news from Pennon Group Plc

PENNON GROUP PLC **26 May 2005**

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2005

Pennon Group announces its unaudited results for the year ended 31 March 2005.

A presentation for City audiences will be held today, 26 May 2005, at 09:00 at the Great Eastern Hotel, Liverpool Street, London, EC2.

FINANCIAL HIGHLIGHTS

- Operating profit before goodwill up 9.1% to £151.5m. *
  - South West Water up 2.4% to £121.7m
  - Viridor Waste up 31.3% to £29.8m
- Profit before tax up 10.9% to £87.4m. *
- Earnings per share (before deferred tax) up 9.4% from 57.7p to 63.1p. *
- Dividend
  - Recommended final dividend per share up 5.0% to 29.2p.
  - Full year dividend up 4.9% to 43.0p.

* Before net exceptional items in 2004/05 of £0.1m (income of £5.0m less costs of £4.9m; 2003/04 – cost £6.5m).

OPERATIONAL HIGHLIGHTS

- South West Water
  - Successful delivery of 2000 – 2005 regulatory contract.
  - Strong growth in RAV 2000 – 2005 outstripped growth in net debt.
  - Delivery under way of 2005 – 2010 regulatory contract.

- Viridor Waste
    - Continued strong growth in profits from landfill and power generation.
    - Recent acquisitions successfully integrated and performing ahead of expectations.
    - West Sussex PFI successful first year.

Ken Harvey, Chairman, said, "Once again I am delighted to report excellent results for Pennon. They demonstrate further profitable growth in the Group and affirm our strategy of focusing on our two key businesses, South West Water and Viridor Waste. During the year South West Water continued to improve its efficiency levels, whilst delivering substantial benefits to the environment and improvements to quality and customer service. Viridor Waste continues to deliver very strong performance based on both organic growth and successful acquisitions."

For further information on 26 May 2005, please contact :

David Dupont	Group Director of Finance – Pennon	}	
Jo Finely	Investor Relations Manager – Pennon	}	0207 251 3801
Edward Orlebar	Finsbury Group	}	

GROUP OVERVIEW

- Group turnover up 17.6% to £554.2m.

- Group operating profit before goodwill up by 9.1% to £151.5m. *

- Group profit before tax up 10.9% to £87.4m. *

- Earnings per share before deferred tax up 9.4% to 63.1p.* Basic earnings per share are 54.6p, up 9.6%.

- Group capital expenditure £188.4m (2003/04 - £170.0m).

- Thames Waste Management Limited acquired in April 2004 for £30.8m (£28.6m net of cash).

- The Group's first PFI integrated waste management contract, for West Sussex County Council, started in April 2004.

- Group net debt £1,118.8m, an increase of £44.7m since 31 March 2004. Gearing, being net borrowing to shareholders' funds, was 119% (2004 – 119%). Interest cover maintained at 2.4 times.

- The Board has recommended a final dividend of 29.2p, up 5.0%, subject to shareholder approval. Together with the interim dividend of 13.8p, this will result in a total dividend for the year of 43.0p, an increase of 4.9% on the total dividend for 2003/04. As confirmed at the time of the Group's interim results last December, the Board intends to continue to grow the Group dividend in real terms, at least up to 2009/10, and to offer shareholders a scrip dividend alternative.

* Before net exceptional items in 2004/05 of £0.1m, comprising the £5.0m proceeds now receivable from a business disposal in 1998 (2003/04 – nil) less abortive acquisition costs of £1.5m (2003/04 - £6.5m) and £3.4m restructuring costs in South West Water (2003/04 – nil).

SOUTH WEST WATER

South West Water turnover rose by £18.0m to £309.8m. Approved tariff increases amounted to £21.2m. Customers switching from unmeasured to metered charging caused a reduction of £6.3m in turnover. Other factors contributed a net total of £3.1m, including 7,300 new customer connections and increased commercial sales offset by an estimated £2.4m reduction in measured demand, as the summer of 2004 did not match the high temperatures of the previous year.

