news from Pennon Group Plc

PENNON GROUP PLC **2 June 2009**

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2009

Pennon Group announces its unaudited results for the year ended 31 March 2009.

A presentation for City audiences will be held today, 2 June 2009, at 09:00 at the City Presentation Centre, 4 Chiswell Street, Finsbury Square London, EC1.

For further information today, 2 June 2009, please contact :

David Dupont	Group Director of Finance - Pennon	}	
Jo Finely	Investor Relations Manager - Pennon	}	0207 251 3801
James Murgatroyd or Sally Hogan	Finsbury Group	}	

FINANCIAL HIGHLIGHTS

- Underlying operating profit [(1)] 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 [(2)] up 6.7% to £165.3m
- Underlying earnings per share [(3)] 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

RECONCILIATION OF UNDERLYING AND STATUTORY RESULTS

	2008/09	2007/08	Growth
	£m	£m	
OPERATING PROFIT			
Statutory operating profit	252.8	236.8	6.8%
Non-underlying costs :			
- Restructuring – South West Water	5.0	4.0	
- Intangibles amortisation – Viridor	1.2	1.3	
Underlying operating profit [(1)]	259.0	242.1	7.0%
PROFIT BEFORE TAX			
Statutory profit before tax	159.1	149.6	6.4%
Non-underlying costs :			
- Restructuring – South West Water	5.0	4.0	
- Intangibles amortisation – Viridor	1.2	1.3	
Underlying profit before tax [(2)]	165.3	154.9	6.7%
EARNINGS PER SHARE			
Statutory earnings per share	26.3p	38.2p	-31.2%
Non-underlying costs :			
- Restructuring (after tax) – South West Water	0.9	0.9	
- Intangibles amortisation – Viridor	0.4	0.4	
Deferred tax	10.6	(2.6)	
Underlying earnings per share [(3)]	38.2p	36.9p	3.5%

Throughout this report, unless otherwise stated, all figures are underlying results excluding restructuring costs, intangibles amortisation and deferred tax. The Directors believe that the underlying measures provide a more useful comparison on business trends and performance.

OPERATIONAL HIGHLIGHTS

- **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

- **Viridor :**
    - Continued strong growth in PBITA
    - Greater Manchester 25 year contract signed (April 2009) and in operation
        - UK's largest ever combined waste and renewable energy project
        - 1.3m tonnes of waste per year
        - 130MW total potential energy generation
    - 14 year, 450,000 tonnes per year 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

Ken Harvey, Chairman, said "We have seen further profitable growth in the Group this year. Our two key businesses, South West Water and Viridor, remain our focus and we are delivering the benefits of that strategy. South West Water is on target to deliver the current regulatory contract to 2010 and has submitted its Final Business Plan for the next regulatory period, 2010 – 2015. Viridor continues to deliver a strong performance based on both organic growth and sound acquisitions. The Greater Manchester PFI waste contract, with its associated renewable energy generation, is a further major step in the delivery of Viridor's successful strategy."

GROUP OVERVIEW

- Revenue rose by 8.9% to £952.9m.
- Operating profit rose by 7.0% to £259.0m.
- Profit before tax was up 6.7% to £165.3m.
- Earnings per share increased by 3.5% from 36.9p to 38.2p. Statutory earnings per share decreased from 38.2p to 26.3p.
- Capital expenditure was £239.8m (2007/08 – £228.8m).
- Net borrowings at 31 March 2009 were £1,892m, an increase of £129m since 31 March 2008. Gearing, being net borrowings to shareholders' funds plus net borrowings, was 76.0% (2007/08 – 73.4%).
- The Group has substantial cash resources and committed facilities – well placed in current financial market conditions.
- South West Water net debt to RCV was 63.6% (31 March 2008 – 60.2%).
- Net interest cover (excluding pensions, net interest and discount unwind on provisions) was 2.9 times (2007/08 – 2.8 times).
- The Board has recommended a final dividend of 14.25p, up 5.1%, subject to shareholder approval. Together with the interim dividend of 6.75p, this will result in a total dividend for the year of 21.0p, an increase of 6.0% on the total dividend for 2007/08.

SOUTH WEST WATER

Against an uncertain global background, South West Water has had a strong performance again this year, improving customer service, delivering further operational efficiency and achieving sound financial results.

South West Water's revenues rose 2.5% to £431.7m as a result of tariff increases and new connections, offset by the effects of customers switching and lower demand. Approved tariff increases, including the 1.7% K factor, amounted to £27.7m. Customers switching from unmeasured to metered charging caused a reduction of £9.5m in turnover. 66% of South West Water's domestic customers are now metered. 7,000 new customer connections contributed £3.6m of additional turnover.

South West Water's operating profit rose 3.6% to £191.6m. Operating costs, excluding depreciation, were reduced by 0.5% to £150.3m. Additional costs from new capital schemes of £0.8m and inflation of £5.6m were offset by £3.9m of efficiency savings and profits from property disposals of £1.7m. 2008/09 power prices were fixed below the headline inflation rate. Depreciation increased by £4.8m to £89.8m principally as a result of new capital schemes.

