



## Preliminary Results 2008/09

2 June 2009

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# Pennon Group Plc (“Pennon Group”)

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## Pennon Group Plc

### 2008/09 Financial Highlights

- Underlying operating profit<sup>(1)</sup> up 7.0% to £259.0m
  - South West Water up 3.6% to £191.6m
  - Viridor up 12.7% to £65.5m
- Underlying profit before tax<sup>(1)</sup> up 6.7% to £165.3m
- Underlying earnings per share<sup>(2)</sup> up 3.5% to 38.2p
- Dividend
  - recommended final dividend per share up 5.1% to 14.25p
  - full year dividend up 6.0% to 21.0p
  - continued dividend policy of 3% per annum real increases to 2009/10
- £205m debt facilities established/renewed during the year
- Group cash balances of £353m at 31 March 09
- Group businesses well positioned in the current economic slowdown

<sup>(1)</sup> Before restructuring costs and intangibles amortisation

<sup>(2)</sup> Before restructuring costs (net of tax), intangibles amortisation and deferred tax

## Pennon Group Plc

### *2008/09 Operational Highlights*

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#### **South West Water:**

- On target to deliver 2005-2010 Regulatory Contract
- Strong growth in Regulatory Capital Value 2005 – 2010, expected to reach £2.5bn by end of K4
- Twelfth consecutive year without hosepipe bans and drought orders
- Operating efficiency target achieved ahead of schedule
- Leakage target achieved despite adverse weather
- Capital investment of £148m
- Final Business Plan for 2010 - 2015 submitted to OFWAT

## Pennon Group Plc

### *2008/09 Operational Highlights*

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#### **Viridor:**

- Continued strong growth in PBITA
- Greater Manchester 25 year contract signed (April 2009) and in operation
  - the UK's largest ever combined waste and renewable energy project
  - 1.3m tonnes p.a. of waste
  - 130MW total potential energy generation
- 14 year, 450,000 tonnes p.a. recycling, anaerobic digestion and disposal contract secured with South London Waste Partnership
- Renewables Obligation power generation output sold forward to March 2010 in May 2008 at favourable prices
- Business mix and profits well diversified



# **Pennon Group Plc**

## Pennon Group Plc

### Summary Financial Highlights

	2008/09	2007/08	Change
	£m	£m	
Group revenue	952.9	875.0	8.9%
Group operating profit <sup>(1)</sup>	259.0	242.1	7.0%
Group profit before tax <sup>(1)</sup>	165.3	154.9	6.7%
Earnings per share <sup>(2)</sup>	38.2p	36.9p	3.5%
Dividend per share	21.0p	19.81p	6.0%

<sup>(1)</sup> Underlying – before restructuring costs and intangibles amortisation

<sup>(2)</sup> Underlying – before restructuring costs (net of tax), intangibles amortisation and deferred tax

## Pennon Group Plc

### Cash Flow

	2008/09	2007/08
	£m	£m
Cash inflow from operations (before pension prepayment)	347.3	356.1
Net interest paid	(80.1)	(79.7)
Dividends and tax paid	(99.9)	(86.6)
Capital expenditure	(243.3)	(218.1)
Acquisitions	(3.4)	(88.9)
Pension contributions	(38.7)	(19.0)
Net cash outflow	(118.1)	(136.2)
Proceeds on reissue of treasury shares	1.6	1.6
Own shares acquired	-	(49.6)
Debt acquired with acquisitions	-	(15.3)
Debt indexation/interest accruals	(12.4)	(6.3)
Increase in net borrowings	(128.9)	(205.8)



## Pennon Group Plc

### Net Borrowings

As at 31 March

	2009 £m	2008 £m
Loans and finance leases		
- over one year	1,982	2,063
- under one year	263	57
	<u>2,245</u>	<u>2,120</u>
Less: cash and cash deposits	(353)	(357)
Net borrowings	<u>1,892</u>	<u>1,763</u>
Net gearing <sup>(1)</sup>	76.0%	73.4%
SWW debt/RCV	63.6%	60.2%

- ***Gearing stable***
- ***SWW gearing within OFWAT range***
- ***Significant pre-funding for SWW***

<sup>(1)</sup> Net debt / (equity + net debt)

## Pennon Group Plc

### Net Debt Analysis as at 31 March 2009

	£m
Finance leasing	1,217
Bank bilaterals - RCFs/term loans	295
EIB	302
Index-linked bond 2057	218
Private placements	199
Other	14
Total gross debt	2,245
Less: Cash and cash deposits	(353)
Total net debt	1,892

- *Key role of finance leasing*

## Pennon Group Plc

### *Net Interest Payable<sup>(1)</sup>*

	2008/09	2007/08
	£m	£m
Interest payable	(109.5)	(106.6)
Interest receivable	21.1	21.0
Net interest payable	<u>(88.4)</u>	<u>(85.6)</u>
Average rate of interest	4.8%	5.2%
Net interest cover <sup>(2)</sup>	2.9x	2.8x

