news from Pennon Group Plc

27 May 2004

PENNON GROUP PLC

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2004

Pennon Group announces its unaudited results for the year ended 31 March 2004.

A presentation for City audiences will be held today, 27 May 2004, at 09:00 at The City Presentation Centre, 4 Chiswell Street, London, EC1.

FINANCIAL HIGHLIGHTS

- Operating profit up 7.3% to £136.3m *
    - South West Water up 6.6% to £118.9m
    - Viridor up 18.8% to £22.7m before goodwill
- Profit before tax up 6.2% to £78.8m *
- Earnings per share (before deferred tax) up 4.9% to 57.7p *
- Recommended final dividend per share up 4.9% to 27.8p (full year dividend up 4.9% to 41.0p)

* Before exceptional item in 2003/04 of £6.5m for costs incurred relating to abortive acquisition

OPERATIONAL HIGHLIGHTS

- South West Water
    - On track to outperform the current regulatory contract
    - Final 2005 – 2010 Business Plan submitted to Ofwat
- Viridor Waste
    - Strong growth in profits from landfill and power generation
    - Acquisitions performing in line with expectations

"We have made excellent progress" said the Chairman, Ken Harvey, today. "These strong results demonstrate further profitable growth in South West Water and Viridor Waste, affirming our strategy once again of focusing on these two key businesses.

“Clearly, we are disappointed that our discussions with Shanks regarding the purchase of their UK landfill and landfill gas assets did not ultimately come to fruition. However, as we have indicated on a number of occasions previously, we will not overpay for an acquisition. The price agreed between Shanks and Terra Firma would not have satisfied Pennon’s investment criteria.

“The Group has an established track record of profitable growth in the waste management market and remains committed to strengthening its leading position in that market through further organic growth and acquisitions which do meet Pennon’s investment criteria.”

For further information on 27 May 2004, please contact :

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GROUP OVERVIEW

- Group turnover rose 13.0% to £471.3m.

- Group operating profit before goodwill rose by 8.0% to £138.8m. *

- Group profit before tax up 6.2% to £78.8m. *

- Earnings per share before deferred tax up 4.9% to 57.7p. Earnings per share after deferred tax increased by 24.4% to 55.1p. *

- Capital expenditure for the Group was £170.0m (2002/03 - £204.6m).

- One waste management acquisition, Churngold Holdings Limited, was made in June 2003 for a total cash consideration of £19.8m. Thames Waste Management Limited was acquired just after the year end, on 6 April 2004, for £30.5m (£28.4m net of cash). The group has made 7 acquisitions for a total consideration of £104m since 2001/02.

- Net debt for the Group was £1,074.1m, an increase of £85.5m since 31 March 2003. Gearing, being net borrowing to shareholders' funds, was 119% (2003 – 111%). Interest cover was maintained at 2.4 times.

- The Board has recommended a final dividend of 27.8p, up 4.9%, subject to shareholder approval. Together with the interim dividend of 13.2p, this will result in a total dividend for the year of 41.0p, representing an increase of 4.9% on the total dividend for 2002/03. The Board intends to continue to pursue a progressive dividend policy and offer shareholders a scrip dividend alternative.

* Before exceptional item in 2003/04 of £6.5m for costs incurred relating to abortive acquisition.

SOUTH WEST WATER

South West Water turnover rose by £21.6m to £291.8m. Approved tariff increases amounted to £19.5m. Customers switching from unmeasured to metered charging caused a reduction of £6.0m in turnover. Other factors, including 6,900 new customer connections and increased commercial sales, contributed £5.1m. There was an increase in measured demand in the summer of 2003 of £3.0m.

South West Water's operating profit rose 6.6% to £118.9m. Operating costs, including depreciation, increased by £14.2m to £172.9m. Additional costs from new capital schemes of £8.6m, inflation of £3.4m and other cost increases of £6.3m (mainly pensions, direct cost of sales and bad debts), were offset by £4.1m of efficiency savings. Some five years ago South West Water established a restructuring and continuous improvement programme to reduce significantly overhead and operating costs. Its successful delivery is ensuring South West Water continues to outperform the demanding operational and capital efficiency targets imposed by Ofwat and is on track to continue to do so for the remainder of the current K3 regulatory period (2000-2005). In 2004/05 the company will continue to grow its Regulatory Asset Value ahead of net debt.