The direct impact of the current economic slowdown has been marginal to date. South West Water has a lower than average proportion of large industrial customers in its area. There has been a £9.8m reduction in measured income as a result of reduced customer demand (reflecting the trend over recent years) and the exceptionally wet summers in 2007 and 2008.

Whilst there has been a small increase in the level of doubtful debt provisioning, the average rate of cash collection from customers is in line with previous years. South West Water is progressing a number of customer debt management initiatives and during the year commenced an incentivised debt and collections contract with its customer service and billing partner, Accenture. Performance has benefited from new operational systems and processes.

Capital expenditure was £147.8m (2007/08 - £169.7m). £101m was invested in water supply improvements including water mains renovation and water treatment works enhancement. Continued high levels of investment in the £240m water mains renovation programme to replace or reline water mains are a key element during the current K4 period. A further 363kms of water mains were laid, replaced or refurbished during the year, with a significant project in Exeter finishing ahead of schedule in 2008. Drinking water quality was very high at 99.96%.

South West Water has put in place a comprehensive strategy to help ensure a continued secure supply of water for the region. 2008 was the twelfth consecutive summer with no water restrictions. In June 2008, South West Water further increased its potential storage capacity with the purchase of

Stannon Lake (formerly a disused china clay pit) to complement Park Lake (acquired the previous year). A more cost effective solution than building new reservoirs, these new lakes represent a significant addition to water resources in Cornwall and further increase the robustness of our water supply system. Park Lake has now been connected to the network and it is anticipated that the water from Stannon Lake will become available later this year. The two Lakes will form the region's fourth and fifth largest reservoirs respectively (behind Roadford, Wimbleball and Colliford).

Despite the exceptionally cold winter causing a series of burst pipes both for customers and for our own network, we have again achieved our leakage target of 84 megalitres ('ML') per day. South West Water has achieved Ofwat's leakage targets every year since inception. Our leakage remains amongst the lowest in the industry at 5.6 cubic metres per kilometre of pipe per day.

2007/08 waste water treatment works performance was at an all time high. The region features the highest proportion of high quality rivers in England. Investment expenditure, predominantly on small maintenance and improvement projects, totalled £47m for the year. A new sewage treatment works for Sennen and Porthcurno - close to Britain's most westerly point - was completed during the year. The scheme is one of the very last in South West Water's 'Clean Sweep' coastal waste water programme which has transformed the quality of the coastal and estuarial environment in the South West. Our continued focus on the proactive maintenance and operation of our assets has resulted in a step change improvement in waste water related pollution incidents. This has been our 10th consecutive year without a Category 1 incident and the number of less severe Category 2 and 3 incidents has dropped by 45% from 166 in 2007 to 92 in 2008.

The target of £13m per annum of efficiency cost savings by the end of the K4 period has been achieved ahead of schedule. We are implementing detailed plans targeting outperformance of the operating cost efficiency targets set by Ofwat for the period up to 2010. Efficiency projects are under way to create a platform to enable further improvements to operational and customer service performance. South West Water is continuing to drive and deliver efficiencies through investment in infrastructure to move the organisation towards a more centralised operational structure employing increased levels of automation and remote working. The company has also implemented a significant programme of organisational restructuring across the business which has cost £9m to date, of which £5m was incurred in 2008/09; it is expected that a further £5m will be provided in 2009/10. To support operational and service improvements, a number of employee development programmes have been completed in the year.

South West Water continues to deliver capital projects in line with Ofwat, Drinking Water Inspectorate and Environment Agency expectations. The company is targeting delivery of Ofwat's allowed K4 capital programme for 5% less than Ofwat's assumed £762m (2002/03 price base) and is on track to achieve this. In addition, circa £15m of required investment identified in the K5 Final Business Plan is being advanced into 2009/10, in line with government plans to stimulate infrastructure spending during the economic downturn. This additional investment will be recognised in South West Water's RCV at March 2010.

Regulatory Capital Value (RCV) is expected to grow by 27% over the K4 period to £2.5bn by March 2010 – the highest forecast percentage increase of any quoted UK water company. After adjusting for the effect of the 2006 capital return, the company expects its growth in RCV to outstrip the anticipated growth in net borrowings up to 2010.

The company's Final Business Plan for 2010 - 2015, which forms part of the 2009 Periodic Review process, was submitted to Ofwat in April. The Plan sets out in detail the company's proposed strategy, estimate of expenditure needs and effect on average bills. Given the current economic conditions, our strategy of striking the right balance is key; our plans are mindful of the impact further investment in our assets has on the level of customer's bills when customers are least able to afford higher charges. We have also ensured that overall funding requirements are minimised at a time when the cost of new financing is at a premium. In our plan we propose £764m of investment (2007/08 prices) over the five years and a cost of capital of 4.76%. We have targeted our plan to reflect customer priorities, whilst challenging ourselves to deliver increased efficiencies of 2.4% per annum off operating costs and 6% off capital expenditure. Following a Draft Determination in July, Ofwat will make a Final Determination in November 2009 of the prices customers will pay from 1 April 2010. A summary of the Final Business Plan is available on the Group's website at www.pennon-group.co.uk

VIRIDOR

Viridor traded strongly in 2008/09, building further on the growth achieved over the past seven years. Revenue was up 15% (£67.6m) to £522.7m, of which acquisitions (Grosvenor Waste Management and Shore Recycling full year) accounted for £41.9m and existing business £25.7m. The total increase included landfill tax of £19.1m.