- ***Effective management of interest rates***
- ***SWW average 4.6%***

<sup>(1)</sup> Excludes pensions net interest and discount unwind on provisions

<sup>(2)</sup> From underlying operating profit

## Pennon Group Plc

### *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
- Significant finance leasing with long maturity and secured margins
- New financing initiatives in 2008/09:
  - £100m 15 year EIB funding for SWW
  - successful renewal of £55m RCFs for both Plc and SWW
  - £25m finance lease facility for SWW
  - £25m 5-10 year finance lease facility for Viridor
- £150m cash collateralisation of finance leases
- Average debt maturity 23 years
  
- **Index-linked debt: average real rate 1.66%**
- **Debt 'fair value' benefit up to £221m from £170m at March 2008**

## Pennon Group Plc

### *Fair Value of Non-Current Borrowing*

	As at 31 March 2009			As at 31 March 2008		
	<u>Book Value</u>	<u>Fair Value</u>	<u>Diff</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>Diff</u>
	£m	£m	£m	£m	£m	£m
Finance Leases	1,187	1,070	117	1,155	1,023	132
Bank bilaterals – RCFs/term loans	90	90	-	295	295	-
EIB	288	246	42	202	198	4
Index-linked bond 2057	218	134	84	212	178	34
Private placements	199	221	(22)	199	199	-
	<u>1,982</u>	<u>1,761</u>	<u>221</u>	<u>2,063</u>	<u>1,893</u>	<u>170</u>

- **Debt 'fair value' benefit - £221m**

## Pennon Group Plc

### *Refinancing*

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- Cash balances of £353m at 31 March 2009
- Committed undrawn facilities of £204m at 31 March 2009
- Committed funding in place for South West Water to at least 2011
- £235m loan repayments required by March 2010
  - £43m April 2009 – December 2009
  - £192m January 2010 - March 2010
- Successful renewal of £55m committed revolving credit facilities in 2008/09

## Pennon Group Plc

### Taxation

	2008/09 £m	2007/08 £m
UK corporation tax	30.7	25.0
Deferred tax	12.0	12.0
Deferred tax arising on abolition of industrial buildings allowances (2007/08 - change of rate)	24.9	(21.0)
	<u>67.6</u>	<u>16.0</u>

- Mainstream tax charge 19% (2008 – 17%)
- Includes £10.7m tax relief on pension contributions (2008 - £5.7m)

## Pennon Group Plc

### *Pensions as at 31 March 2009*

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- Gross pension deficit of £66m (March 2008 - £26m)
- Pension fund assets £276m  
Pension fund liabilities £342m  
£66m = £48m net of tax
- Net deficit represents less than 3% of current market capitalisation
- Deficit increased from March 2008 due to impact of equities' decline on fund assets, partially offset by £39m employer contributions



## Pennon Group Plc

### *Dividends*

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- Progressive dividend policy: 3% real to 2009/10
- Recommended final dividend up 5.1% to 14.25p
- Full year dividend up 6.0% to 21.0p
- RPI was -0.4% for the year to 31 March 2009 but very volatile during the year
- 2008/09 dividend based on average RPI for the year of 3.0%
- Underlying dividend cover 1.8x (before restructuring costs (net of tax), amortisation and deferred tax) (2007/08 1.9x)
- SCRIP dividend alternative



**SOUTH WEST WATER**

## South West Water

### Financial Performance Summary

	2008/09	2007/08
	£m	£m
Revenue	431.7	421.0
Operating profit <sup>(1)</sup>	191.6	185.0

