group Plc (“Pennon Group”)

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2009/10 Financial Highlights

- Underlying profit before tax[(1)] up 14.2% to £189.1m
  - South West Water up 8.7% to £132.5m
  - Viridor up 34.8% to £55.4m
- Underlying earnings per share[(2)] up 9.2% to 41.6p
- Dividend
  - recommended final dividend per share up 9.5% to 15.60p
  - full year dividend up 7.4% to 22.55p
  - Board announces policy of 4% per annum real increases from 2010/11 at least until 2014/15
- Strong liquidity and funding position
- Group businesses well positioned in current economic conditions

(1) *Before restructuring costs and intangibles amortisation*

(2) *Before restructuring costs (net of tax), intangibles amortisation and deferred tax*

Pennon Group Plc
2009/10 Operational Highlights

South West Water:

- Successful delivery of 2005 – 2010 Regulatory Contract
- Strong growth in K4 Regulatory Capital Value significantly exceeded growth in net debt
- SWW average funding cost 4.0%
- Leakage target achieved despite severest winter for around 30 years
- Operating efficiency (including energy efficiency) and financing targets exceeded
- Delivery under way of K5 regulatory contract

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2009/10 Operational Highlights

Viridor:

- Continued strong growth in PBITA & joint ventures[(1)] and PBT
  - recyclate prices very strong
  - benefit of favourable power prices contracted in May 2008
  - 44% of profit contribution from recovering value in waste
- Greater Manchester 25 year PFI contract operating successfully
- Lakeside Energy from Waste ('EfW') plant handover from contractor in January 2010
  - contributed £2.0m[(1)] in 2009/10
- Preferred bidder for Oxfordshire PPP and Exeter EfW; continuing to bid selectively for other contracts
- London Recycling and Intercontinental Recycling acquired and successfully integrated

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

Pennon Group Plc

Pennon Group Plc
Summary Financial Highlights

	2009/10 £m	2008/09 £m (restated)[1]	Increase
Group revenue	1,068.9	958.2	11.6%
Group operating profit [2]	269.6	257.0	4.9%
- SWW	196.5	191.6	2.6%
- Viridor	73.1	63.5	15.1%
(Viridor PBITA plus joint ventures	77.3	64.9	19.1%)
Group profit before tax [2]	189.1	165.6	14.2%
- SWW	132.5	121.9	8.7%
- Viridor	55.4	41.1	34.8%
Earnings per share [3]	41.6p	38.1p	9.2%
Dividend per share	22.6p	21.0p	7.4%

(1) *Restated for IFRIC12 'Service concession arrangements'*
(2) *Underlying – before restructuring costs and intangibles amortisation*
(3) *Underlying – before restructuring costs (net of tax), intangibles amortisation and deferred tax*

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Cash Flow

	2009/10 £m	2008/09 £m
Cash inflow from operations	379.8	340.6
Net interest paid	(69.7)	(80.1)
Dividends paid	(69.8)	(69.2)
Tax paid	(3.8)	(30.7)
Capital expenditure	(191.7)	(235.3)
Acquisitions and investments in joint ventures	(40.1)	(3.4)
Pension contributions	(16.4)	(40.0)
Net cash inflow/(outflow)	(5.7)	(118.1)
Shares issued	1.9	1.6
Equity component of convertible bond	10.0	-
Debt acquired with acquisitions	(5.4)	-
Non-cash movements	(4.1)	(12.4)
Increase in net borrowings	(3.3)	(128.9)

- **Strong cashflow from operations**
- **Net debt stable**

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Net Borrowings

	As at 31 March	
	2010	2009
	£m	£m
Loans and finance leases		
- over one year	2,160	1,982
- under one year	229	263
	2,389	2,245
Less: cash and cash deposits	(494)	(353)
Net borrowings	1,895	1,892
Net gearing (1)	74%	76%
SWW debt/RCV	60%	64%

- **Group gearing stable; SWW improving**
- **Significant pre-funding**

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

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Net Debt Analysis as at 31 March 2010

	£m
Finance leasing	1,237
Bank bilaterals - RCFs/term loans	319
EIB	288
Index linked bond 2057	219
Private placements	200
Convertible bond	113
Other	13
Total gross debt	2,389
Less: cash/liquid investments	(494)
Total net debt	1,895

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

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Net Interest Payable[1]

	2009/10 £m	2008/09 £m
Interest payable	(87.4)	(109.5)
Interest receivable	9.2	21.1
Net interest payable	(78.2)	(88.4)
Average rate of interest	4.1%	4.8%
Net interest cover[2]	3.4x	2.9x

- **Effective management of interest rates**
  - **Group 4.1%**
  - **SWW 4.0%**

(1) *Excludes pensions net interest, discount unwind on provisions and IFRIC 12 contract interest receivable*

(2) *From underlying profit*

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Efficient Financing Strategy - I

- Mix of fixed, floating and index-linked rate borrowings:
  - locks in benefit of low interest rates versus OFWAT assumptions
  - c.23% of SWW current debt index-linked to 2041-2057

