

Waste as a Resource

4 October 2011



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Colin Drummond

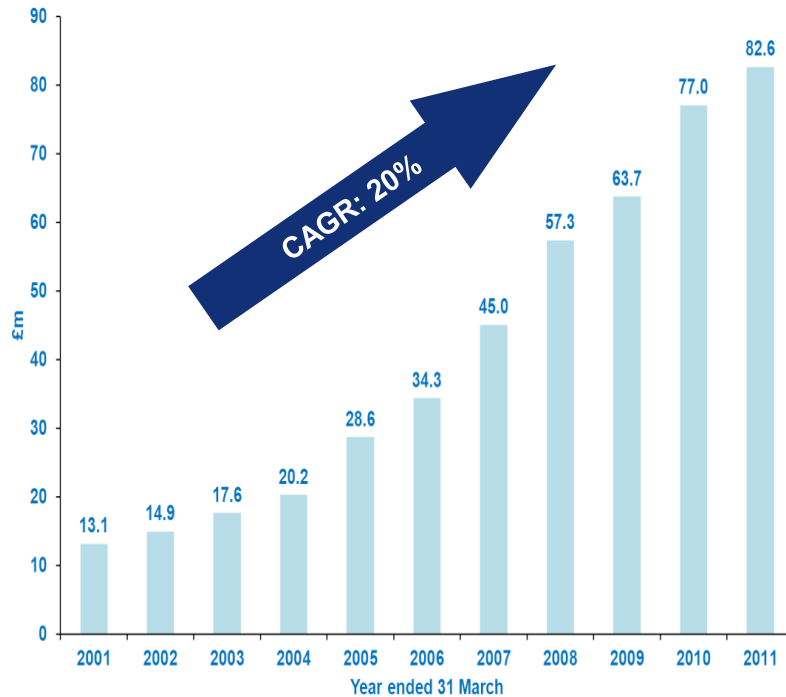
Executive Director, Pennon Group Plc
Chief Executive, Viridor Ltd

Pennon Group Plc - Overview

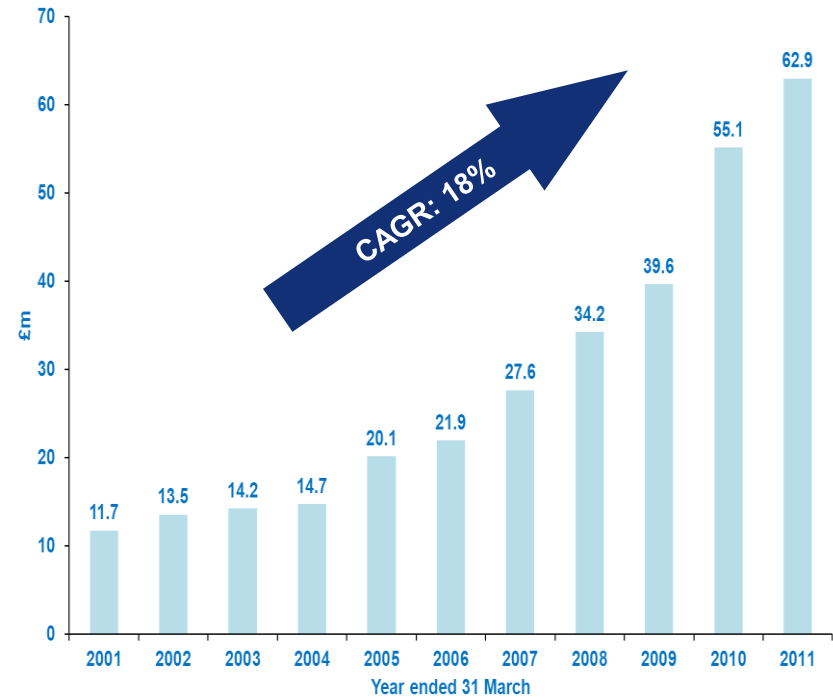
- **Pennon Group Plc** is a large FTSE 250 which operates and invests in utility infrastructure businesses. The Group is committed to:
 - sustainable development
 - enhancing the environment and
 - providing high quality customer services
- We have around £4.1 billion assets and employ over 4,300 people
- The Group has two principal subsidiaries:
 - **South West Water** provides water and sewerage services in Devon, Cornwall and parts of Dorset and Somerset
 - **Viridor** is one of the UK's leading recycling, renewable energy and waste management businesses

Viridor - Continuing to Deliver Strong Financial Performance (1)

PBIT + JVs (2)