- **Revenue up by 2.5%**
- **Operating profit up by 3.6%**

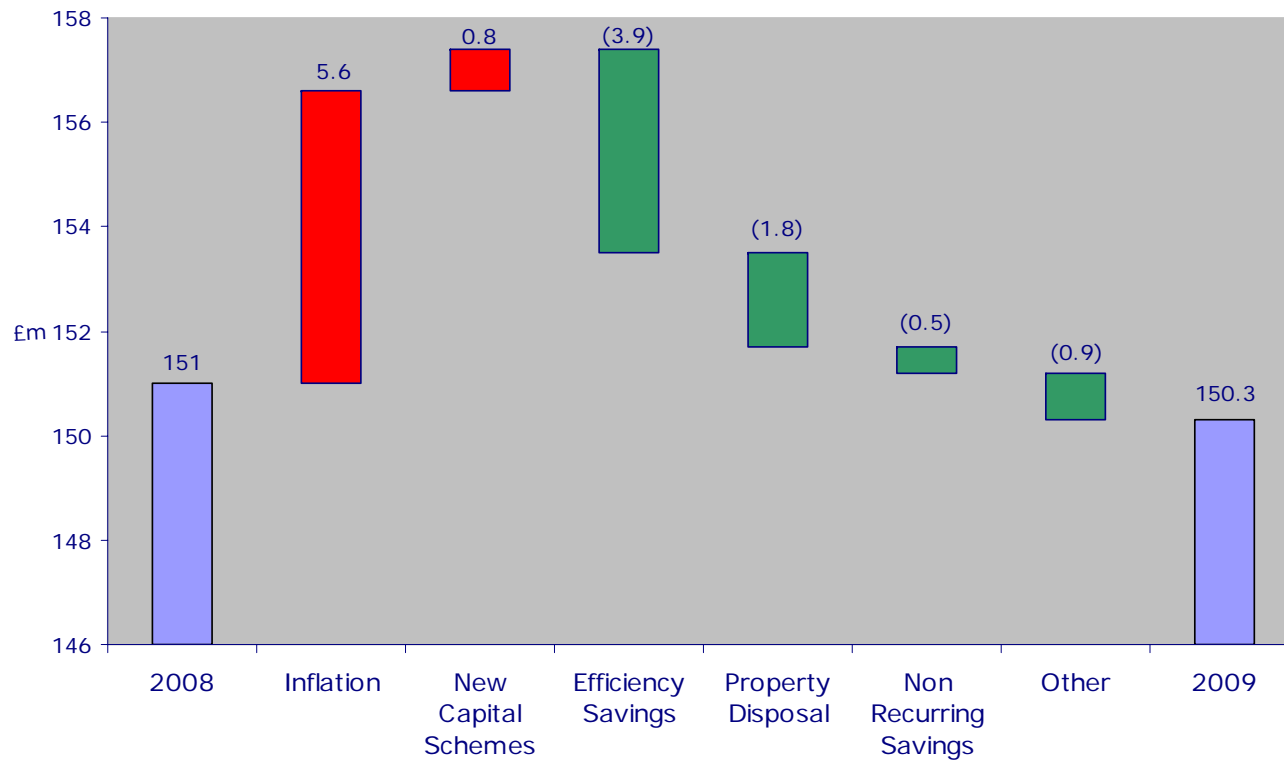
<sup>(1)</sup> Underlying – before restructuring costs

## South West Water Revenue



- Number of meter switchers 23,162
- Number of new customers 7,000
- Domestic customers now metered 66%
- Existing metered customers' volume usage -4.2%

## South West Water Operating Costs

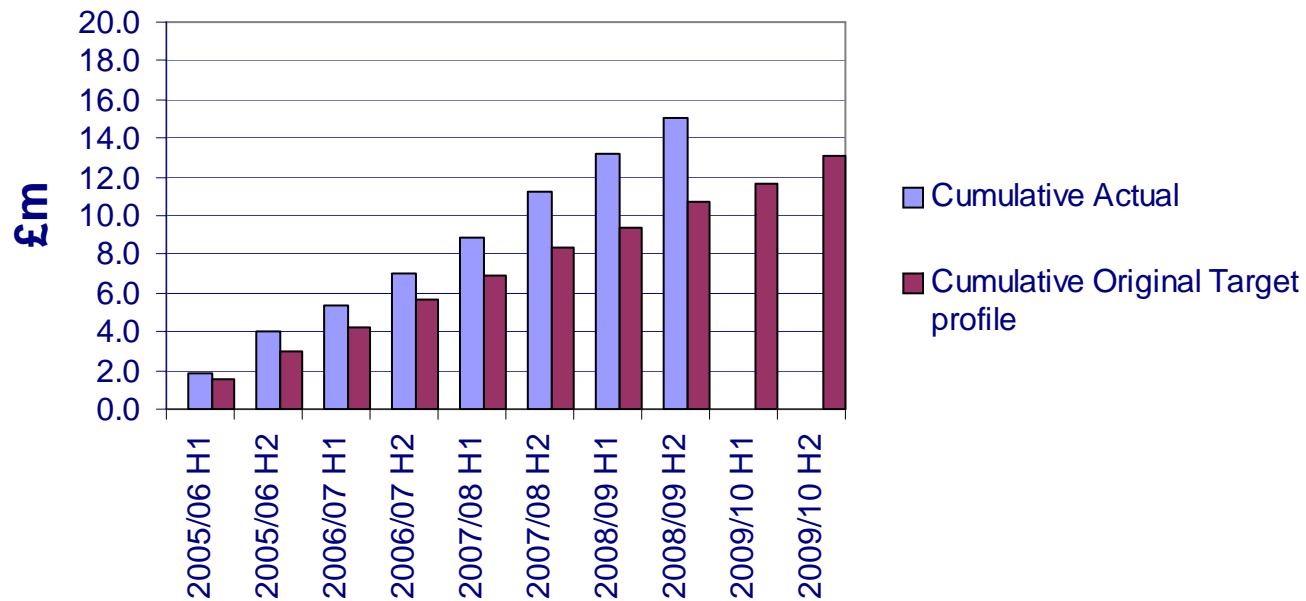


- 2008/09 power prices fixed below headline inflation rate
- Historical average debt collection rates maintained

# South West Water

## K4 Opex Efficiency Achievement versus Target

### Efficiency Achievement



- K4 target achieved

## South West Water Capital Programme

- Capital expenditure 2008/09 – £148m (2007/08 - £170m)
  - 363km water mains replaced/refurbished
- Depreciation charges of £90m (2007/08 - £85m) reflect the increased asset base
- K4 capital programme on track
  - investment to date £729m<sup>(1)</sup> (outturn prices)
  - all major projects delivered in line with OFWAT/DWI/EA expectations
- K4 capital programme of £762m<sup>(1)</sup> (2002/03 price base)
  - **on track to achieve 5% outperformance**