The company's key objectives include providing exemplary levels of product and customer service. 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. South West Water is also continuing its good performance against Ofwat's prescribed customer "Levels of Service Indicators" targets.

As planned, capital expenditure reduced by £42.2m to £139.3m in the year. £67.0m was invested in water supply improvements, including water mains renovation, water treatment works enhancement and leakage control. 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. Over 400 km of water mains were laid, replaced or refurbished during the year. Drinking water quality is at an all time high.

Additional investment has been made in order to enhance compliance robustness at our waste water treatment works. As a consequence of this strategy, we are confident of achieving a significant improvement in the OPA score to be published by Ofwat later in the year.

Of the £72.3m invested in the year in waste water services, £30.8m was invested in the company's bathing water initiative 'Clean Sweep'. Commissioning of the Ilsham Valley pumping station in Torbay commenced in April 2004. This operation signalled the completion of the last multi-million pound project in the company's original £1bn 'Clean Sweep' programme. Work continues on addressing the few remaining small crude discharges, particularly in Cornwall. In November 2003, the Department for the Environment, Food and Rural Affairs (DEFRA) and the Environment Agency (EA) announced the best ever bathing water quality results for beaches and bathing waters along the West Country coastline. All but one of the 141 designated bathing waters in the region regularly monitored by the EA complied with the European Union (EU) mandatory standards with Devon achieving 100% compliance for the first time ever. The results also confirmed that 115 bathing waters met the more stringent EU guideline standards, the best performance of any region in the UK. River water quality is also at an all time high and the region features the highest percentage length of high quality river of any region in England.

South West Water's 'Clean Sweep' bathing water improvement programme has been pivotal in achieving these record levels of compliance and the associated financial and environmental benefits for the region. Its successful delivery is great testament to the endeavours of South West Water employees, contractors and regional key stakeholders, including customers, who have all contributed to the completion of the biggest environmental improvement programme of its kind in Europe.

South West Water's Final Business Plan for the K4 period (2005 – 2010) was submitted to Ofwat in April. Details of the proposed strategy, estimate of expenditure needs and effect on average bills can be found on the company's website. Ofwat will publish its Draft and Final Determinations this August and December respectively of the prices customers will pay from 1 April 2005.

VIRIDOR WASTE

Viridor Waste has continued to trade strongly, building on the growth achieved over the past several years. Turnover rose by 20.2% to £183.1m in 2003/04. The acquisition of Churngold in June 2003 accounted for £16.2m, increased existing business £8.8m and increased landfill tax £5.8m.

Viridor Waste's operating profit before goodwill amortisation rose by 18.8% to £22.7m (£20.2m after goodwill amortisation), compared to £19.1m (£17.6m after goodwill amortisation) in 2002/03.

Operating profit contributions from landfill and power generation increased by 23.2% and 46.1% respectively, the latter including the premium pricing benefits of Renewables Obligations Certificates (ROCs). Operating margin, before goodwill amortisation and excluding landfill tax, was 16.9%. Earnings before interest, tax, depreciation and amortisation (EBITDA) grew from £38.2m to £43.2m. Capital expenditure for the year was £30.5m (2002/03 - £23.0m).

One acquisition was made during the year and one just after the year end. In June 2003 Churngold Holdings Limited was acquired for £19.8m. Churngold has waste recycling and transfer stations along with associated collection activities in the Bristol area, Glasgow and Edinburgh. It has an excellent geographic fit with Viridor Waste's existing activities in the South West of England and in Scotland. Churngold has been largely integrated into Viridor's activities and is trading in line with expectations. In April 2004, after the year end, Thames Waste Management was acquired for £30.5m. Thames Waste Management comprises one operational landfill site positioned within the M25 with 4m cubic metres of consented capacity, two landfill gas power generation schemes totalling 5 MW capacity, and four liquid waste treatment plants, along with an associated tanker fleet. It is expected that this acquisition will be earnings enhancing before goodwill amortisation this current financial year.