South West Water's operating profit rose 2.4% to £121.7m before the exceptional restructuring charge of £3.4m. Operating costs, including depreciation, increased by £15.2m to £188.1m. Additional costs from new capital schemes of £5.7m, inflation of £4.4m and other cost increases of £9.2m (mainly pensions, direct cost of sales and bad debts), were offset by £4.1m of efficiency savings. Some six years ago, South West Water established a restructuring and continuous improvement programme to reduce significantly overhead and operating costs. Its successful delivery ensured that South West Water outperformed the demanding operational and capital efficiency targets imposed by Ofwat for the K3 regulatory period (2000-2005). South West Water has announced plans for further restructuring to contribute towards the additional efficiencies required over the K4 regulatory period (2005 – 2010), which includes a £13m p.a. reduction in base operating costs by 2010. An exceptional charge of £3.4m has been made in respect of the associated restructuring costs.

During the K3 regulatory period the company grew its Regulatory Asset Value (RAV) ahead of net debt. RAV is predicted to grow by 33% over K4 period to £2.6bn by March 2010 – the highest forecast percentage increase of any quoted UK water company.

Capital expenditure increased by 1.9% to £141.9m. £66.1m was invested in water supply improvements including water mains renovation, water treatment works enhancement and leakage control. Ofwat's latest report on leakage notes that South West Water continues to be one of the leading companies in managing water leakage and is delivering results in line with Ofwat's leakage target. Almost 570km of water mains were laid, replaced or refurbished during the year, a 55% increase on 2003/04. Drinking water quality and river water quality are at an all time high and the region features the highest proportion of high quality rivers in England.

Waste water investment expenditure totalled £75.8m. Commissioning of the Ilsham Valley pumping station in Torbay commenced in April 2004 and its operation signalled the completion of the final major project in the company's 15 year original "Clean Sweep" coastal sewage treatment programme. "Clean Sweep" has transformed the coastal environment around the South West. 98% of bathing waters conform with EU mandatory standards and 81% of the region's bathing waters now meet the tougher EU guideline standards. This compares with only 47% of the region's bathing waters achieving the guideline standard five years ago.

A further measure of the company's success has been its progress within the 2003/04 Ofwat 'Overall Performance Assessment' which has seen South West Water achieve one of the largest performance improvements of any of the water companies during the year as capital expenditure, previously constrained whilst the coastal clean-up was delivered, has now been able to address other areas. A further significant performance improvement has been achieved in 2004/05.

VIRIDOR WASTE

Viridor Waste has continued to trade strongly, building on the growth achieved over the past several years. Turnover rose by 35.6% (£65.2m) to £248.3m in 2004/05. Acquisitions accounted for £40.2m of the increase and underlying business £25.0m. Landfill tax within turnover increased by £8.2m.

Viridor Waste's operating profit before goodwill amortisation rose by 31.3% to £29.8m (£26.3m after goodwill amortisation), compared to £22.7m (£20.2m after goodwill amortisation) in 2003/04. The increase was driven by good performance from landfill, power generation and collection, and the positive impact of the West Sussex integrated waste contract and the Thames Waste Management (Thames Waste) acquisition. Since 2000/01 operating profit before goodwill has grown at a compound rate of 22.8% p.a. of which around 12% has been organic, with the rest being achieved through acquisitions. Earnings before interest, tax, depreciation and amortisation (EBITDA) grew from £43.2m to £56.0m. Capital expenditure for the year was £45.8m (2003/04 - £30.5m).

In April 2004 Viridor Waste acquired Thames Waste for £30.8m, including cash balances of £2.2m. The company comprised one operational landfill of four million cubic metres of consented void space strategically located within the M25 motorway near Sutton, Surrey;

five megawatts (MW) of landfill gas power generation capacity; and four liquid treatment facilities together with an associated tanker fleet. The acquisition also included a contract to handle the disposal of Thames Water's sewage sludge. Since the acquisition of Thames Waste, Viridor Waste has won a similar contract with Southern Water. The Thames Waste acquisition has now been fully integrated and was earnings enhancing after integration costs and goodwill amortisation, one year ahead of forecast.

The previous year's acquisition, Churngold Holdings Limited, has been fully integrated and was earnings enhancing after goodwill amortisation, also one year ahead of forecast.

Total landfill disposal volumes increased by 10% to 4.0m tonnes, mainly due to the Thames Waste acquisition. Gate fees rose by 10%. In December 2004 Devon County Council resolved to grant Viridor Waste planning permission for a further 3.0m cubic metres of landfill void at Heathfield near Kingsteignton, Devon, providing an estimated further ten years' disposal capacity at the site. The permission also allows for the development of a new Materials Reclamation Facility (MRF) for up to 90,000 tonnes per annum of dry recyclables from the household waste stream, a MRF to process up to 75,000 tonnes per annum of non-hazardous commercial and industrial wastes ('skip waste'), including a small vehicle waste reception and transfer facility, and an enclosed in-vessel composting plant. Viridor Waste's consented landfill (including Thames Waste) has decreased from around 83m cubic metres to 80m cubic metres reflecting planning gains less usage during the year. The company is currently filling its landfill void at a rate of circa 5.0m cubic metres per annum.