<sup>(1)</sup> UK GAAP

## South West Water Regulatory Capital Value

31 March	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 <sup>(1)</sup> £m
At 2002/03 prices <sup>(2)</sup>	1,847	1,929	1,994	2,042	2,095	2,136
<i>Actual/expected outturn prices<sup>(3)</sup></i>	<i>1,956</i>	<i>2,091</i>	<i>2,265</i>	<i>2,408</i>	<i>2,461</i>	<i>2,484</i>

- Forecast assumes negative RPI for March 2010
- 27% growth in RCV 2005-10 – highest percentage increase of any quoted water company
- Growth in RCV significantly exceeding growth in net debt (excluding effect of 2006 capital return)

<sup>(1)</sup> Excludes additional c£15m investment advanced from K5

<sup>(2)</sup> Source: OFWAT

<sup>(3)</sup> Source: South West Water, assuming RPI at March 2010 -1%



## South West Water

### *Delivering K4: Preparing for K5 - I*

- OFWAT K4 efficiency target achieved early and targeting outperformance to 2010
- OFWAT leakage target met every year
  - impact of exceptionally cold winter successfully managed
  - leakage performance amongst the very best in the industry
- 2008 drinking water quality – very high at 99.96%
- 2008 step change reduction in waste water related pollution incidents
- No hosepipe bans or drought orders – 12th consecutive year
  - two new reservoirs for Cornwall secured - region's 4<sup>th</sup> and 5<sup>th</sup> biggest

## South West Water

### *Delivering K4: Preparing for K5 - II*

- Customer debt - overall debt collection stable
  - marginal increase in doubtful debt provision
  - improved collections from recent billing offsetting slower collection of older debt
  - less exposure to large industrial customers
  - “WaterCare” assisting vulnerable customers
- Early implementation of K5 efficiency platform
  - organisational restructuring (£5m spend 2008/09, £5m expected in 2009/10)
  - PUROS project underway
- Advance of c.£15m capex from K5 to K4 – to be recognised in March 2010 RCV
- Business competition
  - retail operations already segregated
  - Gold Green Apple Award – recognition of SWW enhanced business services

## South West Water

### *PR09 Final Business Plan – Highlights*

#### **A realistic balance between stakeholder requirements:**

- **Customers** – prices as stable as possible
  - average bill increases 1.2% pa above inflation
  - 81% customers metered by 2015
- **Environment** - £764m investment (2007/08 prices)
  - protect and maintain improvements made over the last 20 years
  - further improvements to meet EU Directives
  - start to address Climate Change
  - potential additional >£100m following completion of assessments (subject to IDoK or logging up in 2015):
    - Water Framework Directive
    - Revised Bathing Water Directive
    - Adoption of private sewers
- **Investors** – 4.76% post tax real rate of return
  - efficiently financed asset base

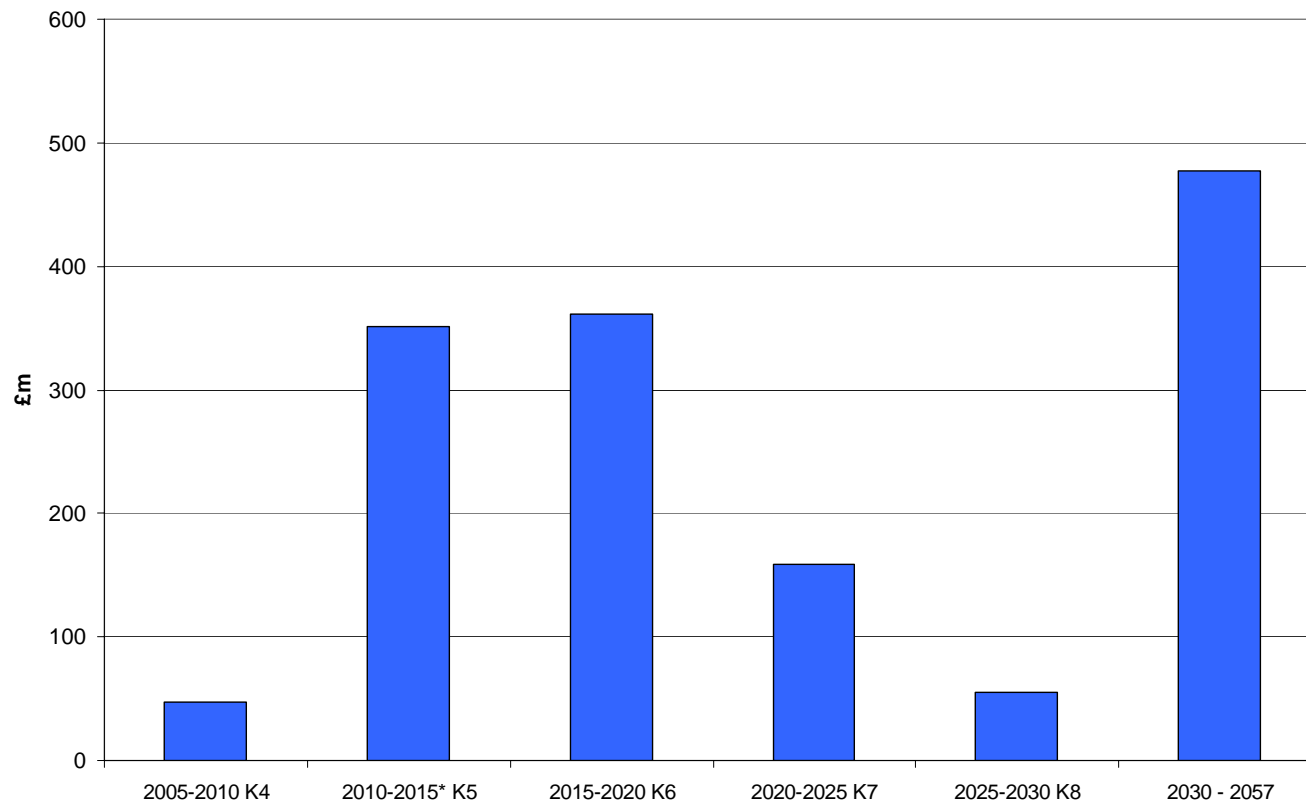
***Further efficiencies planned - 2.4% pa opex efficiencies off base costs from 2010/11, 6% capex efficiencies***