Viridor's earnings before interest, tax, depreciation and amortisation (EBITDA) rose 6.8% from £101.0m to £107.9m. Profit before interest, tax and amortisation of intangibles (PBITA) for the year increased by 13% (£7.4m) to £65.5m (£33.1m H1; £32.4m H2), compared with £58.1m in 2007/08. Viridor has achieved PBITA compound growth averaging 22% per annum since 2000/01.

Profit before tax at £40.8m was up 15% on the previous year. Capital expenditure for the year was £92.0m (2007/08 - £59.0m) of which £41.8m was on a range of growth projects which are expected to contribute to profits in future years.

Landfill

Total landfill disposal volumes decreased by 0.6m tonnes (11%) to 4.6m tonnes in the year. The decrease was entirely due to a reduction in third party industrial and commercial volumes, particularly in the second half of the year, and included the impact of 0.2m tonnes non-recurring volumes in the previous year. Volumes from domestic customers and our own inputs were maintained over the period. Average revenue per tonne increased by 11% (to £21.48 per tonne) more than offsetting increased fuel and leachate removal costs. Operating margins increased by circa £1 to around £7 per tonne. Consented landfill void reduced from 84m cubic metres at 31 March 2008 to 81m cubic metres at 31 March 2009, reflecting 6m cubic metres usage during the period offset by planning gains totalling 3m cubic metres. As planned, Beddingham landfill in East Sussex closed in May 2009 (2008/09 profit contribution : £4.4m).

Landfill Gas

Viridor's landfill gas power generation output increased by a further 6% to 504 Gigawatt hours (GWh) during the year. Average revenues per Megawatt hour (MWh) grew by 23% to £74 reflecting the growth in Renewable Obligation Certificate (ROC) energy contract prices highlighted previously. Taking advantage of favourable market conditions in May 2008, we sold forward the brown energy component of our ROC-able electricity to March 2010. At 31 March 2009, our landfill gas power generation capacity was 101MW compared with 84MW at the previous year end (both figures exclude a small amount of sub-contract capacity). All of the increase is accredited for full ROCs in advance of the banding change. At 31 March 2009 62% of our power generating capacity was eligible for ROCs and 38% for Non Fossil Fuel Obligation (NFFO).

Recycling

The UK is required under the EU Landfill Directive to reduce the amount of biodegradable municipal waste going to landfill sites. (Municipal waste accounts for around one third of Viridor's landfill market. The alternatives to landfill sites for final waste disposal in the UK are currently limited.) In order to meet the requirements of the Landfill Directive, local authorities have been set statutory targets by the Government for the recycling of household waste and must also implement strategies for the diversion of biodegradable municipal waste away from landfill. In addition, the Chancellor's Budget announcement of 22 April 2009, continuing the increase in landfill tax of £8 a year from £40 currently to £72 per tonne in 2013/14, will further increase the cost competitiveness of recycling.

Of Viridor's total recycling and composting segment volume of approaching 1.4m tonnes, 35% is in paper, plastics and metals where prices are set by international trading conditions. Prices for these products were high in the first half of the year and low in the second half reflecting world economic conditions. The remaining 65% of volumes were sold to a range of customers in the UK. Our recycling revenues are currently derived from gate fees (42%) as well as recyclate sales (58%). Total recycling profits grew 27% year on year with 73% of profit earned in the first half and 27% in the second half reflecting international price movements noted above.

Contracts and Collection

Contracts profits were down reflecting poor performance on two sludge contracts. Other contracts, including the Somerset PPP, West Sussex PFI and around 10 municipal contracts, continue to perform well. Profits from the collection business were up with enhanced margins and a £1m credit, relating to a landfill tax claim, more than offsetting reduced volumes resulting from current UK economic conditions.

Public Private Partnerships and Private Finance Initiatives

Public Private Partnership (PPP) and Private Finance Initiative (PFI) contracts are a key part of Viridor's strategy and we will continue to bid selectively for further such contracts.