Viridor Waste's total power generation capacity has increased by a further 16% in the year, most of which has been introduced under Renewable Obligation Certificates (ROCs) and underpins the strong profit growth achieved. This brings Viridor Waste's total capacity (excluding a small amount handled by third party contractors) to 52MW compared to 28MW in March 2002 before the introduction of the ROCs scheme. A further 3MW is under development. 56% of Viridor Waste's output benefits from ROCs.

As part of the Government's developing waste strategy, local authority integrated contracts will assume greater importance for the waste industry. The company started operating its first waste management PFI contract on 1 April 2004. Under the 25 year £450m contract Viridor Waste has taken over the running of West Sussex's 11 civic amenity sites and recycling centres and the development of new facilities, including a new materials reclamation facility. The contract fits well with Viridor's existing activities in this area.

Viridor Waste is also developing a range of new technologies with Government financial assistance (DEFRA/London Recycling Fund). It has opened in-vessel composting plants at Beddington (Surrey) and Heathfield (Devon) and two further plants are under construction at Lackford (Suffolk) and at Broadpath (Devon). Viridor Waste has also gained planning permission and financial assistance from the London Recycling Fund for a mechanical/biological treatment plant (MBT) at its Beddington landfill. Technologies such as these are likely to become increasingly important as councils strive to meet their European Landfill Directive targets requiring the diversion of an increasing proportion of municipal waste from landfill.

EXCEPTIONAL ITEMS

There are 3 exceptional items:

- Costs of £1.5m (2003/04 £6.5m) 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.

- Restructuring costs in South West Water of £3.4m (2003/04 - nil)

- Profit of £5.0m (2003/04 nil) relating to the balance of proceeds due from the 1998 disposal of the Group's interest in Societa Italo Britannica dell'Acqua Srl (SIBA).

PENSIONS

The Group pension schemes showed an indicative net deficit at 31 March 2005 of c £56m, a similar level to that reported under FRS 17 at 31 March 2004. A sound investment performance has been offset by an increase in liabilities, reflecting the recent actuarial valuation.

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 Waste. Pennon has a defined contribution scheme for new entrants to Viridor Waste and employees from certain acquired waste companies.

The triennial actuarial valuation of the Group defined benefit schemes at 1 April 2004 has identified a scheme deficit which resulted in additional annual charges of c £5.5m under the SSAP 24 accounting policy.

TAXATION

The mainstream corporation tax charge for the year was £7.9m (£7.5m in 2003/04).

The deferred tax charge for the year to 31 March 2005 was £10.8m, up from £3.3m in 2003/04.

FINANCING INITIATIVES

The total interest charge increased from £57.2m to £60.7m. The average interest rate on net debt remained at 5.5%, despite the 0.9% increase in average base rates over the prior year, reflecting the success of the Group's hedging policy.

The Group funding strategy utilises a mix of fixed and floating rate borrowings. To reduce the risk of adverse interest rate movements, South West Water has continued its swap arrangements to fix the interest rate on some 75% of its debt for the period up to March 2006 and on around 50% of its debt out to March 2010.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Preparation for the adoption of IFRS in 2005/06 is under way. The principal differences between current UK and International Accounting Standards likely to impact on the Group are expected to be in relation to deferred tax, goodwill, fixed asset accounting and pensions. The overall net impact will be to reduce net assets and increase potentially the volatility of earnings. Underlying cash flow is not affected.

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 preliminary results announced above are testament to the Board's strategy of focusing on these key business areas and underpin its resolve to continue its existing progressive policy of growing the Group dividend in real terms, at least up to 2009/10.

