PENNON GROUP PLC

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2002

Pennon Group announces its unaudited results for the year ended 31 March 2002.

FINANCIAL HIGHLIGHTS

- Profit before tax up 4% to £77.4m
- Earnings per share up 31% to 54.3p
- Dividend
    - recommended final dividend up 4% to 25.4p
    - full year dividend up 4% to 37.5p
- Sale of Viridor Instrumentation for £105.5m
- Return of value from the disposal of Viridor Instrumentation
    - special interim dividend of 70p coupled with consolidation of share capital

OPERATIONAL HIGHLIGHTS

South West Water
- Remains confident of outperforming the regulatory contract to 2005
- Continues to improve efficiency
- Delivers highest ever levels of drinking water and bathing water compliance
- Completed Interim Determination

Viridor Waste
- 16% growth of operating profit before goodwill amortisation
- Two acquisitions completed with a third shortly after the year end

STRATEGIC INITIATIVES

- Securitisation no longer under consideration
- Strategy is for South West Water to outperform the regulatory contract and to continue to grow Viridor Waste
- Profitable sale of Viridor Instrumentation. Special interim dividend to be paid from the sale proceeds
- Corporate re-organisation completed

Chairman, Ken Harvey, said:

"The Board, together with its advisers, has conducted an extensive review of financial restructuring options including that of a whole business securitisation of South West Water. The technical feasibility of securitising was established. However, the Board has concluded that securitisation for Pennon Group is unlikely to create sufficient incremental shareholder value to outweigh the significant implementation and other costs and identifiable risks. The Board has decided, therefore, not to pursue this option for the foreseeable future.

"The Board will continue to focus on adding value for shareholders by pursuing the policy of outperforming the regulatory contract in South West Water and of continuing to grow Viridor Waste. A special interim dividend will be paid from the proceeds of the sale of Viridor Instrumentation. ”

For further information on 30 May 2002, please contact:

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GROUP OVERVIEW

Turnover from continuing operations rose £27.8m to £381.0m. Turnover in South West Water increased by £9.0m to £260.4m and turnover in Viridor Waste increased by £19.2m to £125.3m. Overall group turnover reduced by £11.2m to £423.9m principally as a consequence of the disposals of Viridor Instrumentation and T J Brent.

Operating profit from continuing operations reduced by £1.3m to £119.1m. South West Water's operating profit remained broadly unchanged on last year (£107.0m for 2001/02 vs £107.3m for 2000/01) and Viridor Waste's increased from £13.1m to £14.9m. After disposals and restructuring, including £2.1m costs relating to testing the feasibility of balance sheet restructuring, overall Group operating profit fell £6.3m to £121.8m.

Profit before tax was up 4% to £77.4m.

Profit before tax in continuing operations was up £0.8m to £69.3m.

The disposal of Viridor Instrumentation produced an exceptional profit of £5.1m in 2001/02.

Earnings per share before exceptional items rose by 17% to 50.6p and after exceptional items increased 31% to 54.3p.

Capital expenditure for the Group rose £19.9m to £186.4m, comprising £167.6m for South West Water and £18.8m for Viridor Waste and other Group activities (2000/01 £154.4m and £12.1m respectively.)

Two waste management businesses, The Suffolk Waste Disposal Company Limited and Lavelle & Sons Limited, were acquired during the year for a total cash consideration of £12.1m. A further acquisition, Richardson Limited, was made shortly after the year end for a cash consideration of £11.9m.

Viridor Instrumentation was sold in February 2002 for £105.5m which included £9.5m in respect of the cash transferred with the business.

With the adoption of Financial Reporting Standard 18 "Accounting Policies" (FRS 18), the Directors have reviewed the accounting policies of the Group and decided that, in the current reporting environment which encourages increased clarity and transparency in accounting transactions, it is appropriate to present the Group's defeased lease arrangements in a manner that improves their understandability and comparability with other utilities. Accordingly, the rental obligations and cash deposits associated with these leases have now been recognised on the balance sheet separately.