Financial Close on the Greater Manchester Waste PFI 25 year contract was achieved just after the year end, on 8 April 2009. It is the UK's largest ever combined waste and renewable energy project, managing 1.3m tonnes of waste per year. The total potential energy generation will be approaching 130MW (including Phases I and II of the Runcorn plant), in addition to the existing 9MW of the Bolton Energy from Waste (EfW) plant. The PFI is a joint venture between Viridor and John Laing Infrastructure. Operation of the associated facilities will be carried out on a sub-contract basis by Viridor. The associated EfW/Combined Heat and Power (CHP) facility (Runcorn Phase I) is a three way joint venture between Ineos Chlor, Viridor and John Laing. Total capital expenditure is projected to be £405m with an additional £235m for the associated EfW/CHP plant (Runcorn Phase I). Viridor's contribution will be £85m plus further possible mezzanine debt of up to £40m in 2010. In addition to winning the PFI contract itself, we have also secured 100% of Phase II of the planned EfW/CHP facility at Runcorn. This will be targeted at the North West market more generally and is a significant addition to the initial project given the rising landfill tax, the increasing reliance of waste disposal authorities on the Landfill Allowance Trading Scheme and the shortage of competing capacity in the North West. Planning permission was achieved by Ineos for the EfW/CHP plant at Runcorn in September 2008.

As noted above, Viridor's other PFI/PPP contracts at West Sussex and Somerset are performing well. In September 2008 we also won a 450k tonnes per annum, 14 year contract for recycling, anaerobic digestion and disposal for the South London Waste Partnership (a consortium of four London Boroughs). In addition to the above contracts, we continue to bid selectively for other projects and we are one of the last two bidding for the Oxfordshire PPP and the Cheshire PFI as well as being in the bidding for other contracts.

Other Renewable Energy Opportunities

Viridor is pursuing a number of other renewable energy opportunities. The Lakeside joint venture with Grundon Waste Management comprises a 400k tonnes per annum and up to 37MW EfW plant at Colnbrook near Heathrow. As previously reported, it involves £160m capital expenditure financed by 86% non-recourse debt with the balance split equally between the two companies. Construction is nearly complete and an operating profit contribution is expected in 2009/10.

In 2007, Viridor achieved planning permission for a 60k tonnes per annum and 3MW EfW plant in Exeter. We are also pursuing other possible long-term EfW opportunities in Cardiff and Dunbar. We have also received planning permission for two anaerobic digestion plants located at Beddington (near Croydon) and Walpole (Somerset), and are building four further plants for Greater Manchester (which already have planning permission) totalling 430k tonnes per annum and 8MW of electricity (included in the Greater Manchester figure of 130MW above).

Outlook

Overall Viridor is well positioned in the face of the economic uncertainties in the UK and abroad on account of its diversified business mix, although it is by no means immune to the unfavourable economic conditions prevailing in the second half of the past year. Year on year performance will be affected by the closure of the Beddingham landfill site as well as the £1m non-recurring credit in 2008/09 noted above. However, Viridor has sold its ROC-able power generation forward to 31 March 2010 at the favourable brown energy prices seen in the summer of 2008. In addition, Greater Manchester has already commenced operations and the Lakeside EfW plant is due to commence this year.

GROUP FINANCIAL POSITION

The Group has substantial cash resources and committed facilities, and is well placed in current financial market conditions. Cash balances of £353m were held at 31 March 2009, of which £252m related to South West Water. The cash held by South West Water has resulted from prudent pre-funding of the capital programme. The Group also currently has committed undrawn facilities of £204m. Committed funding is in place to cover South West Water’s requirements well beyond March 2010.

The Group funding strategy utilises a mix of fixed, floating and index-linked rate borrowings. To reduce the risk of adverse interest rate movements, South West Water has swap arrangements in place to fix the interest rate on circa 60% of its net debt up to March 2010. In addition, £353m or circa 25% of South West Water current net debt is index-linked to 2041 – 2057, at an average real rate of 1.66%. A substantial portion of debt is finance leasing which provides a long maturity profile and secured credit margins.

The Group had a strong liquidity and funding position as at 31 March 2009 :

- Cash balances of £353m
- Committed undrawn facilities of £204m
- Committed funding in place for South West Water to at least 2011

During the year the following finance initiatives have been implemented :

- £100m 15 year EIB funding for South West Water
- Successful renewal of £55m revolving credit facilities (RCF) for both Pennon Group Plc and South West Water
- £25m finance lease facility for South West Water
- £25m 5-10 year finance lease facility for Viridor

£235m loan repayments are required by March 2010 of which £43m is due by December 2009. The further refinancing of existing facilities is being progressed.

The fair value benefit (ie the difference between the book value and fair value of Group debt) has increased over the year from £170m to £221m at 31 March 2009 as a result of the Group having a high proportion of its debt at fixed credit margins while market credit margins have increased. The Group’s average debt maturity is now 23 years.

PENSIONS

The Group's defined benefit pension schemes had a deficit (net of deferred tax) under IAS 19 at 31 March 2009 of circa £48m, representing less than 3% of current market capitalisation.

The increase in the net deficit of £29m from 31 March 2008 results primarily from reduced equity values impacting fund assets, partially offset by £39m additional employer contributions, No further employer contributions are anticipated in 2009/10.

INVESTMENT DISPOSAL

During the year the Group sold its interest in Achilles Group Limited, a utility-based procurement specialist company, with sale proceeds and profit of £1.9m.