## South West Water

### *PR09 Final Business Plan – Cost of Capital*

- 4.76% post tax real cost of capital
  - cost of equity 7.7% real (same as PR04)
  - cost of debt 3.9% real
  - assumed gearing 60% debt/RCV
- Cost of capital increased from 4.60% to 4.76% since Draft Business Plan
- Cost of capital assumes Notified Item protection against key risks

## South West Water Debt Maturity Profile by K Period



- Average maturity 25 years

\* SWW's Final Business Plan assumes c £400m debt required in K5 of which approximately 75% is to refinance existing debt

## South West Water Price Review Timetable

19 December 2008	OFWAT published draft capital baseline
7 April 2009	Companies submitted final business plans
<i>23 July 2009</i>	<i>Draft price limits published by OFWAT</i>
<i>26 November 2009</i>	<i>Final price limits published by OFWAT</i>
<i>January 2010</i>	<i>Accept price limits or seek Competition Commission referral</i>

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# Viridor

## Viridor

### *Strong Strategic Positioning*

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- Landfill an increasingly scarce resource
- Ambitious EU/UK waste management targets for recycling, energy from waste, landfill diversion
  - Landfill Directive/WEEE Directive etc
  - c£15bn investment required in UK
  - backed by rising landfill tax and other mechanisms
- Ambitious EU/UK renewable energy targets
  - waste provides low cost, base load, distributed energy
  - waste already the major source of renewable energy in UK with scope for huge further increase
- Significant planning barriers for waste and renewable energy infrastructure