Net debt for the Group at 31 March 2002 was £751.3m, including the proceeds from the sale of Viridor Instrumentation, virtually unchanged on that at 31 March 2001, as restated. Gearing, being net borrowings to shareholders funds, was 77% at 31 March 2002 (83% at 31 March 2001, as restated). Interest cover, before exceptional items, was maintained at 2.5 times. On a pro forma basis, assuming payment of the special interim dividend, gearing was 96%.

The Board has recommended a final dividend of 25.4p up 4.1%, subject to shareholder approval. Together with the interim dividend of 12.1p, this will result in a total dividend for the year of 37.5p, representing an increase of 4.2% on the total dividend for 2001. In the absence of unforeseen circumstances, the Board intends to continue to pursue a progressive dividend policy. The total cost of the dividend for 2001/02 is £51.4m. Following the sale of Viridor Instrumentation, a special interim dividend for 2002/03 of 70p per share has been declared, at an estimated cost of £96m, being the net sale proceeds. The final dividend, along with the special interim dividend, will be paid on 1 October 2002 to shareholders on the register on 30 August 2002. As in previous years, shareholders will be given the opportunity to participate in a Dividend Reinvestment Plan, details of which will be circulated with the Annual Report.

Reflecting the return of capital by way of special interim dividend from the sale of Viridor Instrumentation, a resolution will be proposed at the Annual General Meeting to consolidate the share capital of the Company in order to maintain comparability of the share price before and after the payment of the special interim dividend. The consolidation ratio will be based on the closing price of the Company's shares on 29 May 2002 (ie the price immediately before this announcement). Further details will be provided in a circular to be issued to shareholders on 27 June 2002.

SOUTH WEST WATER

South West Water increased its turnover by £9.0m during the year. Approved tariff increases, including headroom arising from meter switching, amounted to £8.3m. Measured demand from existing customers contributed a turnover increase of £1.6m. Customers switching from unmeasured to metered charging caused a reduction of £4.3m in turnover. Other factors, including new customer connections (5,800), contributed £3.4m.

The company submitted an application for an Interim Determination of "K" in September 2001. In December 2001 Ofwat confirmed revised price increases of 4.4% above inflation for each of the three years 2002/03 to 2004/05.

South West Water's operating profit was virtually unchanged at £107.0m (2000/01 £107.3m). Operating costs, including depreciation, increased by £9.3m to £153.4m, including £7.2m in respect of new capital schemes. £4.0m of cost efficiencies were made in the year and the company remains on track to deliver further efficiency savings to outperform the regulatory contract to 2005.

Capital expenditure rose £13.2m to £167.6m. With the commissioning of major waste water treatment schemes at Camborne and the first phase of Torbay, the company's "Clean Sweep" coastal sewage treatment improvement programme is now virtually complete. In addition, reflecting the changing emphasis of the capital programme, over 90 smaller schemes were delivered in the year to meet the National Environmental Programme coupled with an extension of water mains rehabilitation activity.

Drinking water quality attained a new all time high. In November 2001, the Department for Environment, Food and Rural Affairs and the Environment Agency announced the best ever bathing water quality results (98% compliance with mandatory standards) for beaches and bathing waters along the South West coastline. In addition, 100 bathing waters (71% of the region's total) met the more stringent guideline standards, the best performance of any region in the UK. Reported river water quality remains the best in England. The company is one of the industry leaders in managing water leakage and continues to deliver results in line with Ofwat's mandatory leakage target. Market research carried out amongst South West Water's customers continues to confirm high levels of satisfaction with the overall service provided by the company. There has been continued high performance against Ofwat's Levels of Service Indicators.

VIRIDOR WASTE

Viridor Waste turnover rose by 18% from £106.1m in 2000/01 to £125.3m in 2001/02. £5.0m of this increase came from the rise in landfill tax, £6.2m from acquisitions (including £1.0m of landfill tax) and £8.0m from existing trade.