TAXATION

The mainstream corporation tax charge for the year was £30.7m (2007/08 - £25.0m) giving a mainstream effective current tax rate of 19% (2007/08 – 17%). Tax relief on pension contributions amounted to £10.7m (2007/08 - £5.7m).

Deferred tax for the year was a charge of £36.9m (2007/08 - £9.0m credit), of which £24.9m related to the abolition of industrial buildings allowances as contained in the 2008 Finance Act (2007/08 – £21.0m credit from change of tax rate).

DIVIDEND

The Board has recommended a final dividend of 14.25p, up 5.1%, subject to shareholder approval. Together with the interim dividend of 6.75p, this will result in a total dividend for the year of 21.0p, an increase of 6.0% on the total dividend for 2007/08. The Board's stated policy is to grow the Group dividend by 3% above inflation per annum up to 2009/10. This year, subject to obtaining shareholder approval at the forthcoming Annual General Meeting, the Board is proposing to re-introduce a scrip dividend alternative to replace the Company's Dividend Re-investment Plan which has been available to shareholders in recent years. The scrip dividend alternative will enable shareholders to increase their shareholding in the Company without incurring stamp duty or dealing expenses. Details are due to be posted out to shareholders on 28 August 2009.

STRATEGY AND PROSPECTS

The Board's strategy remains focussed on its two businesses, South West Water and Viridor.

South West Water is successfully delivering the current five year regulatory contract and is expected to grow significantly its Regulatory Capital Value to circa £2.5 billion by 2010. As part of the 2009 Periodic Review process, a Final Business Plan for the next five year period (2010 – 2015) has been submitted to the regulator, Ofwat.

Viridor's successful strategy to create long-term sustainable profit growth is expected to continue through capitalising on its leading position in landfill waste disposal, proactively developing new waste management facilities to meet ambitious EU/UK targets and successfully exploiting the huge potential in waste-based renewable energy generation.

Both businesses are well positioned in the current economic slowdown and the Group has a long-term funding structure to continue to finance its activities efficiently.

Ken Harvey
Chairman
2 June 2009

CAUTIONARY STATEMENT IN RESPECT OF FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements relating to the Pennon Group's operations, performance and financial position based on current expectations of, and assumptions and forecasts made by, Pennon Group management. Various known and unknown risks, uncertainties and other factors could lead to substantial differences between the actual future results, financial situation development or performance of the Group and the estimates and historical results given herein. Undue reliance should not be placed on forward-looking statements which are made only as of the date of this document. Nothing in this report should be construed as a profit forecast. The Group accepts no obligation publicly to revise or update these forward-looking statements or adjust them as a result of new information or for future events or developments, except to the extent legally required.

PENNON GROUP PLC

Consolidated income statement for the year ended 31 March 2009

	Note	**2009 (Unaudited) £m**	2008 £m
Revenue	4	**952.9**	875.0
Operating costs			
Manpower costs (excluding restructuring costs)		**(108.6)**	(100.4)
Raw materials and consumables used		**(59.1)**	(54.8)
Other operating expenses		**(394.2)**	(349.8)
Depreciation		**(132.0)**	(127.9)
Restructuring costs		**(5.0)**	(4.0)
Amortisation of intangibles		**(1.2)**	(1.3)
Operating profit	4	**252.8**	236.8
Finance income		**43.5**	42.0
Finance costs		**(138.0)**	(129.4)
Share of post-tax profit from joint ventures		**0.8**	0.2
Profit before tax	4	**159.1**	149.6
Taxation	5	**(67.6)**	(16.0)
Profit for the year		**91.5**	133.6
Profit attributable to equity shareholders		**91.5**	133.6
Earnings per share (pence per share)	6		
- Basic		**26.3**	38.2
- Diluted		**26.2**	37.9
Proposed dividend per share (pence per share)	7	**21.00**	19.81
Proposed dividend for the year (£m)	7	**73.4**	69.1

Consolidated statement of recognised income and expense for the year ended 31 March 2009

	Note	2009 (Unaudited) £m	2008 £m
Profit for the year		**91.5**	133.6
Actuarial (losses)/gains on defined benefit pension schemes		**(66.8)**	5.1
Net fair value losses on cash flow hedges		**(21.0)**	(12.7)
Tax credit/(charge) on items taken directly to or transferred from equity		**18.7**	(1.4)
Net losses recognised directly in equity	8	**(69.1)**	(9.0)
Total recognised income for the year		**22.4**	124.6
Attributable to equity shareholders		**22.4**	124.6

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Consolidated balance sheet at 31 March 2009