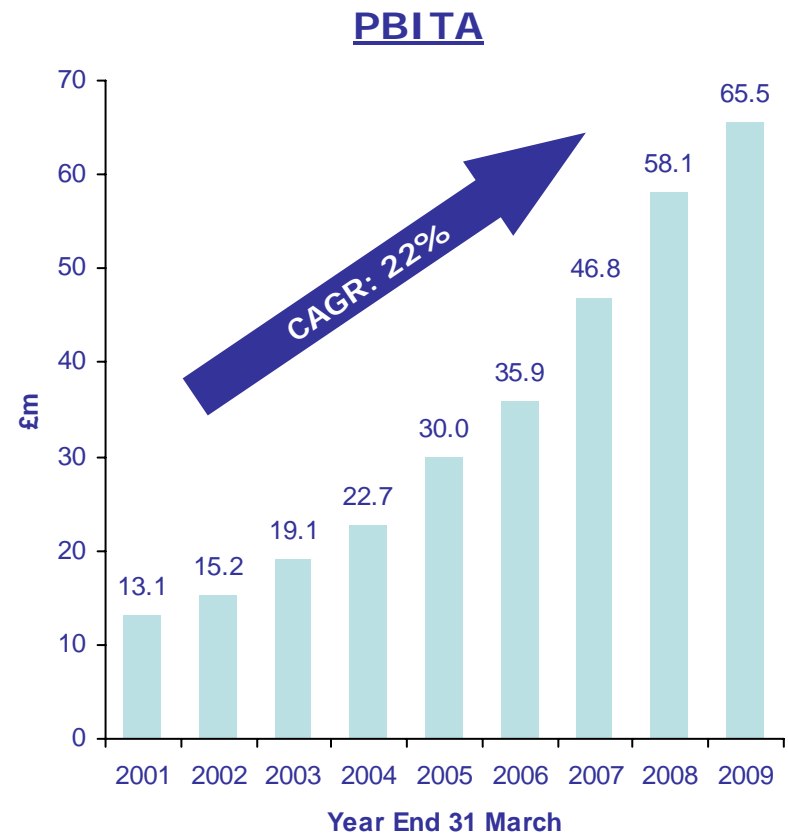
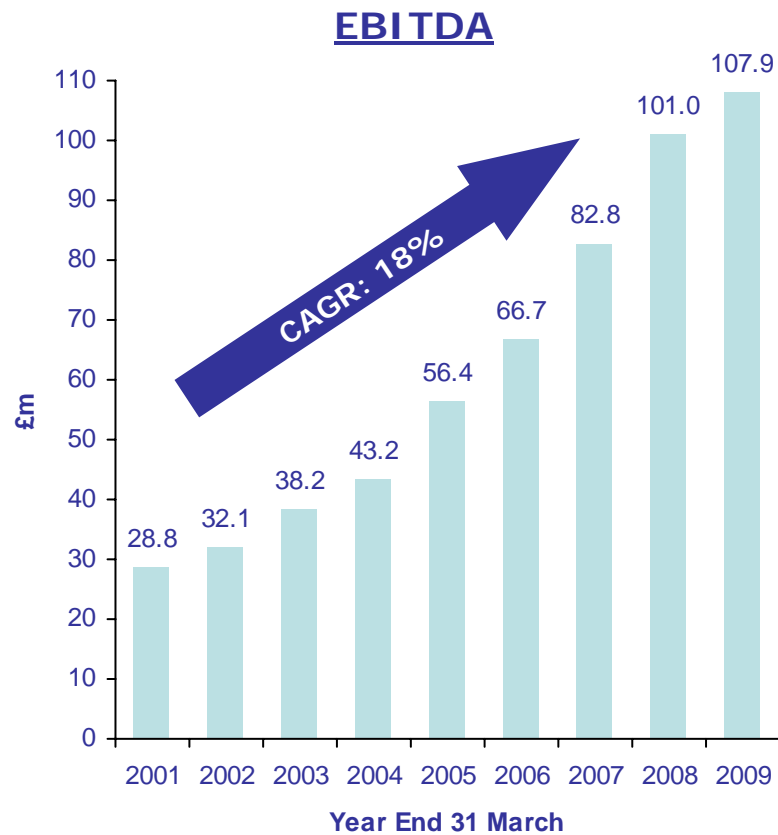
## Viridor

### *2008/09 Financial Highlights: another year of strong growth*

- Revenue increased by £67.6m (15%) to £522.7m
  - acquisitions (Grosvenor and Shore full year) accounted for £41.9m and existing business £25.7m
  - includes increase in landfill tax of £19.1m
- EBITDA increased by £6.9m (7%) to £107.9m
- PBITA increased by £7.4m (13%) to £65.5m
  - £33.1m H1, £32.4m H2
- PBT grew by 15% to £40.8m
- Capex rose to £92.0m (2007/08 £59.0m)
  - growth projects £41.8m

# Viridor

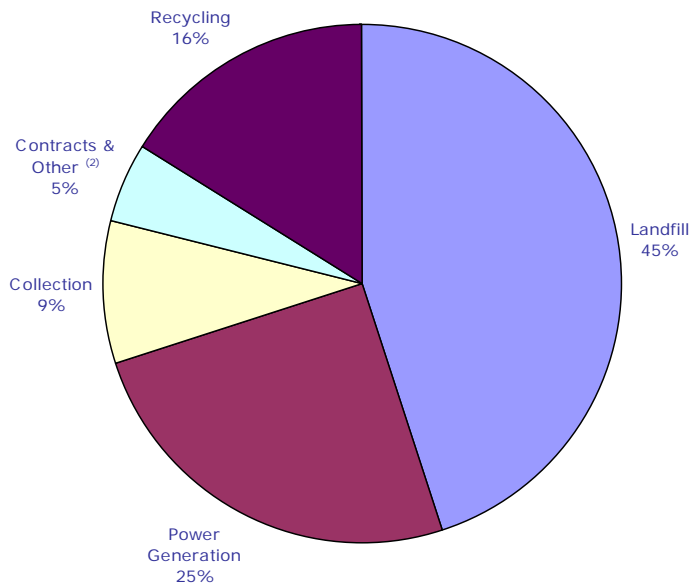
*Continuing to Deliver Strong Financial Performance*



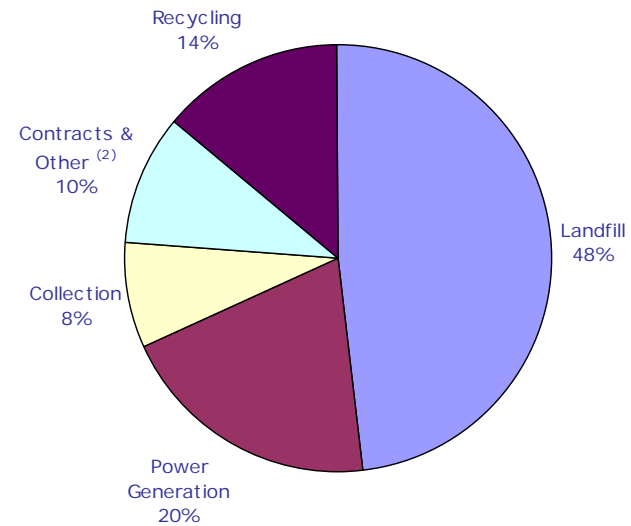
# Viridor

## Profit Contribution by Segment <sup>(1)</sup>

Year Ended 31 March 2009



Year Ended 31 March 2008



- Business successfully diversified

<sup>(1)</sup> Contribution before intangibles and central overheads (incl pensions)