- 50% SWW net debt fixed for K5
  - swaps fixed or put in place for £803m to end of K5
  - weighted average rate of 3.65%

- Significant finance leasing with long maturity and secured margins

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Efficient Financing Strategy - II

- New financing initiatives in 2009/10:
  - £125m convertible bond
  - £215m term loans and RCFs renewed
  - £89m of new term loans
  - c.£200m finance lease extended to 2052 and converted to bullet repayment
  - £25m finance lease facility for SWW drawn in 2009/10
  - £25m 5-10 year finance lease facility for Viridor

- New provider for £35m of Environment Agency bonds sourced

- **Average debt maturity 23 years**

- **Index-linked debt: average real rate 1.66%**

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Fair Value of Non-Current Borrowing

	As at 31 March 2010			As at 31 March 2009		
	Book Value £m	Fair Value £m	Diff £m	Book Value £m	Fair Value £m	Diff £m
Finance Leases	1,205	968	237	1,187	1,070	117
Bank bilaterals – RCFs/term loans	250	250	-	90	90	-
EIB	274	236	38	288	246	42
Index-linked bond 2057	219	190	29	218	134	84
Private placements	200	199	1	199	221	(22)
	2,148	1,843	305	1,982	1,761	221
Convertible	123	141	(18)	n/a	n/a	n/a

- **'Fair value' benefit increased to £287m**

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Liquidity

- Cash balances of £494m at 31 March 2010 (includes c.£92m deposits with L/C providers and lessors)
- Committed undrawn facilities of £200m at 31 March 2010
- Committed funding in place for South West Water to at least mid 2011
  - K5 funding requirements thereafter modest
- £454m funding facilities established/renewed during the year
- A further £100m established/renewed in April 2010
- Refinancing of other existing facilities being progressed as required

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Taxation

	2009/10 £m	2008/09 £m
UK corporation tax[1]	43.0	31.3
Deferred tax[1]	1.3	13.4[2]
Deferred tax arising on abolition of industrial buildings allowances	-	24.9
	44.3	69.6

- **Mainstream tax charge 23% (2009 – 20%)**

(1) *Includes tax relief on pension contributions of £40m in 2008/09 and £16m in 2009/10*
(2) *Deferred tax restated for IFRIC 12 'Service concession arrangements'*

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Pensions as at 31 March 2010

- Gross pension deficit of £108m (March 2009 - £66m)
  - £78m net of tax (March 2009 - £48m)

- Pension fund assets £402m
  Pension fund liabilities (£510m)
  Pension deficit (£108m) = (£78m) net of tax

- Fund assets increased from £276m to £402m reflecting
  - increases in asset values (incl employer contributions £16m)
  - inclusion of share of Greater Manchester pension funds (£55m)

- Liabilities increased from March 2009 due to reduced discount rate, higher expected inflation and share of liabilities of Greater Manchester pension fund

- Net deficit represents less than 5% of current market capitalisation

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Dividends

- Recommended final dividend up 9.5% to 15.6p
- Full year dividend up 7.4% to 22.55p, reflecting RPI of 4.4% to March 2010
- Scrip dividend alternative

- **Board enhances progressive dividend policy: 4% real from 2010/11 at least until 2014/15**

SOUTH WEST WATER

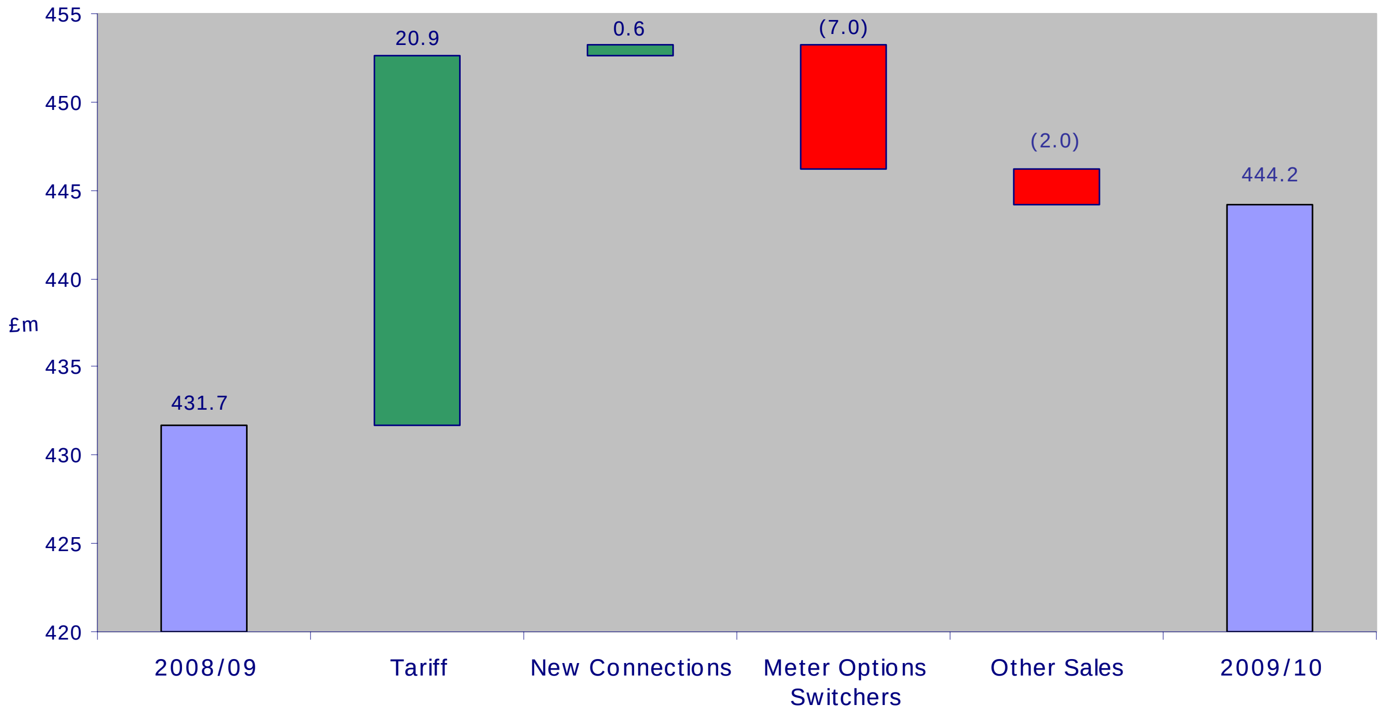
South West Water
Financial Performance Summary

