



Preliminary Results 2003

PENNON GROUP Plc

Financial Highlights

- Profit before tax of £74.2m
- Underlying PBT growth of 7.1%
- Earnings per share (before deferred tax and exceptional item) up 3.8% from 53.0p to 55.0p
- Dividend
 - recommended final dividend per share up 4.3% to 26.5p
 - full year dividend (excluding the special interim dividend) up 4.3% to 39.1p

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Operational Highlights (1)

South West Water

- Operating profit up 4.2% to £111.5m
- Profit before tax up 0.4% to £67.1m
- Continuing to improve efficiency
- Delivering record levels of drinking water and bathing water compliance
- “Clean Sweep” now virtually complete

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Operational Highlights (2)

Viridor Waste

- Operating profit before goodwill up 25.7% to £19.1m
- Profit before tax up 5.2% to £14.2m
- Consented landfill capacity up 7m m³ to 80m m³
- Landfill gas capacity up 30% to 37MW
- This year's and last year's acquisitions performing ahead of expectations



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Summary Financial Results

	2002/03	2001/02	Change
	£m	£m	%
<u>Overall</u>			
Group turnover	417.2	423.9	(1.6)
Group operating profit	127.0	121.8	4.3
Group profit before tax	74.2	77.4	(4.1)
<u>Continuing Businesses</u>			
Turnover	417.2	381.0	9.5
Operating profit	127.0	119.1	6.6
Profit before tax	74.2	69.3	7.1

£2.0m interest received from Viridor Instrumentation sale proceeds in 2002/03

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Cash Flow

	2002/03	2001/02
	£m	£m
Cash inflow from operations	198.9	196.2
Net interest paid	(42.9)	(44.3)
Dividends and tax paid	(147.3)	(49.0)
Capital expenditure	(198.2)	(182.3)
Acquisitions and disposals	(37.2)	85.0
Net cash inflow/(outflow)	(226.7)	5.6
Shares issued for cash	1.1	0.3
Non-cash movements	(11.7)	(5.4)
Decrease/(Increase) in net debt	(237.3)	0.5

Cash outflow reflects higher SWW capex, Viridor Waste acquisitions and payment of special interim dividend

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Net Debt

As at 31 March

	2003 £m	2002 £m
Loans and finance leases		
- over one year	1,084.0	932.1
- under one year	95.6	111.2
	1,179.6	1,043.3
<u>Less: investments and cash</u>	(191.0)	(292.0)
Net debt	988.6	751.3

Significant drawdowns from EIB and finance leases

Reduced cash following payment of special interim dividend

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Financing Strategy

	£m	£m
Net funding & re-financing requirement for K3		500-550
K3 funding already arranged		
- finance lease facilities	265	
- European Investment Bank loan	100	365
Renewal of bank bilateral facilities		130
Funding to be arranged		5-55
		500-550

K3 funding already arranged at more than 100 basis points below Ofwat's specified cost of capital for debt funding

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Net Interest Payable

	2002/03	2001/02
	£m	£m
Interest payable	(62.1)	(61.2)
Interest receivable	10.0	12.2
Net interest payable	<u>(52.1)</u>	<u>(49.0)</u>
Average rate of interest	6.0%	6.5%

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Financing Initiatives

- Funding strategy uses mix of fixed and floating rate borrowings
- Interest rate swaps are used to ensure at least 50% is fixed rate
- Additional and renewed swaps established to give around 75% fixed up to 2005
- £95m finance lease facility providing sub-LIBOR funding
- Locks-in benefit of current low interest rates compared to Ofwat assumptions

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Depreciation

	2002/03 £m	2001/02 £m
South West Water		
- infrastructure assets	13.9	13.0
- other assets	45.2	42.9
	<hr/> 59.1	<hr/> 55.9
Viridor Waste	19.1	16.6
Other	(0.1)	0.7
	<hr/> 78.1	<hr/> 73.2
	<hr/> <hr/>	<hr/> <hr/>

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Taxation

	2002/03 £m	2001/02 £m
UK tax charge		
- Corporation Tax	3.4	0.5
Overseas tax credit	-	(0.5)
Deferred tax	13.7	3.3
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	17.1	3.3
	<hr/>	<hr/>

Deferred tax charge very sensitive to long term interest rates used for discounting

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Pensions

- Defined benefit scheme
 - 4.8% employer contributions in 2002/03
 - FRS 17 net deficit of £59.4m at 31 March 2003
 - 11.5% employer contribution from 1 April 2003
 - Next actuarial review due April 2004
- New defined contribution scheme for Viridor Waste being introduced
 - defined benefit scheme no longer available to new entrants
 - _ impacts profit growth 2003/04
 - _ reduces future volatility in pension costs