<sup>(2)</sup> "Contracts" include West Sussex PFI, other civic amenity contracts and sludge contracts

## Viridor

### *Operational Highlights – Landfill*

- Total volumes decreased by 0.6m tonnes or 11% to 4.6m tonnes
  - non-recurring items 0.2m tonnes in 2007/08
  - reduction entirely due to third party industrial and commercial particularly in second half of year
  - domestic and Viridor collected volumes maintained
- Average gate fees increased by 11% (to £21.48 per tonne), well ahead of cost increases, reflecting product mix and pricing policy
  - margin per tonne increased by c£1 to c£7
- Consented landfill capacity fell from 84m cubic metres at 31 March 2008 to 81m cubic metres at 31 March 2009 reflecting
  - 6m cubic metres usage
  - 3m cubic metres planning gains
- Beddingham landfill (East Sussex) now closed (2008/09 £4.4m profit contribution)

## Viridor

### Operational Highlights – Power Generation

- Total landfill gas power generation increased by 6% to 504GWh reflecting our strategy of maximising output
- Average price grew to £74MWh (2008 - £60MWh)
  - ROC-able electricity output (brown energy component) sold forward to March 2010 at May 2008 forward prices
- Total capacity<sup>(1)</sup> grew 17MW from 84MW at 31 March 2008 to 101MW at 31 March 2009
  - 62% ROCs, 38% NFFO at 31 March 2009
  - capacity increase accredited for full ROCs in advance of banding change

<sup>(1)</sup> Excludes 3 MW sub-contract in Suffolk

## Viridor

### Recycling Segment - Volumes and Prices 2008/09

Products	Volumes (tonnes 000's)			Recyclate Prices (£/ tonne)		
	H1	H2	FY	H1	H2	FY
Paper, card, metals and plastics	250	224	474	110	81	97
Aggregates, wood and compost	309	252	561	2	1	1
Other (including glass, WEEE, PRNs)	166	158	324	48	66	56
<b>Total</b>	<b>725</b>	<b>634</b>	<b>1,359</b>	<b>50</b>	<b>45</b>	<b>48</b>

- Paper, card, metals and plastics internationally tradeable and subject to market volatility
  - current indications are that prices are improving

## Viridor

### *Operational Highlights – Recycling*

- Viridor revenues are gate fees (42%) plus recycle sales (58%) across range of products
  - paper, card, metals and plastics (35% of tonnage) are internationally tradeable and subject to market volatility
  - remaining 65% sold to a range of customers in the UK
- Total recycling profits grew 27% year on year
  - 73% of profits in H1 (reflecting high prices for paper, card, metals and plastics)
  - 27% in H2
- Chancellor's April Budget announcement enhances long-term economics of recycling
  - landfill tax to increase by £8 per year from current £40 per tonne to new medium-term level of £72 per tonne in 2013/14

## Viridor

### *Operational Highlights - Contracts and Collection*

#### Contracts

- Profits down reflecting sludge contract specific issues
- Continued good performance in Somerset PPP, West Sussex PFI and around 10 other municipal contracts

#### Collection

- Profits up with enhanced margins and £1m credit relating to a landfill tax claim more than offsetting reduced volumes (reflecting current UK economic conditions)



## 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 130MW (including Runcorn Phases I and II)<sup>(1)</sup>
- 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 plus further possible mezzanine debt of up to £40m in 2010
- 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
- Profit streams for Viridor
  - sub-contract
  - interest receivable on shareholder loans in SPVs
  - share of PAT in SPVs
  - Runcorn Phase II (longer-term)

<sup>(1)</sup> Plus 9MW existing capacity at Bolton EfW plant

## Viridor

### *Other PPP/PFI Contracts*

- **West Sussex PFI** and **Somerset PPP** performing well
- **South London Waste Partnership** contracts won (September 2008)
  - 450,000 tonnes pa
  - recycling, anaerobic digestion and disposal
  - 14 years
- Viridor continues to bid selectively
  - one of last two for **Oxfordshire** PPP
  - one of last two for **Cheshire** PFI
  - in the bidding for other contracts

## Viridor Renewable Energy Summary

Waste currently 30% of UK Renewables, low cost, base load, distributed. Scope for significant further growth. Chancellor's Budget announced increasing EIB support for renewables