Total landfill disposal volumes increased by 6.3% to 3.675m tonnes. Underlying gate fees rose by 3.5%, ahead of cost increases. In October 2003, the local council resolved to grant Viridor planning permission for a further 2.8m cubic metres of landfill void at Pilsworth, serving North Manchester and the surrounding area, which will extend landfilling operations at the site until 2020. Viridor's consented landfill has increased from 80m m^3 to 83m m^3 from a combination of acquisitions (including Thames Waste Management) and planning gains less usage during the year. The company is currently filling its landfill void at a rate of circa 4.7m cubic metres per annum (including Thames Waste Management).

Viridor Waste's total power generation capacity has increased by 22% to circa 45 MW, including the 5 MW capacity from Thames Waste Management. This follows the 32% increase in 2002/03. Most of the increased capacity benefits from premium prices under ROCs and underpins the strong profit growth achieved.

Viridor Waste commenced operating its first waste management PFI contract on 1 April 2004. Under the 25 year contract Viridor is taking over and running West Sussex's 11 civic amenity sites and recycling centres and developing new facilities, including a new materials recovery facility. The contract fits well with Viridor's existing activities in this area.

Viridor Waste has implemented a new regional management structure to reflect the growth in the business and further to improve operational effectiveness.

PENSIONS

The Group pension schemes showed an indicative net deficit at 31 March 2004 of circa £55m, a similar level to that reported under FRS 17 at 31 March 2003. A recovery in investment values has been offset by an increase in liabilities and higher expectations for future inflation.

The Company operates a defined benefit pension scheme for existing staff of, and new entrants to, Pennon and South West Water and for certain employees in Viridor. Having reviewed practices in the waste industry, Pennon set up a defined contribution scheme in July 2003 for other Viridor employees and employees from certain acquired waste companies.

The last actuarial valuation of the Pennon defined benefit scheme in April 2001 indicated a scheme surplus, enabling continuation of the employer contribution holiday in 2001/02. In response to deteriorating stock market conditions, the Group resumed employer cash contributions of 4.8% and 11.5% of pensionable pay in 2002/03 and 2003/04 respectively, in line with recommendations from the scheme actuary.

The next triennial actuarial review is expected to result in additional costs of up to £6m in 2004/05.

TAXATION

The mainstream corporation tax charge for the year was £7.5m (£3.4m in 2002/03).

The deferred tax charge for the year to 31 March 2004 was £3.3m, down from £13.7m in 2002/03.

FINANCING INITIATIVES

The total interest charge increased from £52.1m to £57.2m. The 2002/03 result included a circa £2m interest benefit from the sale proceeds of Viridor Instrumentation. The average interest rate on net debt was reduced from 6.0% to 5.5%.

The Group funding strategy utilises a mix of fixed and floating rate borrowings. To take advantage of current low interest rates and reduce the risk of adverse movements, South West Water has continued its swap arrangements to fix the interest rate on the majority of its debt for the period up to March 2005.

SHANKS

The acquistion of the UK landfill and landfill gas assets of Shanks would have tied in very well with Viridor's strategy. We confirmed in our announcement of 17 May 2004 that the acquistion would have to satisfy the Group's criteria for any investment in the waste sector, as well as reinforcing Pennon's progressive dividend policy. Our offer price of £202.5m satisfied our investment criteria. The price agreed between Shanks and Terra Firma would not have done so .

Discussions were terminated on 25 May 2004. Total abortive costs are estimated at £9.0m. £6.5m has been charged as an exceptional item in 2003/04 and the balance of £2.5m will be recognised in the 2004/05 financial year.

The Group has an established track record of profitable growth in the waste management market and remains committed to strengthening its leading position in that market through further organic growth and acquisitions which do meet Pennon's investment criteria. Viridor Waste has been an active participant in the consolidation of the UK waste sector having completed seven acquisitions for c.£104m since 2001. These have contributed to the twenty percent per annum growth in operating profit before goodwill achieved since 2000/01.