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Key Financial Ratios

	2002/03	2001/02
Dividend cover*	1.5 times	1.4 times
Net interest cover*	2.4 times	2.5 times
Net gearing	111%	77%
Pro forma gearing after special dividend	111%	96%

* before exceptional item, special dividend and deferred tax

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Dividends

- Interim dividend per share increased by 4.1% to 12.6p
- Recommended final dividend up 4.3% to 26.5p
- Full year dividend, excluding the special interim dividend, up 4.3% to 39.1p
- Scrip dividend option to be reintroduced
- Progressive dividend policy



SOUTH WEST WATER

SOUTH WEST WATER

Financial Performance Summary

	2002/03 £m	2001/02 £m	Change %
Turnover	270.2	260.4	3.8
Operating profit	111.5	107.0	4.2

SOUTH WEST WATER

Turnover

- Increase of £9.8m (3.8%) in year
- Reflects impact of

	£m
- tariff increase	14.0
- meter option switchers	(5.0)
- new connections	2.4
- measured demand	(0.3)
- other changes	(1.3)
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	9.8
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- Number of meter switchers 22,000
- Number of new customers 7,300

SOUTH WEST WATER

Operating Costs

	2002/03	2001/02	Change
	£m	£m	%
Total operating costs	158.7	153.4	3.5
<u>Less</u> depreciation charges	(59.1)	(55.9)	5.7
Operating costs before depreciation	99.6	97.5	2.1

Increase in total operating costs due to:

	£m
- inflation	3.1
- new works (including depreciation)	7.4
- other	(0.7)
- efficiency savings	(4.5)
	5.3

SOUTH WEST WATER

Analysis of Efficiency Savings

	£m
• Manpower	1.4
• Supply chain	1.8
• Power costs	0.4
• Contracted services	0.9
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	4.5
	<hr/>

Cumulative K3 savings of £14.3m (£41.9m since 1995)

SOUTH WEST WATER

Operational Performance Summary

- Highest ever drinking water and river water quality
- “Clean Sweep” now virtually complete
 - bathing water compliance at all time high in South West
 - best performing region in UK to guideline standards
- Remains an industry leader in managing leakage and for security of supply
- Continued progress on service standards requiring capital investment
- Continued high performance on customer “Levels of Service Indicators”
- Three new major management information systems
- Changing emphasis of capital programme

SOUTH WEST WATER

Capital Programme

- Capital programme since privatisation totals just under £2bn (over 1,000 schemes): delivered to target and below budget
- Capital expenditure 2002/03 - £182m (2001/02 - £168m)
 - Dartmouth and Taw Torridge commissioned
 - over 400km water mains laid/replaced/refurbished
- Regulatory Contract K3:
 - Ofwat provision £725m (May 1999 prices)
 - targeting outperformance of 10%
 - on track to achieve

SOUTH WEST WATER

Regulatory Asset Value

	Year end	March			
	2002	2003	2004	2005	
	£m	£m	£m	£m	
At 2001/02 prices (1)	1478	1572	1655	1731	
Actual/Predicted Outturn prices (2)	1478	1602	1729	1851	

(1) Source: Ofwat

(2) Source: SWW

Strong growth in RAV 2002-05

SOUTH WEST WATER

Looking Towards PR04

- October 2002 Ofwat framework document
- January 2003 Initial ministerial guidance
- August 2003 Draft Business Plan
- January 2004 Final ministerial guidance
- April 2004 Final Business Plan
- July 2004 Draft Determination
- November 2004 Final Determination
- April 2005 New price limits apply

Viridor
WASTE

VIRIDOR WASTE

Financial Performance Summary

	2002/03	2001/02	Change
	£m	£m	%
Turnover	152.3	125.3	21.5
EBITDA	38.2	32.1	19.0
Operating profit			
- before goodwill	19.1	15.2	25.7
- after goodwill	17.6	14.9	18.1
Operating margins			
(before goodwill and excluding landfill tax)	17.4%	17.3%	

VIRIDOR WASTE

Financial Highlights

- At the beginning of year projected moderate growth in operating profit before goodwill
 - strong performance the previous year due to non-recurring items
- Turnover up £27m (£22.2m excluding landfill tax)
 - up 5% excluding this year's and last year's acquisitions and landfill tax
- Operating profit before goodwill up £3.9m
 - last year's non recurring items offset by acquisitions
 - step profit improvement this year from introduction of ROCs
 - underlying profit growth around 10%
- Operating profit up £2.7m