	Note	**2009 (Unaudited) £m**	2008 (Restated note 3) £m
Assets			
Non-current assets			
Goodwill		**236.5**	235.9
Other intangible assets		**5.4**	6.6
Property, plant and equipment		**2,774.2**	2,665.8
Other non-current assets		**10.6**	10.4
Derivative financial instruments		**0.2**	4.0
Investments in joint ventures		**2.2**	1.4
		3,029.1	2,924.1
Current assets			
Inventories		**5.8**	6.6
Trade and other receivables		**178.3**	164.7
Derivative financial instruments		**-**	11.9
Cash and cash deposits	10	**353.3**	357.4
		537.4	540.6
Liabilities			
Current liabilities			
Borrowings	10	**(262.9)**	(57.7)
Derivative financial instruments		**(3.6)**	(17.0)
Trade and other payables		**(166.8)**	(204.0)
Current tax liabilities		**(43.2)**	(43.1)
Provisions		**(18.8)**	(18.1)
		(495.3)	(339.9)
Net current assets		**42.1**	200.7
Non-current liabilities			
Borrowings	10	**(1,982.4)**	(2,062.8)
Other non-current liabilities		**(3.7)**	(4.0)
Derivative financial instruments		**(16.5)**	(0.5)
Retirement benefit obligations		**(66.0)**	(26.3)
Deferred tax liabilities		**(326.3)**	(306.7)
Provisions		**(79.2)**	(84.2)
		(2,474.1)	(2,484.5)
Net assets		**597.1**	640.3
Shareholders' equity			
Share capital		**144.5**	144.5
Share premium account		**11.7**	11.7
Capital redemption reserve		**144.2**	144.2
Retained earnings and other reserves		**296.7**	339.9
Total shareholders' equity	8	**597.1**	640.3

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Consolidated cash flow statement for the year ended 31 March 2009

	Note	**2009 (Unaudited) £m**	2008 £m
Cash flows from operating activities			
Cash generated from operations	9	**308.6**	337.1
Interest paid		**(103.9)**	(96.7)
Tax paid		**(30.8)**	(21.0)
Net cash generated from operating activities		**173.9**	219.4
Cash flows from investing activities			
Interest received		**23.8**	17.0
Acquisition of subsidiary undertakings (net of cash acquired)		**(3.4)**	(89.0)
Return of loan from joint venture		**-**	0.1
Purchase of property, plant and equipment		**(245.9)**	(219.2)
Proceeds from sale of property, plant and equipment		**2.6**	1.1
Net cash used in investing activities		**(222.9)**	(290.0)
Cash flows from financing activities			
Purchase of ordinary shares subsequently cancelled		**-**	(5.9)
Purchase of ordinary shares held as treasury shares		**-**	(43.4)
Proceeds from treasury shares re-issued		**1.6**	1.6
Ordinary shares acquired by the Pennon Employee Share Trust		**-**	(0.3)
Release/(deposit) of restricted funds (net)		**93.0**	(106.7)
Net proceeds from new borrowing		**100.0**	473.5
Repayment of borrowings		**(14.9)**	(157.5)
Finance lease sale and leaseback		**49.8**	110.4
Finance lease principal repayments		**(16.8)**	(20.4)
Dividends paid		**(69.1)**	(65.6)
Net cash received from financing activities		**143.6**	185.7
Net increase in cash and cash equivalents		**94.6**	115.1
Cash and cash equivalents at beginning of year	10	**227.4**	112.3
Cash and cash equivalents at end of year	10	**322.0**	227.4

PENNON GROUP PLC

NOTES

1. **General information**

Pennon Group Plc is a Company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given at the end of these notes. Pennon Group's business is operated through two main subsidiaries. South West Water Limited holds the water and sewerage appointments for Devon, Cornwall and parts of Dorset and Somerset. Viridor Limited's business is waste treatment and disposal.

The financial information for the years ended 31 March 2009 and 31 March 2008 does not constitute full financial statements within the meaning of section 240 of the Companies Act 1985. The full financial statements for the year ended 31 March 2008 were approved by the Board of Directors on 26 June 2008 and have been delivered to the Registrar of Companies. The independent auditors' report on those financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

2. **Basis of preparation**

The accounting policies adopted in this unaudited financial information are consistent with those applied and set out in the Pennon Group Plc Annual Report and Accounts for the year ended 31 March 2008.

3. **Restatements at 31 March 2008**

At 31 March 2008 the accounting for the acquisition of Grosvenor Waste Management Limited (renamed Viridor Resource Management Limited) was provisional. Completion of the accounting for the acquisition has resulted in an increase in goodwill of £2.2m, a decrease in intangible assets of £2.6m, a decrease in property, plant and equipment of £0.8m, a decrease in borrowings of £0.7m, an increase in provisions of £2.3m and a £1.8m decrease in trade and other payables with an additional creditor for current tax of £0.1m and a £1.1m reduction in deferred tax. Comparative figures at 31 March 2008 have been restated accordingly.

At 31 March 2008 the accounting for the acquisition of Ledge 806 Limited (renamed Viridor Electrical Recycling (Holdings) Limited), the holding company of Shore Recycling Limited, was provisional. Completion of the accounting for the acquisition has resulted in a decrease in goodwill of £0.9m, an increase in property, plant and equipment of £3.6m, an increase in provisions of £0.6m and a £1.6m increase in trade and other payables with a reduction in the creditor for current tax of £0.1m and a £0.6m increase in deferred tax. Comparative figures at 31 March 2008 have been restated accordingly.