APPROACH RECEIVED BY THE BOARD

On 17th May, 2004, following press speculation, the Board confirmed that it had received a preliminary and conditional approach for the entire issued share capital of the Company from a consortium of financial investors led by Terra Firma.

The approach was at an effective value of 822.2p per share, conditional, *inter alia*, on the arrangement of financing and extensive due diligence. Under the approach, shareholders would have received a cash payment of 850p per share but would not have received the final dividend of 27.8p per share announced today with the Group's preliminary results.

The Board unanimously decided that the approach failed to recognise the strategic value of Pennon. Therefore, following consultation with some of Pennon's largest shareholders, the Board rejected the approach.

STRATEGY AND PROSPECTS

The Board's priority continues to be the creation of shareholder value through its strategic focus on water, sewerage and waste management.

The Board remains confident that South West Water will continue to outperform the regulatory contract in the current regulatory period and to grow its Regulatory Asset Value (ahead of net debt) up to 2005. Viridor Waste's successful strategy of creating long-term sustainable profit growth is expected to continue through capitalising on its landfill asset base, exploiting its landfill gas power generation potential and pursuing profitable opportunities in line with the Government's developing waste strategy.

Ken Harvey
Chairman
27 May 2004

PENNON GROUP PLC
GROUP PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2004

	Note	Before exceptional item 2004 (unaudited) £m	Exceptional item 2004 (unaudited) £m	**Total 2004 (unaudited) £m**	2003 £m
Turnover					
Continuing operations		455.1	-	**455.1**	417.2
Acquisitions		16.2	-	**16.2**	-
Total turnover		471.3	-	**471.3**	417.2
Operating costs	2	(335.0)	(6.5)	**(341.5)**	(290.2)
Group operating profit					
Continuing operations		135.7	(6.5)	**129.2**	127.0
Acquisitions		0.6	-	**0.6**	-
Total Group operating profit		136.3	(6.5)	**129.8**	127.0
Share of operating loss in :					
Joint venture		(0.3)	-	**(0.3)**	(0.1)
Associate		-	-	**-**	(0.6)
Total operating profit		136.0	(6.5)	**129.5**	126.3
Net interest payable		(57.2)	-	**(57.2)**	(52.1)
Profit on ordinary activities before taxation		78.8	(6.5)	**72.3**	74.2
Tax on profit on ordinary activities	3	(10.8)	-	**(10.8)**	(17.1)
Profit on ordinary activities after taxation		68.0	(6.5)	**61.5**	57.1
Dividends :	4				
Special interim dividend		-	-	**-**	(95.9)
Interim and final dividends		(51.1)	-	**(51.1)**	(48.4)
Retained surplus/(deficit) transferred to/(from) reserves		16.9	(6.5)	**10.4**	(87.2)
Earnings per share	5				
Before exceptional item and deferred tax :					
Adjusted basic				**57.7p**	55.0p
Adjusted diluted				**57.3p**	54.8p
After exceptional item and deferred tax :					
Basic				**49.8p**	44.3p
Diluted				**49.5p**	44.2p
Dividend per share	4			**41.0p**	39.1p

All operating activities are continuing operations.

There were no recognised gains or losses, other than the profit for the year, in 2004 and 2003.

The special interim dividend in the year ended 31 March 2003 was paid to shareholders out of the sale proceeds from the disposal of Viridor Instrumentation Limited.

PENNON GROUP PLC
SUMMARISED GROUP BALANCE SHEET
for the year ended 31 March 2004

	Note	**2004 (unaudited) £m**	2003 £m
Fixed assets			
Intangible assets		**47.6**	37.6
Tangible assets		**2,141.1**	2,046.4
Investments		**3.6**	1.9
		2,192.3	2,085.9
Current assets			
Stocks		**4.5**	4.0
Debtors		**97.3**	87.6
Investments and cash		**267.7**	191.0
		369.5	282.6
Creditors: amounts falling due within one year		**(293.6)**	(265.1)
Net current assets		**75.9**	17.5
Total assets less current liabilities		**2,268.2**	2,103.4
Creditors: amounts falling due after more than one year		**(1,234.9)**	(1,083.3)
Provisions for liabilities and charges		**(94.0)**	(90.6)
Deferred income		**(38.7)**	(39.4)
Net assets		**900.6**	890.1
Capital and reserves			
Called-up share capital		**137.9**	137.2
Share premium account		**154.2**	152.8
Profit and loss account		**608.5**	600.1
Shareholders' funds	6	**900.6**	890.1