PBT

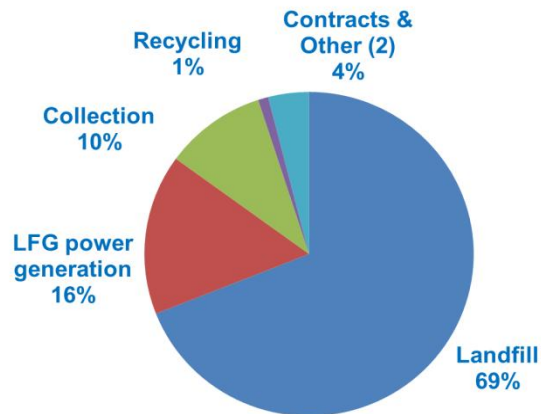


(1) Figures after 2009 on an IFRIC 12 basis

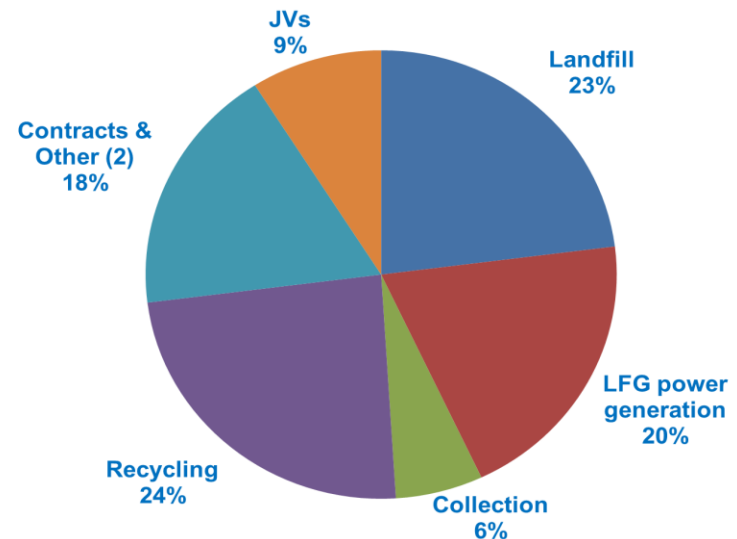
(2) JVs contributed from 2008

Viridor – Profit Contribution by Segment

Year ended 31 March 2001



Year ended 31 March 2011



- **Business continues successfully to evolve**
- **46% 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, Lakeside and Greater Manchester sub-contracts, other municipal contracts and sludge contracts and “Other” includes asset disposals

⁽³⁾ Including more than 2% energy generation / recycling in JVs and Contracts & Other

Viridor – Overview

From Waste to Resource

Our **strategy** is 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 our strong position in **landfill**

Key business statistics:

- 324 operating units including:
 - 26 Materials Recycling Facilities
 - 83 Household Waste Recycling Centres
 - 15 Composting/organics sites
 - 3 Energy from Waste plants
 - 34 Landfill gas power plants
 - 2 Anaerobic Digestion plants
- More than 90 local authority waste contracts
- c3,100 employees
- **46% of 2010/11 profits from recovering value in waste**

World Resource Use

- The world is using resource at an **unsustainable** rate
 - has used as much in the past 50 years as in all previous history
- Well documented emerging **shortages**
 - hydrocarbons/oil
 - water
 - topsoil (one third of world's top soil lost in past 100 years)
 - etc.
- Increasing search for **raw materials** worldwide
- Made more acute by world **population** due to grow to 9bn by 2050 from 6.8bn now

Waste as Resource

- **Recyclate**
 - the world's low cost commodity
- **Waste derived renewable energy**
 - the UK's low cost source of distributed base load renewable energy

UK Incentive Schemes

- Landfill tax to increase by £8 per year from current £56 per tonne to £80 per tonne from 1 April 2014
 - enhances long-term economics of recycling and energy recovery
- Renewable Obligations Certificates (ROCs) for qualifying energy generation
 - landfill gas 1(0.25) ROC per MWH
 - anaerobic digestion 2 ROCs per MWH
 - EfW/CHP 1 ROC per MWH on biomass component

Recyclate is the Low Cost Commodity

- As long as quality standards can be met, **recyclate is much cheaper than virgin materials**
 - paper/card
 - plastics
 - glass
 - metals
- Growth of recyclate historically held back by quality issues which have now been addressed via
 - improved collection methods
 - heavy investments in sophisticated material recycling facilities
- Recyclate is now a mature market with prices holding up despite weak world economic conditions
- But no point in recycling if good quality cannot be guaranteed
 - instead use residual waste for energy recovery

Viridor Recycling

- Viridor now recycles c. 2m tonnes p.a. compared with 0.1m tonnes in 2000/01
- Viridor largest operator of MRFs in UK
 - scale, technology and collection economies
- Strong international distribution network and accreditations permit high prices
- Average profit per tonne in recycling four times the level of landfill
 - much higher for certain grades

Viridor 2010/11 Acquisitions

- Five recycling companies acquired for c.£50m:
 - Reconomy, £23.8m: 3 MRFs in East Anglia and the South Midlands
 - Pearsons, £16.0m: MRF and associated facilities in Norfolk
 - Adapt Recycling, £0.7m: recycling and waste management operator in Bury
 - Swinnerton, £1.8m: recycling and waste management operator, also in Bury
 - Martock, £7.4m: MRF and associated facilities in Somerset
- Above acquisitions
 - have significant operational synergies in the UK
 - provide additional recyclate volumes for Viridor network
 - nationally
 - internationally
- Reinforces Viridor's position as the largest operator of MRFs in the UK
- **For a three minute introduction to Viridor's MRFs, see**
<http://www.youtube.com/user/ViridorTV>