The Board has confidence that South West Water will successfully deliver the new K4 regulatory contract and significantly grow its Regulatory Asset Value up to 2010. Viridor Waste's successful strategy of creating long-term sustainable profit growth, organically and through acquisitions, 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
26 May 2005

PENNON GROUP PLC
GROUP PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2005

Turnover	Note	Before exceptional items (unaudited) 2005 £m	Exceptional items 2005 £m	Total (unaudited) 2005 £m	Before exceptional item 2004 £m	Exceptional item 2004 £m	Total 2004 £m
Continuing operations		**514.0**	**-**	**514.0**	471.3	-	471.3
Acquisitions		**40.2**	**-**	**40.2**	-	-	-
Total turnover		**554.2**	**-**	**554.2**	471.3	-	471.3
Operating costs	3	**(406.2)**	**(4.9)**	**(411.1)**	(335.0)	(6.5)	(341.5)
Group operating profit							
Continuing operations		**144.5**	**(4.9)**	**139.6**	136.3	(6.5)	129.8
Acquisitions		**3.5**	**-**	**3.5**	-	-	-
Total Group operating profit		**148.0**	**(4.9)**	**143.1**	136.3	(6.5)	129.8
Share of operating profit/(loss) in joint venture		**0.1**	**-**	**0.1**	(0.3)	-	(0.3)
Total operating profit		**148.1**	**(4.9)**	**143.2**	136.0	(6.5)	129.5
Business disposal	3	**-**	**5.0**	**5.0**	-	-	-
Net interest payable		**(60.7)**	**-**	**(60.7)**	(57.2)	-	(57.2)
Profit on ordinary activities before taxation		**87.4**	**0.1**	**87.5**	78.8	(6.5)	72.3
Tax on profit on ordinary activities	4			**(18.7)**			(10.8)
Profit on ordinary activities after taxation				**68.8**			61.5
Dividends	5			**(55.1)**			(51.1)
Retained surplus transferred to reserves				**13.7**			10.4
Earnings per share	6						
Before exceptional items and deferred tax							
Adjusted basic				**63.1p**			57.7p
Adjusted diluted				**62.6p**			57.3p
After exceptional items and deferred tax							
Basic				**54.6p**			49.8p
Diluted				**54.2p**			49.5p
Dividend per share	5			**43.0p**			41.0p

All operating activities are continuing operations.

There were no recognised gains or losses, other than the profit for the year, in 2005 and 2004.

PENNON GROUP PLC
SUMMARISED GROUP BALANCE SHEET
for the year ended 31 March 2005

	Note	2005 (unaudited) £m	2004* £m
Fixed assets			
Intangible assets		**63.2**	47.6
Tangible assets		**2,248.1**	2,141.1
Investments		**2.6**	2.6
		2,313.9	2,191.3
Current assets			
Stocks		**4.7**	4.5
Debtors		**100.9**	97.3
Investments and cash		**302.8**	267.7
		408.4	369.5
Creditors: amounts falling due within one year		**(270.9)**	(293.6)
Net current assets		**137.5**	75.9
Total assets less current liabilities		**2,451.4**	2,267.2
Creditors: amounts falling due after more than one year		**(1,366.8)**	(1,234.9)
Provisions for liabilities and charges		**(108.7)**	(94.0)
Deferred income		**(37.8)**	(38.7)
Net assets		**938.1**	899.6
Capital and reserves			
Called-up share capital		**142.0**	137.9
Share premium account		**153.7**	154.2
Profit and loss account		**642.4**	607.5
Shareholders' funds	7	**938.1**	899.6

PENNON GROUP PLC
GROUP CASH FLOW STATEMENT
for the year ended 31 March 2005

	Note	2005 (unaudited) £m	2004* £m
Net cash inflow from operating activities	8	**255.3**	215.1
Returns on investments and servicing of finance		**(59.1)**	(41.3)
Taxation		**(0.4)**	(0.1)
Capital expenditure and financial investment		**(174.7)**	(178.6)
Acquisitions		**(28.6)**	(20.0)
Equity dividends paid		**(28.3)**	(47.0)
Net cash outflow before use of liquid resources and financing		**(35.8)**	(71.9)
Management of liquid resources		**(8.1)**	(62.1)
Financing		**72.5**	155.7
Increase in cash in year		**28.6**	21.7

* Restated (note 2).