PENNON GROUP PLC
GROUP CASH FLOW STATEMENT
for the year ended 31 March 2004

	Note	**2004 (unaudited) £m**	2003 £m
Net cash inflow from operating activities	7	**215.1**	198.9
Returns on investments and servicing of finance		**(41.3)**	(42.9)
Taxation		**(0.1)**	-
Capital expenditure and financial investment		**(179.2)**	(198.2)
Acquisitions		**(20.0)**	(37.2)
Equity dividends paid		**(47.0)**	(147.3)
Net cash outflow before use of liquid resources and financing		**(72.5)**	(226.7)
Management of liquid resources		**(62.1)**	67.6
Financing		**156.3**	140.7
Increase/(decrease) in cash in year		**21.7**	(18.4)

PENNON GROUP PLC
SEGMENTAL ANALYSIS BY CLASS OF BUSINESS
for the year ended 31 March 2004

	2004 (unaudited) £m	2003 £m
Turnover		
Continuing operations		
Water and sewerage	**291.8**	270.2
Waste management	**183.1**	152.3
Other	**7.3**	5.2
Less intra-group trading	**(10.9)**	(10.5)
Group totals	**471.3**	417.2
Group operating profit		
Continuing operations before exceptional item and goodwill amortisation		
Water and sewerage	**118.9**	111.5
Waste management	**22.7**	19.1
Other	**(2.8)**	(2.1)
Total continuing operations before exceptional item and goodwill amortisation	**138.8**	128.5
Group operating profit		
Continuing operations after exceptional item and goodwill amortisation		
Water and sewerage	**118.9**	111.5
Waste management	**20.2**	17.6
Other *	**(9.3)**	(2.1)
Group totals	**129.8**	127.0
Profit on ordinary activities before taxation		
Continuing operations		
Water and sewerage	**70.1**	67.1
Waste management	**14.7**	14.2
Other †	**(12.5)**	(7.1)
Group totals	**72.3**	74.2

* includes the exceptional item (note 2).
† includes the exceptional item (note 2) and interest arising on parent company financing of acquisitions.

Continuing operations include acquisitions.

PENNON GROUP PLC
NOTES

1 The financial information for the years ended 31 March 2004 and 31 March 2003 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 2003 have been delivered to the Registrar of Companies. The independent 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 The exceptional item is £6.5m costs incurred relating to the abortive acquisition of the UK landfill and landfill gas operations of Shanks Group Plc where discussions were terminated on 25 May 2004. Total abortive costs are estimated at £9.0m with the balance of exceptional costs of £2.5m to be recognised in the 2004/05 financial year.

3 Tax on profit on ordinary activities for the year comprises :

	2004 (unaudited) £m	2003 £m
United Kingdom corporation tax at 30%	**7.5**	3.4
Deferred taxation	**3.3**	13.7
	10.8	17.1

4 Dividends

	2004 (unaudited) £m	2003 £m
Special interim dividend of 70.0p per share	**-**	95.9
Interim dividend of 13.2p (2003 12.6p) per share	**16.4**	15.6
Proposed final dividend 27.8p (2003 26.5p) per share	**34.7**	32.8
	51.1	144.3

The special interim dividend in the year ended 31 March 2003 was paid to shareholders out of the sale proceeds from the disposal of Viridor Instrumentation Limited.

If approved at the Annual General Meeting on 29 July 2004 the final dividend of 27.8p per share will be paid on 1 October 2004 to shareholders on the register at 9 July 2004.

5 *Basic and diluted earnings per share*

The calculation of 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 123.5 million (2003 128.8 million). The average number of shares in issue was reduced by a share capital consolidation on 2 September 2002 whereby every 111 Ordinary shares of £1 each were replaced by 100 new Ordinary shares of £1.11 each.