	2009/10 £m	2008/09 £m
Revenue	444.2	431.7
Operating profit (1)	196.5	191.6

- ***Revenue up by 2.9%***
- ***Operating profit up by 2.6%***

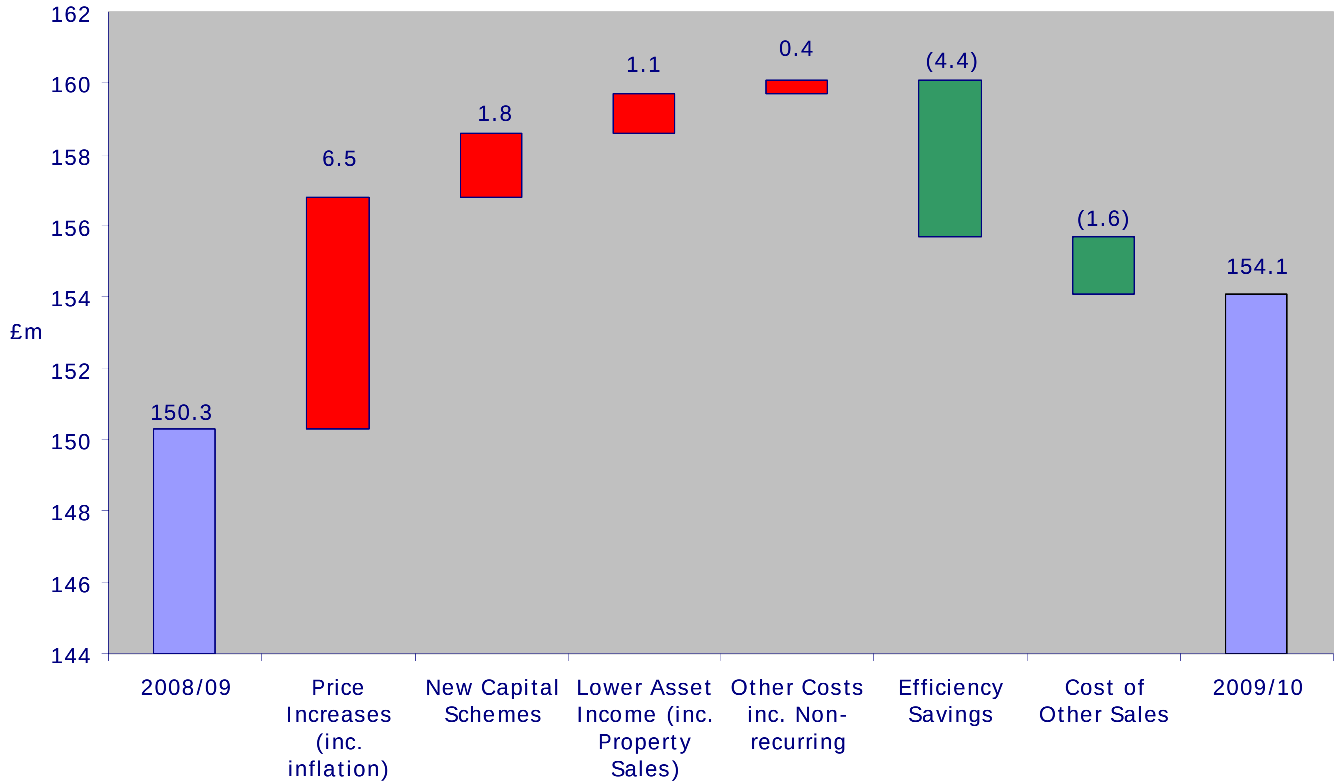
(1) Underlying – before restructuring costs