Recovering Energy from Waste - 1

- A form of biomass
- Two routes
 - methane gas (landfill gas and anaerobic digestion)
 - combustion technologies
- Waste already accounts for 1.5% of UK electricity
 - comparable to wind
 - 1.2% landfill gas
 - 0.3% combustion
- Unlike wind
 - provides base load power (80 to 90% load factors)
 - is distributed round grid near users of energy
 - is by-product of required waste treatment which is paid for
- Unlike biomass crops we are not requiring agricultural land to be used to produce a fuel and imported to UK

Recovering Energy from Waste - 2

- **EU Landfill Directive** requires major reduction in amount of waste going to landfill
 - which will need instead to be used for energy generation
 - UK government targets imply at least 15m tonnes energy from waste capacity by 2020 compared to 5m tonnes currently
 - supported by steeply rising landfill tax (to £80 per tonne by 2014/15)
- **Large EfW plants will be substantially cheaper than landfill in 2014/15**
- Planning permissions difficult to obtain
 - likely to result in on going capacity shortage (and healthy gate fees)
- **Waste could readily account for 6% of UK electricity by 2015** (i.e. 40% of our 15% renewable target)
 - in longer term according to ICE and IME could account for 15% to 20% of total UK electricity
- Situation further enhanced if you **recover surplus heat**
 - e.g. Viridor/Laing/Ineos plant at Runcorn, Europe's most advanced waste CHP scheme
 - but requires nearby user of heat

Financing

- UK recycling, waste management and renewable energy infrastructure has to be expanded/upgraded if we are to meet our EU and UK waste management and renewable energy targets
 - individual councils (and business) have no choice because of ever rising landfill tax
 - £15bn investment by 2020 in waste alone
- Public sector cannot afford to invest in this
 - will have to be financed by Public Private Partnership (PPP) contracts
 - via project finance (special purpose vehicles) or corporately
- Availability of corporate finance a major competitive advantage

Viridor – Renewable Energy

- 137MW operating capacity in 2011 (compared to 28MW in 2001)
 - LFG (108MW), EfW (27MW), AD (2MW)
- Additional 60MW EfW under construction
- Four large EfW plants giving a further 1.3m tonnes/125MW achieved planning consent over past year
- Target over 300MW total operational capacity in five years time
 - c. 2.5m tonnes EfW capacity
- Typical large EfW plant costs c. £200m
 - projected to generate c. £25m EBITDA and c. £15m PBIT in first full year, increasing thereafter
 - profit per tonne around 10 times the level in landfill
- Strong financing position as part of Pennon Group
 - major advantage versus our competitors in a very attractive capital intensive sector

Viridor

Current PPP/PFI Projects

- Oxfordshire PPP – contract signed 2011
 - 25 years; £205m capex
 - EfW; 300kt; 25MW
- Exeter – contract agreed 2011
 - 25 years; £46m capex
 - EfW; 60kt; 3MW
- Greater Manchester PFI – operational 2009
 - 25 years; £640m capex, 1.1m tonnes pa
 - UK’s largest ever combined waste and renewable energy project
 - HWRCs, MRFs, MBT, AD, composting, transfer stations, bulk transport (including rail)
 - associated EfW / CHP (Runcorn)
- South London Waste Partnership PPP – operational 2008
 - 14 years, 450kt pa
 - recycling, transfer stations, transport, landfill
- Somerset PPP – operational 2006
 - 25 years, 200kt pa
 - landfill, composting, HWRC centres, partnership re AD / future residual treatment
- West Sussex PFI – operational 2005
 - 25 years, 350kt pa
 - HWRCs, MRF, transfer stations and bulk transport

Viridor

PPP Prospects ⁽¹⁾

- Preferred bidder for South Lanarkshire
 - Provisional preferred bidder for Cheshire
 - One of last two for Glasgow
 - One of last two for South London Waste Partnership
 - One of last two for each of Peterborough EfW and MRF
 - One of last two for West Lothian
 - One of last three for South East Wales (Gwyrdd)
 - One of last three for Heads of the Valleys
 - One of the last four for Milton Keynes
 - 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 and power and recycling opportunities**

⁽¹⁾ Government PFI cutbacks may lead to some delays or changes (PPP vs merchant)

Viridor - Summary

- Profits have grown 20% pa since year 2000/01
- Exploiting embedded value in waste stream
 - energy
 - recycle/raw materials
 - 46% of Viridor's profits now come from recovering value from waste
- Very exciting future
 - huge required expenditure on UK waste infrastructure (£15bn by 2020)
 - backed by economic incentives
 - world long-term shortage of energy and raw materials
 - Viridor's strong investment pipeline driving future growth and shareholder value
 - EBITDA likely to more than double in five years