These restatements have had no impact on profit for the year or retained earnings.

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NOTES (Continued)

4. **Segment information**

	2009 (Unaudited) £m	2008 £m
Revenue		
Water and sewerage	**431.7**	421.0
Waste management	**522.7**	455.1
Other	**8.7**	8.4
Less intra-segment trading *	**(10.2)**	(9.5)
	952.9	875.0
Underlying operating profit before interest, tax, depreciation and amortisation (EBITDA)		
Water and sewerage	**281.4**	270.0
Waste management	**107.9**	101.0
Other	**1.7**	(1.0)
	391.0	370.0
Underlying operating profit		
Water and sewerage	**191.6**	185.0
Waste management	**65.5**	58.1
Other	**1.9**	(1.0)
	259.0	242.1
Operating profit		
Water and sewerage	**186.6**	181.0
Waste management	**64.3**	56.8
Other	**1.9**	(1.0)
	252.8	236.8
Underlying profit before tax		
Water and sewerage	**121.9**	120.5
Waste management	**40.8**	35.5
Other	**2.6**	(1.1)
	165.3	154.9
Profit before tax		
Water and sewerage	**116.9**	116.5
Waste management	**39.6**	34.2
Other	**2.6**	(1.1)
	159.1	149.6

* Intra-segment trading between and to other segments by the water and sewerage and waste management segments is under normal commercial terms and conditions which would also be available to unrelated third parties. Intra-segment revenue of the other segment is at cost.

A reconciliation between underlying and reported measures is shown on page 2.

NOTES (Continued)

5. Taxation

	2009 (Unaudited) £m	2008 £m
Analysis of charge in year		
UK corporation tax	**30.7**	25.0
Deferred tax	**12.0**	12.0
Deferred tax arising on abolition of industrial buildings allowances (2008 change of rate)	**24.9**	(21.0)
Total deferred tax	**36.9**	(9.0)
	67.6	16.0

UK corporation tax is calculated at 28% (2008 30%) of the estimated assessable profit for the year.

The deferred tax charge has been increased by a non-recurring charge of £24.9m reflecting the phasing out of industrial buildings allowances over three years commencing 1 April 2008. The deferred tax charge for the year ended 31 March 2008 was reduced by a non-recurring credit of £21.0m reflecting the reduction in the rate of UK corporation tax from 30% to 28% effective from 1 April 2008.

The effective tax rate for the year, before the non-recurring £24.9m charge in respect of the abolition of industrial buildings allowances, was 27% and after the deferred tax charge 42%. For 2008 the effective tax rate for the period, before the benefit of the non-recurring £21.0m deferred tax credit, was 25% and after the deferred tax credit 11%.

Tax on amounts included in the consolidation statement of recognised income and expense, or directly in equity, is included in those statements respectively.

6. Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period excluding those held in the employee share trust which are treated as cancelled. For diluted earnings per share the weighted average number of ordinary shares is adjusted to include all dilutive potential ordinary shares.

The weighted average number of shares and earnings used in the calculations were :

Weighted average number of ordinary shares (millions)	2009 (Unaudited)	2008
For basic earnings per share	**348.1**	349.7
Effect of dilutive potential ordinary shares from share options	**1.7**	2.7
For diluted earnings per share	**349.8**	352.4

PENNON GROUP PLC

NOTES (Continued)

6. **Basic and diluted earnings per share (Continued)**

Underlying basic and diluted earnings per share

Underlying earnings per share are presented to provide more representative information on underlying trends. The term underlying is not a defined term under IFRS and may not be comparable with similarly titled profit measures reported by other companies. Underlying earnings have been calculated :

	2009 (Unaudited)			2008		
	Profit after tax £m	**Basic p**	**Diluted p**	Profit after tax £m	Basic p	Diluted p
Statutory earnings per share	**91.5**	**26.3**	**26.2**	133.6	38.2	37.9
Restructuring costs (net of tax)	**3.3**	**0.9**	**0.9**	3.3	0.9	0.9
Amortisation of intangibles	**1.2**	**0.4**	**0.4**	1.3	0.4	0.4
Deferred tax	**36.9**	**10.6**	**10.5**	(9.0)	(2.6)	(2.5)
Underlying earnings per share	**132.9**	**38.2**	**38.0**	129.2	36.9	36.7

All operating activities are continuing operations.

7. **Dividends**

	2009 (Unaudited) £m	2008 £m
Amounts recognised as distributions to equity holders in the year :		
Interim dividend paid for the year ended 31 March 2008 : 6.25p (2007 5.85p) per share	**21.8**	20.8
Final dividend paid for the year ended 31 March 2008 : 13.56p (2007 12.7p) per share	**47.3**	44.8
	69.1	65.6

Proposed dividends

Proposed interim dividend for the year ended 31 March 2009 : 6.75p (2008 6.25p) per share	**23.6**	21.8
Proposed final dividend for the year ended 31 March 2009 : 14.25p (2008 13.56p) per share	**49.8**	47.3
	73.4	69.1

The proposed interim and final dividends have not been included as liabilities in these financial statements. The proposed interim dividend for 2009 was paid on 1 April 2009 and the proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 30 July 2009.