VIRIDOR WASTE

Acquisitions

- Five acquisitions over past 18 months, four of which were projected to be earnings enhancing before goodwill in the first full year after acquisition
 - Roseland landfill not due to open for another couple of years
- 2001/02 acquisitions (Suffolk LAWDC and Lavelles) fully integrated
 - earnings enhancing both before and after goodwill
- 2002/03 acquisitions (Richardson, Roseland and Parkwood) largely integrated
 - in total already earnings enhancing before goodwill

VIRIDOR WASTE

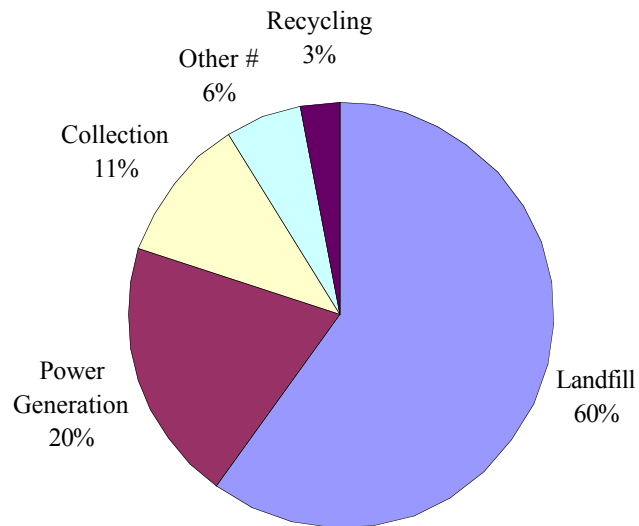
Operational Highlights

- Landfill volumes increased 8.6% to 3.5m tonnes including acquisitions
 - excluding acquisitions and last year's one-offs, volumes increased by 3.3%
- Within existing landfill volumes
 - domestic increased 5% to 1,368 thousand tonnes (kt)
 - industrial and commercial increased 1% to 1,417kt
 - other increased 6% to 313kt
- Underlying landfill prices up 4.7%
- Power generation capacity increased from 28MW to 37MW
- Total recycling volumes increased from 33kt to 183kt
- Total composting volumes increased from 18kt to 42kt

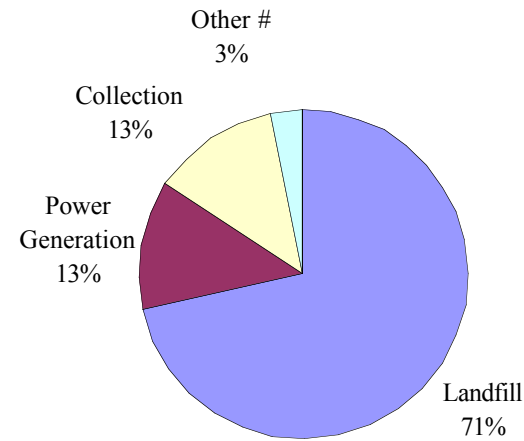
VIRIDOR WASTE

Profit Contribution by Segment *

Year Ended 31 March 2003



Year Ended 31 March 2002



* Contribution before goodwill and central overheads

Other includes clinical, minerals and civic amenity contracts

VIRIDOR WASTE

Environmental and Social Highlights

- ISO 14001 extended to Viridor Richardson and Suffolk LAWDC sites
- Warmwell site winner of CIWM award for best run landfill in the UK (Peel People's Cup)
 - _ third time a VWM site has won this award in past 5 years
- Renewable energy contribution
- £8.3m contribution to environmental bodies under Landfill Tax Credit scheme
 - _ revised Government regulations as of 1 April 2003
- Defined contribution pension scheme for employees of recently acquired companies and new entrants

VIRIDOR WASTE Strategy

- Capitalise on landfill asset base (80m cubic metres consented capacity, up 7m from last year end)
 - acquisitions 6.2m
 - planning gains 5.1m
 - usage (4.3m)
- Exploit landfill gas power generation opportunities
 - Government target 10% of electricity from renewable sources by 2010 compared to current 3%
- Continue to pursue profitable opportunities in line with the Government's developing waste strategy
 - including transfer stations and specialist recycling
- Pursue selective acquisitions



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Summary

- Strategy clearly focused on water, sewerage and waste management
- 2003/04 results: impact of pension contribution increases
- South West Water remains confident of outperforming the Regulatory Contract to 2005
 - strong growth in RAV up to 2005
 - looking towards PR04
- Viridor Waste delivering steady growth by
 - capitalising on landfill asset base
 - exploiting landfill gas power generation opportunities
 - continuing to pursue profitable opportunities in line with the Government's developing waste strategy
 - Pursuing selective acquisitions



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