Operating profit rose 16% from £13.1m to £15.2m, before goodwill amortisation of £0.3m with an operating margin, excluding landfill tax, of 17%. The first half year performance was particularly strong, reflecting the benefit of certain temporary contracts. Earnings before interest, tax, depreciation and amortisation amounted to £32.1m. The increased profitability arose from volume and price increases in landfill and volume increases and cost savings in the collection business.

The Viridor Waste strategy has two key elements. The first element is to exploit fully the company's landfill assets. The UK is likely to face an increasing shortage of landfill disposal capacity due to planning constraints and, with 73m cubic metres of consented landfill capacity, Viridor Waste is well-positioned for the future. The second element of the strategy is the pursuit of profitable opportunities to help deliver the targets of the Government's new waste and renewable energy strategies.

Two acquisitions were announced on 18 October 2001 with a further announced on 9 April 2002, shortly after the year end. All three acquisitions reinforce the waste strategy outlined above either by adding to Viridor's landfill capacity in key parts of the UK or by enhancing the company's materials transfer and recycling capability.

Capital expenditure for the year was £18.3m which was primarily invested by Viridor Waste in its continuing landfill operations.

VIRIDOR INSTRUMENTATION

The sale of Viridor Instrumentation was completed on 4 February 2002. Profit on disposal was £5.1m which is included in the Preliminary Results as an exceptional item. During the period to disposal, a profit before tax of £2.7m was made, compared to a profit of £4.9m in the previous full year.

TAXATION

The Group's taxation strategy continues to be beneficial. Excluding deferred tax, there was no tax charge for the year ended 31 March 2002 (2000/01 nil).

A new Financial Reporting Standard (FRS 19) relating to deferred tax is operative for 2001/02. This requires the Group to make full provision for deferred tax liabilities, which are discounted. The consequent change of policy necessitated a prior year adjustment.

The deferred tax charge for the year to 31 March 2002 was £3.3m. The equivalent figure for the year to 31 March 2001 was £17.6m.

BOARD MATTERS

Mr David Dupont was appointed interim Group Director of Finance on 2 March 2002 immediately following the retirement of Mr Ken Hill from that role. The Board has now confirmed Mr Dupont in the role of Group Director of Finance and also takes this opportunity to express its gratitude to Ken Hill for his significant contribution to the development of the Group since privatisation and wish him well in his retirement.

STRATEGY AND PROSPECTS

The Board will continue to focus on adding value for shareholders by pursuing the policy of outperforming the regulatory contract in South West Water and of continuing to grow Viridor Waste. The successful disposal of Viridor Instrumentation and the corporate re-organisation have confirmed the focused strategy outlined by the Board in May 2001.

The satisfactory performances this year of the water, sewerage and waste management activities provide a strong foundation for the business going forward.

Ken Harvey
Chairman
30 May 2002

PENNON GROUP PLC

GROUP PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2002

	Note	2002 (unaudited) £m	2001 restated (notes 2 & 3) £m
Turnover			
Continuing operations		**374.8**	353.2
Acquisitions		**6.2**	-

		381.0	353.2
Discontinued operations	2	**42.9**	81.9
Total turnover		**423.9**	435.1
Operating costs		**(302.1)**	(307.0)
Group operating profit			
Continuing operations		**119.2**	120.4
Acquisitions		**(0.1)**	-
		119.1	120.4
Discontinued operations	2	**2.7**	7.7
Total Group operating profit		**121.8**	128.1
Share of operating loss in			
Joint venture		**(0.1)**	-
Associate		**(0.4)**	(0.4)
Total operating profit		**121.3**	127.7
Profit/(loss) on disposal of discontinued operations	2	**5.1**	(2.1)
Net interest payable		**(49.0)**	(51.4)
Profit on ordinary activities before taxation		**77.4**	74.2
Tax on profit on ordinary activities	4	**(3.3)**	(17.6)
Profit on ordinary activities after taxation		**74.1**	56.6
Dividends	5	**(51.4)**	(49.4)
Retained profit transferred to reserves		**22.7**	7.2
		======	======
Basic earnings per share	6		
Before exceptional item		**50.6p**	43.1p
After exceptional item		**54.3p**	41.5p
Dividend per share		**37.5p**	36.0p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 March 2002