South West Water
Revenue



	2009/10	2008/09
• Number of meter switchers	17,890	23,162
• Number of new customers	5,000	7,000
• Domestic customers now metered	68%	66%
• Existing metered customers' volume usage movement	0%	(4.2)%

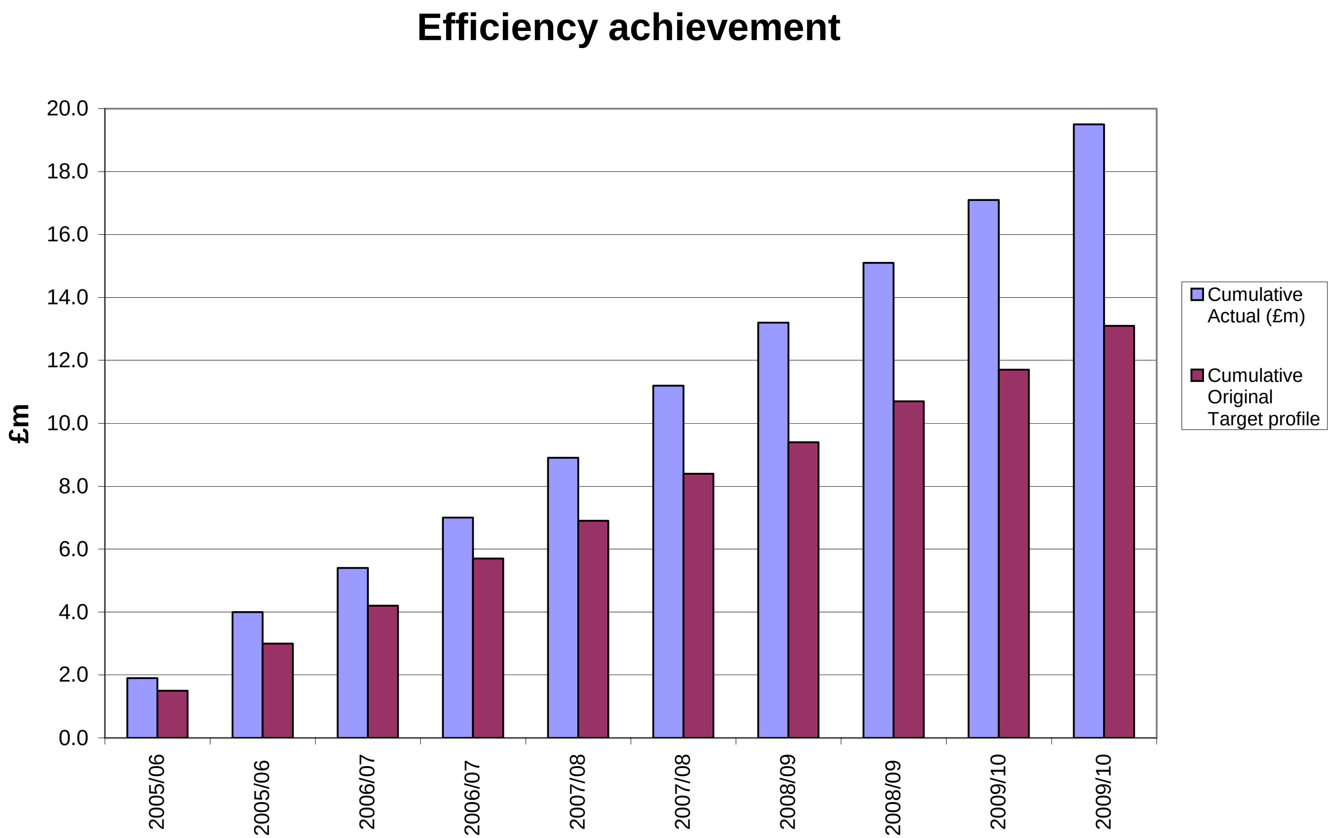
South West Water
Operating Costs



- Power price increased higher than inflation - but efficiency in energy usage achieved
- Timing of property disposals impacted by economic conditions
- Increased rate of efficiency delivery
- K5 power requirements – 75% purchased - price below OFWAT Final Determination assumption

South West Water

K4 Opex Efficiency Achievement versus Target



- **Outperformance of the K4 cost efficiency target**

South West Water
Capital Programme

- Capital expenditure 2009/10 - £143m (2008/09 - £148m)
  - 104km water mains replaced/refurbished
    - programme finished ahead of schedule in December 2009
  - new trunk main to safeguard South Devon's water supply
  - second water main to augment Cornwall's water supply

- Higher depreciation charges of £94m (2008/09 - £90m)
  - reflects increased asset base

- K4 capital programme
  - all major projects delivered in line with OFWAT/DWI/EA expectations
  - total K4 spend £881m[1] (outturn prices)
  - **5% outperformance achieved**[2]