- **Landfill gas**
  - 101 MW (as at 31 March 2009)
- **Lakeside EfW** joint venture with Grundon Waste Management
  - 400kt pa and up to 37MW EfW plant at Colnbrook near Heathrow
  - £160m capex, 86% non-recourse debt with balance split equally between equity providers
  - £0.8m share in PAT in 2008/09 reflecting liquidated damages
  - operating profit contribution expected in 2009/10
- **Exeter EfW**
  - 60kt pa, 3MW
  - planning permission achieved
- **Runcorn/Ineos Chlor CHP** (planning permission achieved September 2008; 750kt pa, 120MW, Phases I and II)
- **Bolton** EfW facility (part of GMW PFI) already operational (120kt pa and 9MW)
- Other possible long-term EfW sites include
  - Trident Park, **Cardiff** (site acquired)
  - **Dunbar** (existing Viridor site; planning application submitted)
- 6 planned **Anaerobic Digestion (AD)** plants
  - Greater Manchester - planning permission achieved for 4 ADs totalling 430kt pa, 8MW
  - Walpole, Somerset - 30kt pa and 1MW
  - Beddington, Croydon - planning permission obtained

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# Pennon Group Plc

# Pennon Group Plc

## Summary

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- Strategy clearly focused on water and sewerage services and waste management
- **South West Water**
  - successfully delivering K4 regulatory contract ahead of target
  - strong growth in K4 RCV due to reach £2.5bn by March 2010
  - PR09 programme on track: Final Business Plan published
- **Viridor** delivering strong growth by
  - capitalising on its leading position in landfill waste disposal
  - proactively developing new waste management facilities to meet ambitious EU/UK targets
  - successfully exploiting the huge potential in waste-based renewable energy generation
- Well funded with efficient long-term financing
- Group businesses well positioned in the current economic slowdown

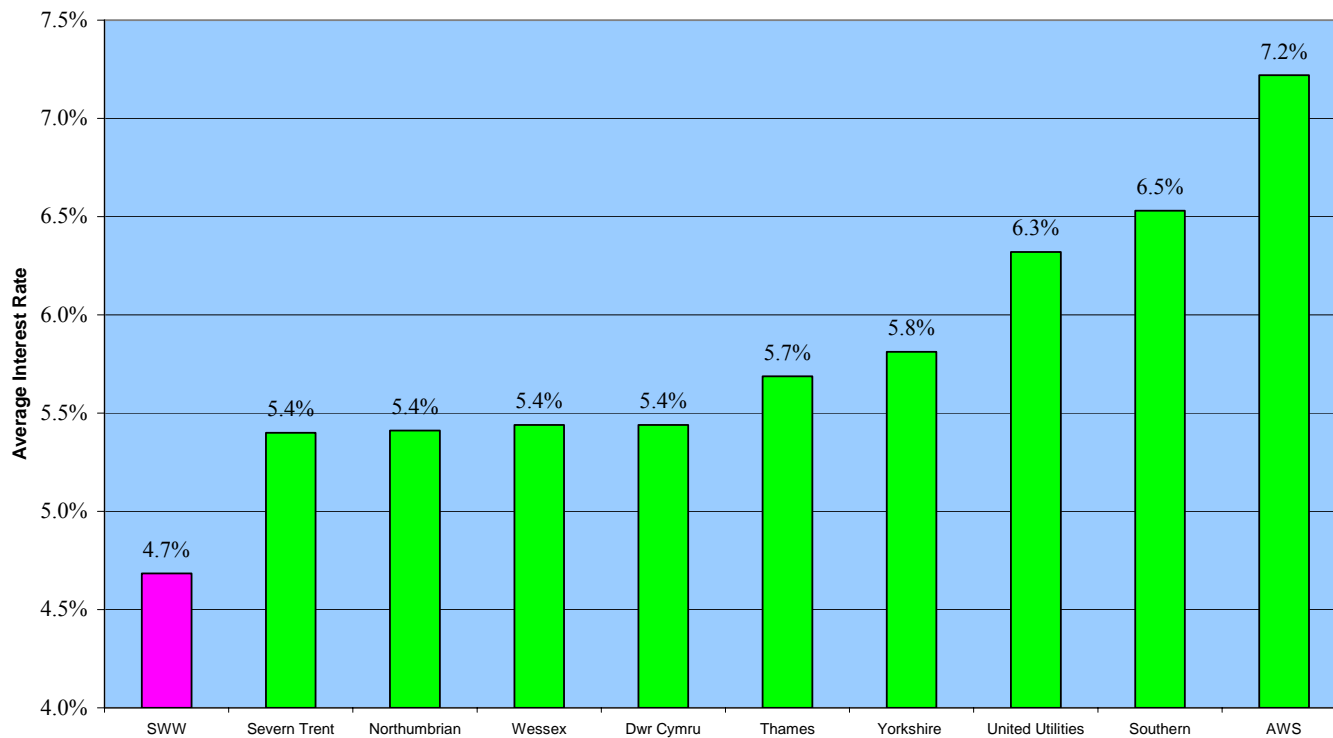


# Pennon Group Plc

# Water Industry

## 2007/08 Average Interest Rate

Water Industry 2007/08 Average Interest Rate



Source: Pennon calculation based on Annual Reports and Regulated Accounts  
Basis: Net Interest Payable (excluding pensions net interest/Average Net Debt)  
Accounts prepared under IFRS