		2002 (unaudited) £m	2001 restated £m
Profit on ordinary activities after taxation		**74.1**	56.6
Currency retranslation differences on foreign currency net investments		**0.6**	0.2
Total gains and losses recognised for the year		**74.7**	56.8
Prior year adjustments	3	**-**	(50.9)
Total gains and losses recognised since last Annual Report		**74.7**	5.9
		======	======

PENNON GROUP PLC
SUMMARISED GROUP BALANCE SHEET
as at 31 March 2002

	2002 (unaudited) £m	2001 restated £m
Fixed assets		
Intangible assets	**11.7**	24.7
Tangible assets	**1,907.7**	1,798.5
Investments	**3.3**	3.1
	1,922.7	1,826.3
Current assets		
Stocks	**3.2**	13.9
Debtors	**81.6**	89.3
Investments and cash	**292.0**	219.7
	376.8	322.9
Creditors: amounts falling due within one year	**(276.0)**	(221.4)
Net current assets	**100.8**	101.5
Total assets less current liabilities	**2,023.5**	1,927.8
Creditors: amounts falling due after more than one year	**(932.3)**	(911.7)
Provisions for liabilities and charges	**(74.4)**	(65.9)
Deferred income	**(40.6)**	(41.1)
Net assets	**976.2**	909.1
Capital and reserves		
Called-up share capital	**137.0**	136.9
Share premium account	**151.6**	151.3
Profit and loss account	**687.6**	620.9
Shareholders' funds	**976.2**	909.1

PENNON GROUP PLC
GROUP CASH FLOW STATEMENT
for the year ended 31 March 2002

	Note	2002 (unaudited) £m	2001 restated £m
Cash inflow from operating activities	7	**196.2**	205.0
Returns on investments and servicing of finance		**(44.3)**	(39.9)
Taxation		**0.4**	(0.3)
Capital expenditure and financial investment		**(182.3)**	(153.2)
Acquisitions and disposals		**85.0**	12.0
Equity dividends paid		**(49.4)**	(65.3)
Cash inflow/(outflow) before use of liquid resources and financing		**5.6**	(41.7)
Management of liquid resources		**(27.0)**	(24.2)
Financing		**38.2**	64.6

Increase/(decrease) in cash in year	8	**16.8**	(1.3)

PENNON GROUP PLC
SEGMENTAL ANALYSIS BY CLASS OF BUSINESS
for the year ended 31 March 2002

	Turnover		Group operating profit		Profit before tax	
	2002 (unaudited)	2001	**2002 (unaudited)**	2001	**2002 (unaudited)**	2001
	£m	£m	**£m**	£m	**£m**	£m
Continuing operations						
Water and sewerage	**260.4**	251.4	**107.0**	107.3	**66.8**	67.0
Waste management	**125.3**	106.1	**14.9**	13.1	**13.5**	11.7
Other	**6.6**	6.1	**(2.8)**	-	**(11.0)***	(10.2)*
Less intra-group trading	**(11.3)**	(10.4)	**-**	-	**-**	-
Total continuing operations	**381.0**	353.2	**119.1**	120.4	**69.3**	68.5
Discontinued operations						
Instrumentation	**43.0**	54.9	**2.6**	4.8	**2.7**	4.9
Construction services	**-**	37.1	**-**	0.5	**-**	0.4
Property	**1.4**	5.7	**0.1**	2.4	**0.3**	2.5
Less intra-group trading	**(1.5)**	(15.8)	**-**	-	**-**	-
Total discontinued operations	**42.9**	81.9	**2.7**	7.7	**3.0**	7.8
Exceptional item						
Discontinued operations disposal profit/(loss)	**-**	-	**-**	-	**5.1**	(2.1)
Group totals	**423.9**	435.1	**121.8**	128.1	**77.4**	74.2

* includes parent company financing of business acquisitions.