(1) UK GAAP

(2) Using COPI assumed by Ofwat in FD09

South West Water
Regulatory Capital Value

Year End	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2010 adjusted £m[3]
At 2002/03 prices[1]	1,847	1,929	1,994	2,042	2,095	2,136	N/A
Actual outturn prices[2]	1,956	2,091	2,265	2,408	2,461	2,621	2,555

- 31% growth in RCV 2005-10 – highest percentage increase of any quoted water company
- Growth in RCV significantly exceeded growth in net debt (excluding effect of 2006 capital return)

(1) Source: OFWAT
(2) Source: South West Water
(3) Adjusted for logging up/down, AMP5 capital advancement, land sales and COPI adjustments in OFWAT PR09 Final Determination. Source: OFWAT

South West Water

Delivering K4: Preparing for K5 - I

- OFWAT K4 efficiency target exceeded
  - energy savings target achieved (Megawatt Challenge)
  - ‘PowerDown’ framework in place for K5
- OFWAT leakage target met or beaten every year since inception
  - impact of exceptionally cold winter successfully managed
  - 2009/10 leakage target beaten by 2 megalitres per day
  - leakage performance amongst best in the industry
- 2009 drinking water quality consistently high at 99.96%
- No hosepipe bans or drought orders – 13th consecutive summer

South West Water

Delivering K4: Preparing for K5 - II

- Customer debt
  - bad debt charge stable as a percentage of revenue
  - marginal improvement in collections of older debt
  - ‘WaterCare’ assisting vulnerable customers

- Early implementation of K5 efficiency platform
  - organisational restructuring (£5m cost incurred in 2009/10)
  - PUROS(1) project underway, early investment in assets and systems already delivering operating efficiencies

- All strategic supplier contracts for K5 renegotiated and in place
  - realigned incentives

(1) *Phased Utilisation of Remote Operating Systems*

South West Water
K5 Regulatory Contract - I

- Significant improvement between Draft and Final Determinations
- Regulatory risk reduction from
  - revenue protected through OFWAT's correction mechanism
  - extended notified items
- Headline 4.5% post tax real rate of return
  - efficiently financed asset base
  - financial outperformance locked in
  - K4 capital outperformance driving above average rate of return
- Modest financing requirement
  - c.£400m finance required in K5
  - c.75% is to refinance existing debt

South West Water
K5 Regulatory Contract - II

- OFWAT K5 operating efficiency target
  - comparable with K4 delivery

- Delivery of K5 operating efficiency through
  - PUROS automation and control to deliver flexible working
  - managed energy procurement, usage reduction and generation
  - new incentivised contracts with partners
  - restructuring and flexibility of workforce

South West Water
K5 Regulatory Contract - III

- Capital programme - £705m investment (2007/08 prices)
  - industry average Capital Incentive Scheme ('CIS') ratio
  - above average (22%) increase in maintenance expenditure
- Efficient delivery of K5 programme
  - targeting better than CIS baseline performance
  - 'H_5O' Delivery Alliance established
    - restructured delivery team and contracts
    - aligns with the programme mix
    - focussed incentives
- Logging up/IDoK potential for K5
  - Water Framework Directive
  - revised Bathing Water Directive
  - adoption of private sewers

South West Water
K5 Regulatory Contract - IV

- Appropriate balance for investors, customers and other stakeholders
- Target outperformance of the regulatory contract
- Continue to rigorously control costs
- Investment to
  - secure operating cost savings
  - protect improvements made over last 20 years through increased capital maintenance expenditure

Viridor

Viridor
Financial Performance Summary[1]

	2009/10 £m	Full Year (Restated) 2008/09 £m	Change %
Turnover [2]	626.5	528.0	18.7
EBITDA	114.8	105.2	9.1
PBITA	73.1	63.5	15.1
PBITA plus joint ventures [3]	77.3	64.9	19.1
PBT	55.1	39.9	38.1