If approved at the Annual General Meeting the final dividend of 14.25p per share will be paid on 7 October 2009 to shareholders on the register at 14 August 2009.

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NOTES (Continued)

8. **Statement of changes in shareholders' equity**

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves £m	**(Unaudited)** Total £m
Profit for the year	-	-	-	91.5	91.5
Other recognised income and expense for the year	-	-	-	(69.1)	(69.1)
Dividends paid relating to 2008	-	-	-	(69.1)	(69.1)
Credit to equity in respect of share-based payments	-	-	-	2.7	2.7
Deferred tax in respect of share-based payments	-	-	-	(0.8)	(0.8)
Proceeds from treasury shares re-issued	-	-	-	1.6	1.6
	-	-	-	(43.2)	(43.2)
At 1 April 2008	144.5	11.7	144.2	339.9	640.3
At 31 March 2009	**144.5**	**11.7**	**144.2**	**296.7**	**597.1**

Other recognised income and expense for the year of £69.1m includes £48.1m (net of tax) actuarial losses from defined benefit pension schemes (principally a loss on investment from reduced equity values, compared to the expected return on assets) and £21.0m losses from the remeasurement of interest rate swaps to fair value at 31 March 2009. The interest rate swaps meet the conditions for hedge accounting and have been assessed as highly effective on an on-going basis. The losses are consequently deferred in equity until the period in which the hedged underlying transaction is recognised in the income statement.

PENNON GROUP PLC

NOTES (Continued)

9. **Cash flow from operating activities**

Reconciliation of profit for the year to cash generated from operations :

Cash generated from operations	**2009 (Unaudited) £m**	2008 £m
Profit for the year	**91.5**	133.6
Adjustments for:		
Employee share schemes	**2.7**	1.9
Profit on disposal of property, plant and equipment	**(2.1)**	-
Depreciation charge	**132.0**	127.9
Amortisation of intangible assets	**1.2**	1.3
Share of post-tax profit from joint ventures	**(0.8)**	(0.2)
Finance income	**(43.5)**	(42.0)
Finance costs	**138.0**	129.4
Taxation	**67.6**	16.0
Changes in working capital *(excluding the effect of acquisition of subsidiaries) :*		
Decrease/(increase) in inventories	**0.8**	(0.6)
Increase in trade and other receivables	**(15.4)**	(29.9)
(Decrease)/increase in trade and other payables	**(24.5)**	12.5
Decrease in retirement benefit obligations	**(28.7)**	(7.3)
Decrease in provisions for liabilities and charges	**(10.2)**	(5.5)
Cash generated from operations	**308.6**	337.1

10. **Net borrowings**

Net borrowings	**2009 (Unaudited) £m**	2008 (Restated) £m
Cash and cash deposits	**353.3**	357.4
Borrowings – current		
Bank overdrafts	**(12.9)**	(18.6)
Other current borrowings	**(219.9)**	(15.5)
Finance lease obligations	**(30.1)**	(23.6)
Total current borrowings	**(262.9)**	(57.7)
Borrowings – non-current		
Bank and other loans	**(507.5)**	(706.4)
Other non-current borrowings	**(287.7)**	(201.8)
Finance lease obligations	**(1,187.2)**	(1,154.6)
Total non-current borrowings	**(1,982.4)**	(2,062.8)
Total net borrowings	**(1,892.0)**	(1,763.1)

Accrued finance charges arising on obligations under finance leases have been re-analysed between current and non-current amounts and comparatives have been restated accordingly.

PENNON GROUP PLC

NOTES (Continued)

10. **Net borrowings (Continued)**

Cash and cash equivalents comprise the following for the purposes of the cash flow statement :

	2009 (Unaudited) £m	2008 £m
Cash and cash deposits as above	**353.3**	357.4
Bank overdrafts as above	**(12.9)**	(18.6)
	340.4	338.8
Less : deposits with a maturity of three months or more	**18.4**	111.4
	322.0	227.4

11. **Acquisitions**

On 4 April 2008 the entire issued share capital of Handside Limited was purchased by Viridor Waste Management Limited for a cash consideration of £4.7m including costs of £0.3m. Cash balances on acquisition amounted to £1.3m. The acquisition has been accounted for using the acquisition method. Goodwill of £0.6m has been capitalised.

12. The Annual Report for 2008/09 will be posted to shareholders on 30 June 2009 and will be available for viewing on the Company's website at www.pennon-group.co.uk on 1 July 2009.

Pennon Group Plc
Registered Office:
Peninsula House
Rydon Lane
Exeter
EX2 7HR

Registered in England No 2366640

www.pennon-group.co.uk