All share options with an exercise price lower than the average market price of the Company's shares during the year have been included in the calculation of diluted earnings per share. The weighted average number of shares in issue during the year, taking account of the dilutive effect of share options, was 124.3 million (2003 129.3 million).

Adjusted basic and diluted earnings per share

Adjusted earnings per share have been calculated to exclude the impact of the exceptional item and deferred tax on the results, as these items can have a distorting effect on earnings from year to year and therefore warrant separate consideration. Adjusted earnings have been calculated as follows :

	2004 Profit on ordinary activities (un-audited)	**Earnings per share Basic**	**Earnings per share Diluted**	2003 Profit on ordinary activities	Earnings per share Basic	Earnings per share Diluted
	£m	**p**	**p**	£m	p	p
Profit on ordinary activities after taxation	**61.5**	**49.8**	**49.5**	57.1	44.3	44.2
Exceptional item	**6.5**	**5.3**	**5.2**	-	-	-
Deferred tax	**3.3**	**2.6**	**2.6**	13.7	10.7	10.6
Adjusted earnings before exceptional item and deferred tax	**71.3**	**57.7**	**57.3**	70.8	55.0	54.8

6 Statement of movements in shareholders' funds

	2004 (unaudited) £m	2003 £m
Profit on ordinary activities after taxation	**61.5**	57.1
Dividends	**(51.1)**	(144.3)
	10.4	(87.2)
Adjustment for shares issued under the scrip dividend alternative	**1.3**	-
Shares issued for cash consideration	**2.1**	1.4
Adjustment for shares issued under the Sharesave Scheme through Employee Share Ownership Trust	**-**	(0.3)
Goodwill arising on previously acquired business	**(3.3)**	-
Shareholders' funds (equity interest) :		
Addition/(reduction) for year	**10.5**	(86.1)
At 1 April	**890.1**	976.2
At 31 March	**900.6**	890.1

7 Reconciliation of Group operating profit to net cash inflow from operating activities:

	2004 (unaudited) £m	2003 £m
Group operating profit	**129.8**	127.0
Depreciation charge	**86.1**	79.8
Amortisation of intangible fixed assets	**2.5**	1.5
Provision for impairment of fixed asset investments	**0.9**	1.4
Deferred income released to profits	**(1.2)**	(1.2)
Decrease in provisions for liabilities and charges	**(2.0)**	(2.0)
Increase in stocks	**(0.5)**	(0.8)
(Increase)/decrease in debtors (amounts falling due within and over one year)	**(4.2)**	1.1
Increase/(decrease) in creditors (amounts falling due within and over one year)	**5.4**	(7.1)
Profit on disposal of tangible fixed assets	**(1.7)**	(0.8)
Net cash inflow from operating activities	**215.1**	198.9

8 Analysis of net debt

	At 1 April 2003 £m	Cash flow £m	Acquisitions (excluding cash items) £m	Non-cash movements £m	**At 31 March 2004 (unaudited) £m**
Cash at bank and in hand	8.6	5.4	-	-	**14.0**
Current asset investments:					
Overnight deposits	4.3	9.2	-	-	**13.5**
Bank overdrafts	(14.1)	7.1	-	-	**(7.0)**
	(1.2)	21.7	-	-	**20.5**
Debt due within one year (other than bank overdrafts)	(58.0)	16.7	(3.8)	(34.6)	**(79.7)**
Debt due after more than one year	(385.6)	(140.0)	(0.4)	34.5	**(491.5)**
Finance lease obligations	(721.9)	(30.9)	(2.8)	(8.0)	**(763.6)**
	(1,165.5)	(154.2)	(7.0)	(8.1)	**(1,334.8)**
Current asset investments:					
Other than overnight deposits	178.1	62.1	-	-	**240.2**
	(988.6)	(70.4)	(7.0)	(8.1)	**(1,074.1)**

Non-cash movements include transfers between categories of debt for changing maturities, increased accrued finance charges within finance lease obligations and loan notes issued in settlement of accrued consideration in respect of a previously acquired business.

9 The Annual Report for 2003/04 will be issued to shareholders on 30 June 2004.

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