- **PBITA up 15.1%**
- **PBITA plus joint ventures up 19.1%**
- **PBT up 38.1%**

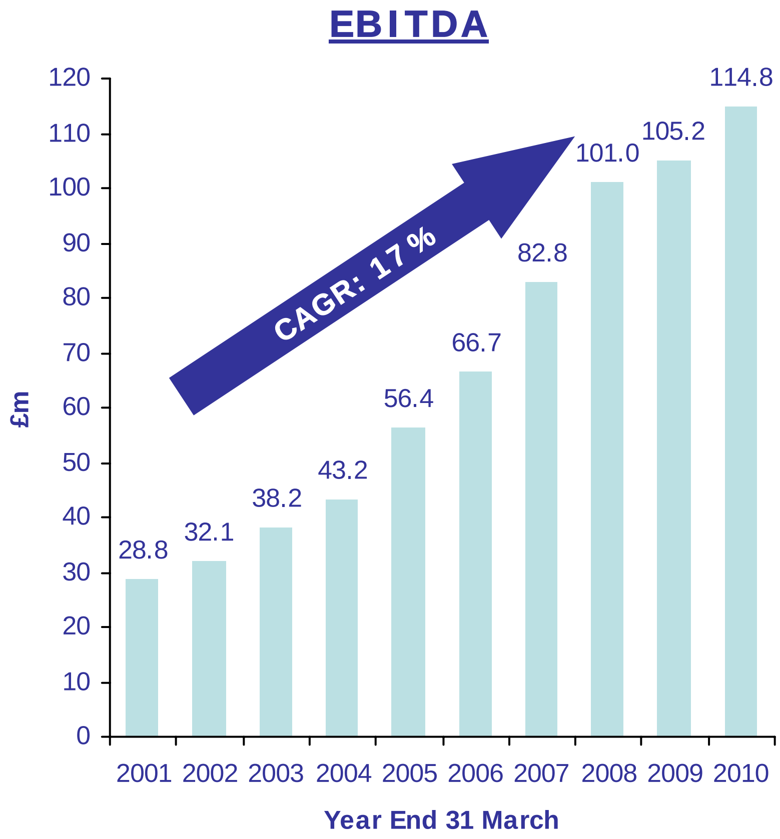
(1) Including IFRIC 12 'Service concession arrangements' (2008/09 restated)
(2) Including landfill tax
(3) Interest receivable on shareholder loans plus share of PAT

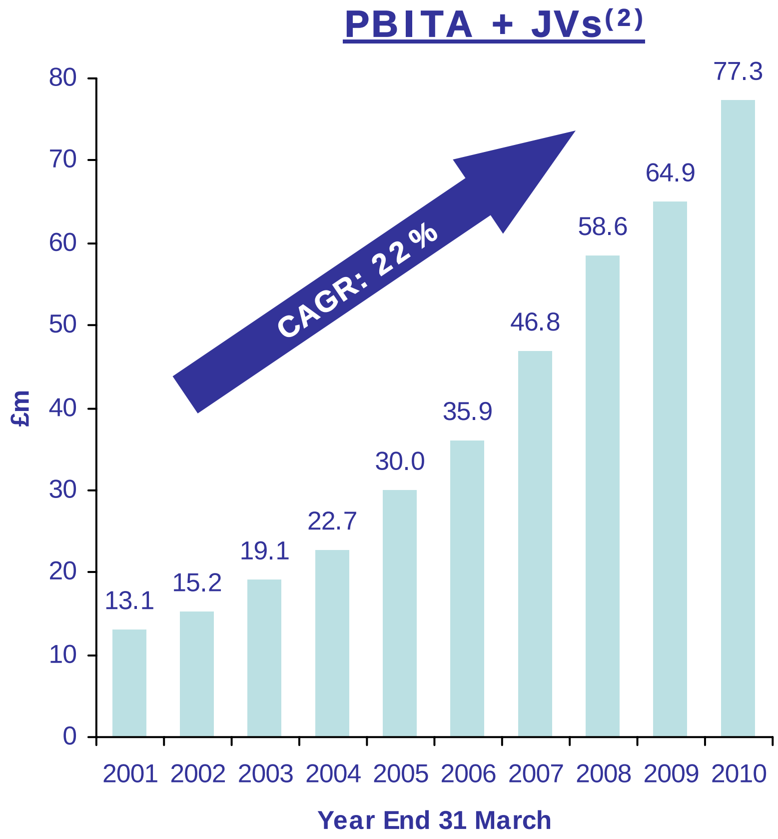
Viridor
2009/10 Financial Highlights

- Revenue increased by £98.5m (18.7%) to £626.5m
  - acquisitions of London Recycling and Intercontinental Recycling plus Greater Manchester subcontract accounted for £89.7m
  - existing business increased by £8.8m (including increase in landfill tax of £6.3m)
- EBITDA increased by £9.6m to £114.8m
- PBITA increased by £9.6m (15.1%) to £73.1m
- Joint ventures (Lakeside and VLGM) interest receivable on shareholder loans £3.0m (2008/09 - £0.7m) and share of profit after tax £1.1m (2008/09 – £0.7m)
- PBITA plus joint ventures increased by £12.4m (19.1%) to £77.3m
- PBT increased by £15.2m (38.1%) to £55.1m
- Capex £46.6m (2008/09 - £84.0m)
- Investment in joint ventures £30.8m (2008/09 - £1.3m)

Viridor

Continuing to Deliver Strong Financial Performance[1]