PENNON GROUP PLC
NOTES

1 The financial information for the years ended 31 March 2001 and 31 March 2002 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 2001 have been delivered to the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

2 On 4 February 2002 the Group disposed of its interest in the ordinary share capital of Viridor Instrumentation Limited. The results of Viridor Instrumentation

Limited up to the disposal date and the comparatives for the year ended 31 March 2001 are included under discontinued operations. The profit on disposal of discontinued operations in the year ended 31 March 2002 relates to the disposal of that business and is after charging £43.5million of goodwill previously written off to reserves on acquisition.

The comparatives for the year ended 31 March 2001 for discontinued operations also include the results of T J Brent Limited which was disposed of in December 2000.

3 The Group's accounting policy on deferred taxation has changed following adoption of Financial Reporting Standard 19 "Deferred Tax" (FRS 19). The FRS requires full provision to be made for deferred taxation arising from timing differences between recognition of gains and losses in the financial statements and their recognition in a tax computation. The Group has adopted a policy of discounting deferred tax assets and liabilities to reflect the time value of money, as permitted by FRS 19. Previously, the Group's accounting policy was to provide for deferred taxation to the extent that it was likely to crystallise in the foreseeable future. The application of the previous accounting policy resulted in no provision for deferred taxation being recognised at 31 March 2001.

With the adoption of Financial Reporting Standard 18 'Accounting Policies' (FRS 18), the Directors have reviewed the accounting policies of the Group and have decided that, in the current reporting environment which encourages increased clarity and transparency in accounting transactions, it is appropriate to present the Group's defeased lease arrangements in a manner that improves their understandability and comparability with other utilities. Accordingly, the rental obligations and cash deposits associated with these leases have now been recognised on the balance sheet separately and the net interest receivable arising from these transactions will now be recognised over the life of the leases.

As a result of these changes in accounting policy the comparatives have been restated as follows:

Group balance sheet:

As at 31 March 2001	Provisions for liabilities and charges	Deferred income	Profit and loss reserve
	£m	£m	£m
Previously reported	(22.8)	(49.0)	(689.4)
Deferred taxation (FRS 19)	(43.1)	-	43.1
Defeased leases (FRS 18)	-	7.9	25.4
Restated now reported	(65.9)	(41.1)	(620.9)
	======	======	======

	Creditors: amounts	Creditors: amounts	Investments and cash

	falling due within one year	falling due after more than one year	
	£m	£m	£m
Previously reported	(217.3)	(727.9)	65.1
Deferred taxation (FRS 19)	-	-	-
Defeased leases (FRS 18)	(4.1)	(183.8)	154.6
	______	______	______
Restated now reported	(221.4)	(911.7)	219.7
	======	======	======

The restatement of the profit and loss reserve for March 2001 comprises a prior period adjustment at 1 April 2000 of £50.9million (£25.5million FRS 19 and £25.4million FRS 18) and a £17.6million charge for the year ended 31 March 2001 (FRS 19).

Group profit and loss account: Year ended 31 March 2001	Net interest payable	Tax on profit on ordinary activities	Basic earnings per share
	£m	£m	p
Previously reported	(51.4)	-	56.0
Deferred taxation (FRS 19)	-	(18.0)	(13.2)
Defeased leases (FRS 18)	-	0.4	0.3
	______	______	______
Restated now reported	(51.4)	(17.6)	43.1
	======	======	======

The changes arising within net interest payable from the application of FRS 18 relate to the recognition of £9.2million interest receivable on investments and £8.6million interest payable on finance leases, offset by the elimination of a previously reported gain on defeasance of finance leases of £0.6million.