PENNON GROUP PLC
SEGMENTAL ANALYSIS BY CLASS OF BUSINESS
for the year ended 31 March 2005

	2005 (unaudited) £m	2004 £m
Turnover		
Continuing operations		
Water and sewerage	**309.8**	291.8
Waste management	**248.3**	183.1
Other	**6.9**	7.3
Less intra-group trading	**(10.8)**	(10.9)
Group total	**554.2**	471.3
Group operating profit		
Continuing operations before exceptional items and goodwill amortisation		
Water and sewerage	**121.7**	118.9
Waste management	**29.8**	22.7
Other	**-**	(2.8)
Total continuing operations before exceptional items and goodwill amortisation	**151.5**	138.8
Group operating profit		
Continuing operations after exceptional items and goodwill amortisation		
Water and sewerage *	**118.3**	118.9
Waste management	**26.3**	20.2
Other *	**(1.5)**	(9.3)
Group total	**143.1**	129.8
Profit on ordinary activities before taxation		
Continuing operations after net exceptional items and goodwill amortisation		
Water and sewerage *	**67.1**	70.1
Waste management	**18.0**	14.7
Other †	**2.4**	(12.5)
Group totals	**87.5**	72.3

* includes the exceptional items (note 3).
† includes the exceptional items (note 3) 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 2005 and 31 March 2004 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 2004 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 Group's accounting policy on the treatment of shares acquired under the Employee Share Ownership Plan has been amended following adoption of Urgent Issues Task Force Abstract 17 (revised 2003) 'Employee Share Schemes' (UITF17 revised 2003) and Urgent Issues Task Force Abstract 38 'Accounting for ESOP Trusts' (UITF38).

The policy adopted by the Group for the treatment of shares acquired under the Employee Share Ownership Plan recognises in the profit and loss account the cost of an award on a straight line basis over the period to which the performance criteria relate and is based on an assessment of the expectations of the extent that those performance criteria will be met. To meet the award, shares are held in a discretionary trust. Until such time as the shares vest unconditionally with the employees, the consideration paid for the shares is deducted in arriving at shareholders' funds. Previously, the shares acquired by the trust were recognised on the balance sheet at cost of acquisition less impairment, being the charge to profits over the period to which the employees' performance related. Any gain or loss on transactions in own shares will be reported through the statement of movements in shareholders' funds.

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

Group balance sheet :
As at 31 March 2004

	Fixed asset investments £m	Profit and loss reserve £m
Previously reported	3.6	608.5
Application of UITF17 (revised 2003)	3.7	3.7
Application of UITF38	(4.7)	(4.7)
Restated now reported	2.6	607.5

The restatement of the profit and loss reserve at 31 March 2004 includes a prior period adjustment of £1.3m at 31 March 2003. There has been no change to the amount recognised as the cost of the awards in the profit and loss account for the year.

Group cash flow statement :
Year ended 31 March 2004

	Capital expenditure and financial investment £m	Financing £m
Previously reported	(179.2)	156.3
Application of UITF38	0.6	(0.6)
Restated now reported	(178.6)	155.7

3 The exceptional items are :

	2005 £m	2004 £m
Abortive acquisition costs	**(1.5)**	(6.5)
Water and sewerage business restructuring costs	**(3.4)**	-
Business disposal proceeds	**5.0**	-
Net exceptional income/(costs)	**0.1**	(6.5)

The exceptional cost of £1.5m (2004 £6.5m) relates to the abortive acquisition of the UK landfill and landfill gas operations of Shanks Group Plc where discussions were terminated on 25 May 2004.

The business disposal profit of £5.0m (2004 nil) relates to the balance of proceeds due from the 1998 arrangement to dispose of the Group's interest in Societa Italo Britannica dell'Acqua Srl (SIBA).

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

	2005 (unaudited) £m	2004 £m
United Kingdom corporation tax at 30%	**7.9**	7.5
Deferred taxation	**10.8**	3.3
	18.7	10.8

5 Dividends

	2005 (unaudited) £m	2004 £m
Interim dividend of 13.8p (2004 13.2p) per share	**17.7**	16.4
Proposed final dividend 29.2p (2004 27.8p) per share	**37.4**	34.7
	55.1	51.1

If approved at the Annual General Meeting on 28 July 2005 the final dividend of 29.2p per share will be paid on 5 October 2005 to shareholders on the register at 5 August 2005.

6 *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 126.0 million (2004 123.5 million).

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 126.9 million (2004 124.3 million).

Adjusted basic and diluted earnings per share

Adjusted earnings per share have been calculated to exclude the impact of the exceptional items 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 :

	2005 Profit on ordinary activities (un-audited)	**Earnings per share Basic**	**Diluted**	2004 Profit on ordinary activities	Earnings per share Basic	Diluted
	£m	**p**	**p**	£m	p	p
Profit on ordinary activities after taxation	**68.8**	**54.6**	**54.2**	61.5	49.8	49.5
Net exceptional items	**(0.1)**	**(0.1)**	**(0.1)**	6.5	5.3	5.2
Deferred tax	**10.8**	**8.6**	**8.5**	3.3	2.6	2.6
Adjusted earnings before exceptional items and deferred tax	**79.5**	**63.1**	**62.6**	71.3	57.7	57.3

The number of ordinary shares in issue at 31 March 2005 was 127.9 million (2004 124.3 million).