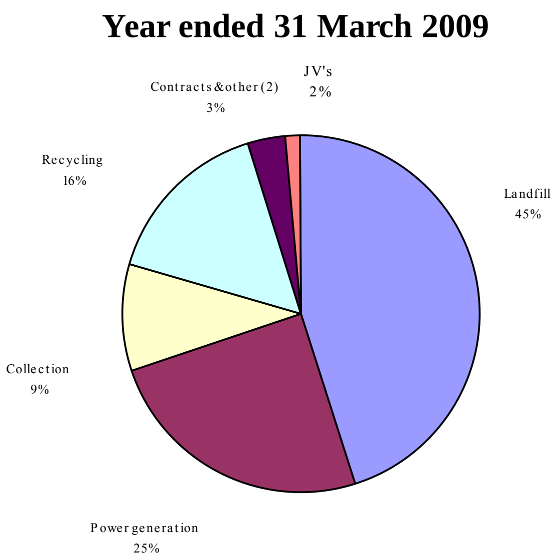


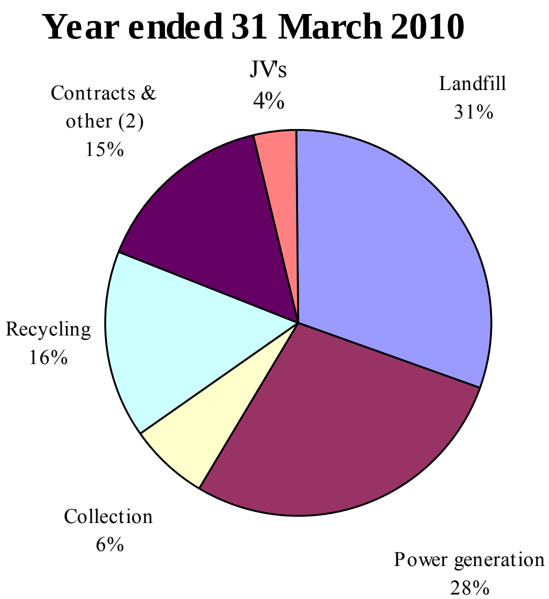


(1) *2009 and 2010 figures on an IFRIC 12 basis*
(2) *JVs contributed from 2008*

Viridor

Profit Contribution by Segment (1)





- **Business successfully evolving**
- **44% of profits from recovering value in waste**

(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 civic amenity contracts and sludge contracts and "Other" includes asset disposals

Viridor

Operational Highlights – Joint Ventures

- Joint venture contribution increased to £4.2m (from £1.4m in 2008/09)

- **Lakeside** handed over in January 2010
  - £1.0m profit
  - £1.0m interest on shareholder loans

- **Viridor Laing Greater Manchester**
  - £0.1m profit IFRIC 12 basis (£2.5m UK GAAP)
  - £2.1m interest
  - £40.0m potential further contribution by Viridor of mezzanine debt (referred to at Financial Close) no longer required – already refinanced
  - 22 of the total 42 new planned facilities now completed and operational

Viridor

Operational Highlights – Landfill

- Total volumes decreased by 0.7m tonnes or 15% to 3.9m tonnes
  - excluding site closures the decrease is 0.5m tonnes or 10%
  - decrease is primarily third party industrial and commercial (believed to be recession related)

- Average gate fees increased by 1.1% (to £22 per tonne)
  - excluding site closures increased by 3.1%

- Consented landfill capacity fell from 81m cubic metres (‘mcm’) at 31 March 2009 to 77mcm at 31 March 2010 reflecting planning gains (1.2 mcm) and 4.8mcm usage in the period

Viridor
Operational Highlights - Contracts

- Profits well ahead
  - continued good performance in West Sussex PFI and 10 other municipal contracts
  - recovery in the 2 sludge contracts
  - impact of Greater Manchester sub-contract profit

Viridor

Operational Highlights – Recycling

- Volumes traded increased by 3.5% to a little over 1.4m tonnes with improved mix
- Overall recycling revenues per tonne back to H1 2008/09 peak levels (after the deterioration in H2 2008/09)
  - currently still increasing but expected to ease back later in the summer
  - recyclate very economical compared to virgin materials
- Previous 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
- Viridor largest operator of MRFs in UK
- London Recycling Limited and Intercontinental Recycling Limited acquired summer 2009 and successfully integrated

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

Viridor
Operational Highlights – Landfill Gas Power Generation

- Total landfill gas power generation increased by 10% to 555GWh[1] reflecting capacity brought on at 2008/09 year end
- Average price up 21.5% to £90 per MWh (£74 per MWh at 31 March 2009)
  - ROC-able electricity output (brown energy component) sold forward to March 2010 at peak May 2008 forward prices
  - current market prices are c. £30 per MWh lower than this which will materially affect 2010/11 segment results (on ROC volumes only)
- Total operational capacity[1] flat at 100MW at year end
  - 63% ROCs, 37% NFFO

(1) *Excludes 3MW sub contract sites in Suffolk*

Viridor
Renewable Energy Summary

- **Landfill gas**
  - 100MW (as at 31 March 2010)
- **Lakeside EfW** joint venture with Grundon Waste Management now operational
  - 400kt pa and up to 37MW EfW plant at Colnbrook near Heathrow
- **Bolton EfW** facility (part of GMW subcontract) 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; being appealed)
  - **Dunbar** (turned down locally; being appealed)
  - **Ardley** (near Oxford; turned down locally; being appealed)
  - **Avonmouth**
  - **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

Viridor

PPP/PFI Prospects

- 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

- **Healthy list of prospects including renewable energy and recycling opportunities**

Viridor
Summary

- Continues to deliver strong growth
- Successfully exploiting opportunities in
  - recycling
  - renewable energy
- 44% of profits from recovering value in waste
- Growing contribution from joint ventures
- Strong strategic positioning and favourable long-term trends
  - 2010/11 will be impacted by lower power generation prices