Group cash flow statement: Year ended 31 March 2001	Management of liquid resources	Financing
	£m	£m
Previously reported	(25.2)	65.6
Defeased leases (FRS 18)	1.0	(1.0)
	______	______
Restated now reported	(24.2)	64.6
	======	======

4 The taxation charge comprises:

Year ended 31 March	**2002**	2001

	(unaudited) **£m**	restated £m
United Kingdom taxation		
Corporation tax at 30%	**0.5**	-
Overseas taxation	**(0.5)**	-
Deferred tax	**3.3**	17.6
	3.3	17.6

5 If approved at the Annual General Meeting on 25 July 2002 the final dividend of 25.4p per share will be paid on 1 October 2002 to shareholders on the register at 30 August 2002.

6 The calculation of basic earnings per share is based on the profit on ordinary activities after taxation divided by the weighted average number of ordinary shares in issue during the year of 136.5 million (2001 136.3 million) as follows:

	Profit after tax		Basic earnings per share	
Year ended 31 March	**2002 (unaudited) £m**	2001 restated £m	**2002 (unaudited) p**	2001 restated p
Before exceptional item	**69.0**	58.7	**50.6**	43.1
Exceptional item	**5.1**	(2.1)	**3.7**	(1.6)
After exceptional item	**74.1**	56.6	**54.3**	41.5

The exceptional item in 2002 comprises the profit on disposal of Viridor Instrumentation Limited and that for 2001 is the loss on disposal of T J Brent Limited.

Earnings per share on a diluted basis are 50.5p (2001 43.0p), and after the exceptional item 54.2p (2001 41.4p).

7 Reconciliation of Group operating profit to net cash inflow from operating activities for the year ended 31 March 2002:

	2002 (unaudited) £m	2001 £m
Group operating profit	**121.8**	128.1
Depreciation charge	**75.5**	70.4
Amortisation of intangible assets	**1.6**	1.4
Fixed asset impairment	**0.3**	0.1
Deferred income released to profits	**(1.2)**	(1.2)
Increase/(decrease) in provisions for liabilities and charges	**1.0**	(2.1)
Increase in stocks	**(0.6)**	(0.3)
(Increase)/decrease in debtors (amounts		

falling due within and over one year)	**(4.0)**	8.7
Increase in creditors (amounts falling due within and over one year)	**2.9**	0.6
Profit on disposal of tangible fixed assets	**(1.1)**	(0.7)
Net cash inflow from operating activities	**196.2**	205.0

8 Analysis of net debt

	At 1 April 2001 £m	Cash flow £m	Acquisitions (excl cash) £m	Non-cash movements £m	**At 31 March 2002 (unaudited) £m**
Cash at bank and in hand	3.7	(2.7)	-	-	**1.0**
Current asset investments: Overnight deposits	0.6	44.7	-	-	**45.3**
Bank overdrafts	(3.9)	(25.2)			**(29.1)**
	0.4	16.8	-	-	**17.2**
Debt due within one year (other than bank overdrafts)	(38.5)	13.5	(0.2)	(37.7)	**(62.9)**
Debt due after more than one year	(322.1)	(14.8)	-	37.7	**(299.2)**
Finance lease obligations*	(607.0)	(36.6)	(2.8)	(5.7)	**(652.1)**
	(967.6)	(37.9)	(3.0)	(5.7)	**(1,014.2)**
Current asset investments: Other than overnight deposits*	215.4	27.0	-	3.3	**245.7**
Net debt	(751.8)	5.9	(3.0)	(2.4)	**(751.3)**

* Finance lease obligations and current asset investments other than overnight deposits have been restated as described in note 3.

Non-cash movements include transfers between categories for debt changing maturities, increased accrued finance charges within finance lease obligations and increased accrued interest on cash deposits placed to secure rental obligations.

9 The Annual Report for 2001/02 will be issued to shareholders on 27 June 2002.

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