7 Statement of movements in shareholders' funds

	2005 (unaudited) £m	2004* £m
Profit on ordinary activities after taxation	**68.8**	61.5
Dividends	**(55.1)**	(51.1)
	13.7	10.4
Adjustment for shares issued under the scrip dividend alternative	**22.8**	1.3
Shares issued for cash consideration	**0.8**	2.1
Purchase of own shares	**-**	(0.6)
Adjustment for shares issued in respect of the Annual Incentive Bonus Plan - Deferred shares	**0.5**	-
Adjustment in respect of employee shares schemes	**0.9**	0.9
Goodwill arising on previously acquired business	**(0.2)**	(3.3)
Shareholders' funds (equity interest) :		
Addition for year	**38.5**	10.8
At 1 April previously reported	**900.6**	890.1
Prior year adjustment (note 2)	**(1.0)**	(1.3)
At 1 April (restated)	**899.6**	888.8
At 31 March	**938.1**	899.6

* Restated (note 2).

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

	2005 (unaudited) £m	2004* £m
Group operating profit	**143.1**	129.8
Depreciation charge	**95.1**	86.1
Amortisation of intangible fixed assets	**3.5**	2.5
Deferred income released to profits	**(1.3)**	(1.2)
Decrease in provisions for liabilities and charges	**(2.4)**	(2.0)
Increase in stocks	**(0.2)**	(0.5)
Decrease/(increase) in debtors (amounts falling due within and over one year)	**7.9**	(4.2)
Increase in creditors (amounts falling due within and over one year)	**10.1**	5.4
Profit on disposal of tangible fixed assets	**(1.4)**	(1.7)
Other non-cash changes	**0.9**	0.9
Net cash inflow from operating activities	**255.3**	215.1

* Restated (note 2).

9 Acquisitions

On 5 April 2004 the entire issued share capital of Thames Waste Management Limited, (now renamed Viridor (Thames) Limited), was purchased by Viridor Waste Management Limited for a cash consideration of £30.8 million, including costs of £0.3 million. Net cash balances acquired were £2.2 million. The acquisition was accounted for using the acquisition method and provisional goodwill arising on the acquisition, amounting to £18.0 million, has been capitalised and will be amortised evenly over the Directors' estimate of useful economic life, which is 20 years.

In November 2004 the entire issued share capital of Mac-Glass Recycling Limited was purchased by Viridor Waste Management Limited through the issue of loan notes by Pennon Group Plc of £0.9 million. The acquisition was accounted for using the acquisition method and provisional goodwill arising on the acquisition, amounting to £0.9 million, has been capitalised and will be amortised evenly over the Directors' estimate of useful economic life, which is 20 years.

10 Analysis of net debt

	At 1 April 2004	Cash flow	Acquisitions (excluding cash items)	Non-cash movements	**At 31 March 2005 (unaudited)**
	£m	£m	£m	£m	**£m**
Cash at bank and in hand	14.0	(9.6)	-	-	**4.4**
Current asset investments:					
Overnight deposits	13.5	36.3	-	-	**49.8**
Bank overdrafts	(7.0)	1.9	-	-	**(5.1)**
	20.5	28.6	-	-	**49.1**
Debt due within one year (other than bank overdrafts)	(79.7)	75.2	(1.1)	(14.8)	**(20.4)**
Debt due after more than one year	(491.5)	(95.0)	-	14.8	**(571.7)**
Finance lease obligations	(763.6)	(51.9)	(0.3)	(8.6)	**(824.4)**
	(1,334.8)	(71.7)	(1.4)	(8.6)	**(1,416.5)**
Current asset investments:					
Other than overnight deposits	240.2	8.1	-	0.3	**248.6**
	(1,074.1)	(35.0)	(1.4)	(8.3)	**(1,118.8)**

Non-cash movements include transfers between categories of debt for changing maturities, increased accrued finance charges within finance lease obligations and increased accrued interest on unlisted investments.

11 The Annual Report for 2004/05 will be issued to shareholders on 27 June 2005.

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

Registered in England No 2366640

www.pennon-group.co.uk