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Pennon Group Plc
Summary

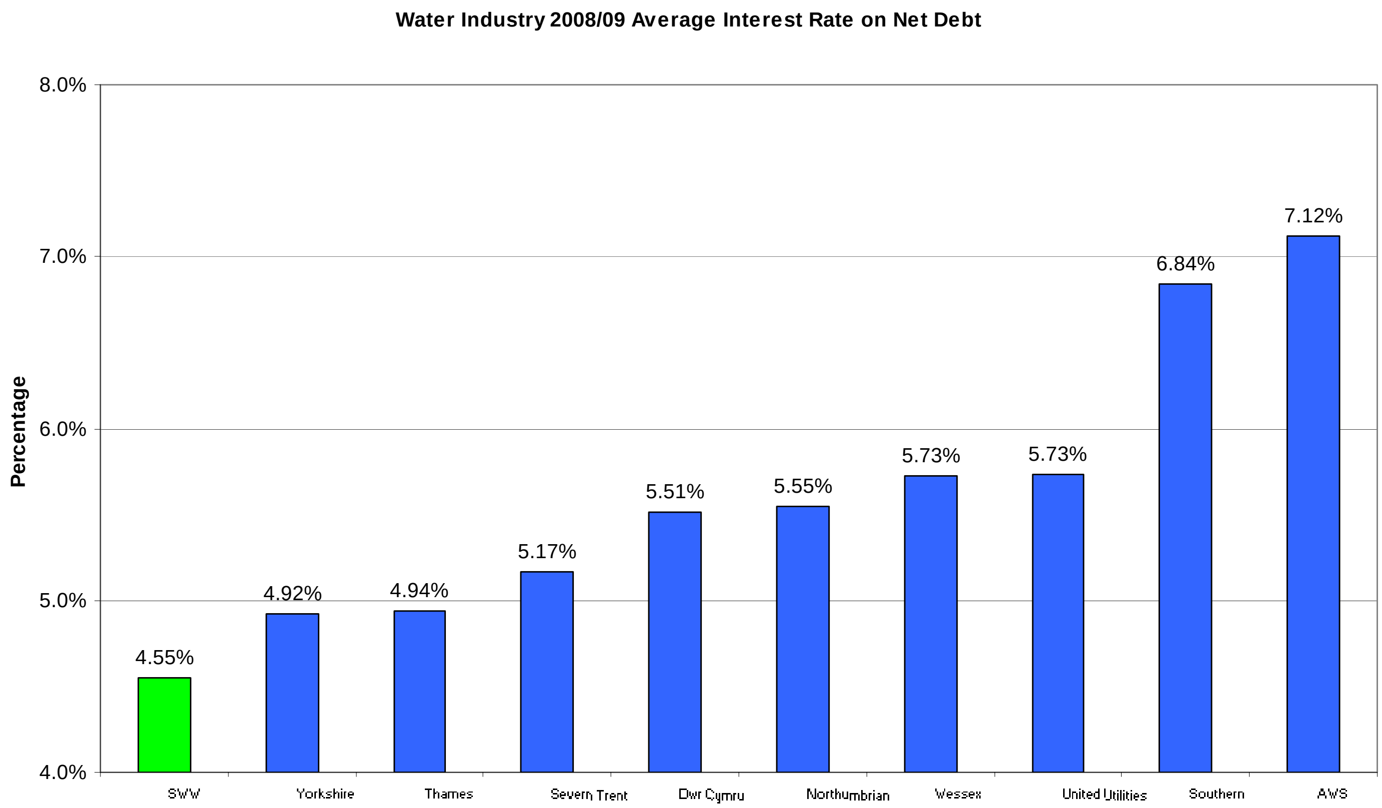
- Strategy clearly focused on water and sewerage services and waste management, recycling and renewable energy
- **South West Water**
  - successful delivery of K4 regulatory contract ahead of target
  - delivery under way of K5 regulatory contract
- **Viridor** continuing to deliver strong growth
  - successfully leading the way in exploiting opportunities arising from Government's landfill diversion, recycling and renewable energy targets
  - 44% profits from recovering value in waste
- Well funded with efficient long-term financing
- Group businesses well positioned in current economic conditions

Pennon Group Plc

Appendices

Water Industry

2008/09 Average Interest Rate



Source: Pennon calculation based on company Annual Reports

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

Viridor
Strong Strategic Positioning

- 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
  - recyclates substantially cheaper than virgin materials; now an established market
- Significant planning barriers for waste and renewable energy infrastructure

Viridor

IFRIC 12 ‘Service Concession Arrangements’

- Requirement of International Accounting Standards Board (IASB)
- Revenue from ‘Service concession arrangements’ split between
  - construction
  - operations
  - financing
- Capitalisation of interest during construction phase not permitted
- No impact on underlying cashflow
- Affects only West Sussex PFI and Greater Manchester Waste PFI joint venture (VLGM)

Viridor

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