



Pennon Group Plc

Preliminary Results 2006/07
31 May 2007

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Pennon Group Plc (“Pennon Group”)

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2006/07 Financial Highlights

- Operating profit ⁽¹⁾ up 14.2% to £201.8m
 - South West Water up 10.8% to £156.8m
 - Viridor up 30.4% to £46.8m
- Profit before tax⁽²⁾ up 18.2% to £131.1m
- Earnings per share up 20.2% to 30.3p ⁽³⁾
- Dividend
 - Recommended final dividend per share up 8.5% to 12.7p
 - Full year dividend up 7.8% to 18.55p
 - Dividend policy of 3% per annum real increases until 2009/10
- 3 for 1 stock split took place July 2006

⁽¹⁾ Before amortisation of intangibles, and exceptional items in 2005/06

⁽²⁾ Before exceptional items in 2005/06

⁽³⁾ Before deferred tax, and exceptional items in 2005/06

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2006/07 Operational Highlights

South West Water:

- On target to deliver 2005 – 2010 Regulatory Contract
- Profit increase reflecting strong growth in RCV which is forecast to reach £2.6bn by end of K4
- South West bathing waters 100% compliant with mandatory standards (all 144 beaches for the first time)
- Tenth consecutive year without hosepipe bans and drought orders
- Drinking water quality sustained at all time high as direct result of mains rehabilitation
- Capital investment of £184.0m, 117% of operating profit
- All major projects delivered in line with Ofwat/DWI/EA expectations
- Preparing for PR09

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2006/07 Operational Highlights

Viridor:

- Particularly strong growth in operating profits
- Preferred bidder (consortium with John Laing) status achieved for Greater Manchester Waste PFI
- Wyvern Waste acquisition fully integrated and earnings enhancing in first 10 months
 - long-term PPP contract secured with Somerset County Council
- Skipaway acquired in February for £14.7m
- Lakeside (joint venture with Grundon) energy from waste plant under construction and on schedule to open in calendar 2008
- Other significant new developments



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Summary Financial Results

	2006/07	2005/06	Change
	£m	£m	%
Group revenue	748.3	645.7	15.9
Group operating profit ⁽¹⁾ ⁽²⁾	201.8	176.7	14.2
Group profit before tax ⁽²⁾	131.1	110.9	18.2
Earnings per share ⁽²⁾ ⁽³⁾ ⁽⁴⁾	30.3p	25.2p	20.2
Dividends per share ⁽⁴⁾	18.55p	17.2p	7.8

⁽¹⁾ Before amortisation of intangibles

⁽²⁾ Before exceptional items in 2005/06

⁽³⁾ Before deferred tax

⁽⁴⁾ Adjusted for stock split

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Cash Flow

	2006/07	2005/06
	£m	£m
Cash inflow from operations	313.7	276.3 ⁽¹⁾
Net interest paid	(51.4)	(106.4)
Dividends and tax paid	(73.0)	(36.3)
Capital expenditure	(246.4)	(213.8)
Acquisitions/disposals	(36.3)	(40.8)
Pensions prepayment	(8.6)	(44.2)
Net cash outflow	(102.0)	(165.2)
Shares issued	1.9	1.6
Own shares acquired	(5.8)	-
B Share payments	(5.7)	(137.8)
Non-cash movements	(18.6)	(7.5)
Increase in net borrowings	(130.2)	(308.9)

⁽¹⁾ Including exceptional items in 2005/06

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Net Borrowings

	As at 31 March	
	2007	2006
	£m	£m
Loans and finance leases		
- over one year	1,599	1,472
- under one year	86	54
	<hr/>	<hr/>
	1685	1,526
Less: investment and cash	(128)	(99)
	<hr/>	<hr/>
Net debt	1,557	1,427
Net gearing ⁽¹⁾	71%	71%
SWW debt/RCV	62%	62%

- ***Gearing stable***

⁽¹⁾ Debt to equity + debt

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Net Debt Analysis as at 31 March 2007

	£m
Finance leasing	1,082
Bank bilaterals - RCFs/term loans	258
EIB	232
Private placement	100
Other	13
Total gross debt	<u>1,685</u>
Less: Cash/liquid investments	<u>(128)</u>
Total net debt	<u>1,557</u>

- *Key role of finance leasing*

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Net Interest Payable

	2006/07	2005/06 ⁽¹⁾
	£m	£m
Interest payable	(98.3)	(96.8)
Interest receivable	29.1	32.5
Net interest payable	<u>(69.2)</u>	<u>(64.3)</u>
Average rate of interest	4.6%	5.1%
Net interest cover	2.9x	2.7x

- ***Effective management of interest rates – SWW: 4.3%***

⁽¹⁾ Before exceptional items in 2005/06

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Efficient Financing Strategy

- Funding strategy uses mix of fixed, floating and index-linked rate borrowings
 - Locks in benefit of low interest rates compared to Ofwat assumptions
 - Circa 60% of SWW projected debt fixed to March 2010
 - Circa 10% SWW current debt index-linked to 2041
- New financing initiatives
 - £180m 20 year finance lease extension
 - £100m 4.13% private placement
 - £85m finance lease drawdown for water mains rehabilitation
- ***Average debt maturity extended from 12 to 16 years***
- ***Committed funding in place for SWW up to March 2009***
- ***Debt 'fair value' benefit up from £48m to £117m***

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Fair Value of non-current borrowing

	YE 31/03/07		YE 31/03/06	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
	£m	£m	£m	£m
Finance Leases	1,033	921	927	884
Private Placement	100	100	-	-
EIB	216	211	232	227
Bank Loans	250	250	313	313
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	1,599	1,482	1,472	1,424
		<u>117</u>		<u>48</u>

- *Benefit of Fair Value over Book Value*

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Taxation

	2006/07	2005/06
	£m	£m
UK corporation tax	23.9	14.8 ⁽¹⁾
Deferred tax	13.3	20.2
	<u>37.2</u>	<u>35.0</u>

- **Mainstream tax charge 18% (2006 – 13%)**

⁽¹⁾ Before net tax relief of £18.7m relating to exceptional items

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Pensions

- Pension deficit of £41m at 31 March 2007 (2006 - £42m)
 - updated longevity assumption (additional £16m liability) offset by higher market discount rate and further contribution prepayment £9m
- Net deficit represents just over 1% of market capitalisation
- Pension fund assets £348m
Pension fund liabilities £389m
£(41)m = £(29)m net of tax
- Actuarial valuation 2007

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Dividends

- Progressive dividend policy: 3% real until 2009/10
- Recommended final dividend up 8.5% to 12.7p
- Full year dividend up 7.8% to 18.55p
- DRIP alternative
- Dividend cover maintained at 1.6x (before deferred tax, and exceptional items in 2005/06)



South West Water

Financial Performance Summary

	2006/07	2005/06
	£m	£m
Revenue	381.5	348.5
Operating profit	156.8	141.5 ⁽¹⁾

- **Revenue up by 9.5%**
- **Operating profit up by 10.8%**

⁽¹⁾ Before exceptional costs of £14.5m

South West Water Revenue

- Increase of £33.0m (9.5%) in year. Reflects impact of

	£m
- tariff increase	43.0
- meter option switchers	(8.0)
- new connections	3.1
- demand	(5.1)
	<hr/>
	33.0
	<hr/>

- ***Number of meter switchers*** ***26,500***
- ***Number of new customers*** ***7,100***
- ***Over 57% of domestic customers now metered***
- ***Existing metered customers' volume usage -2.9%***

South West Water Operating Costs

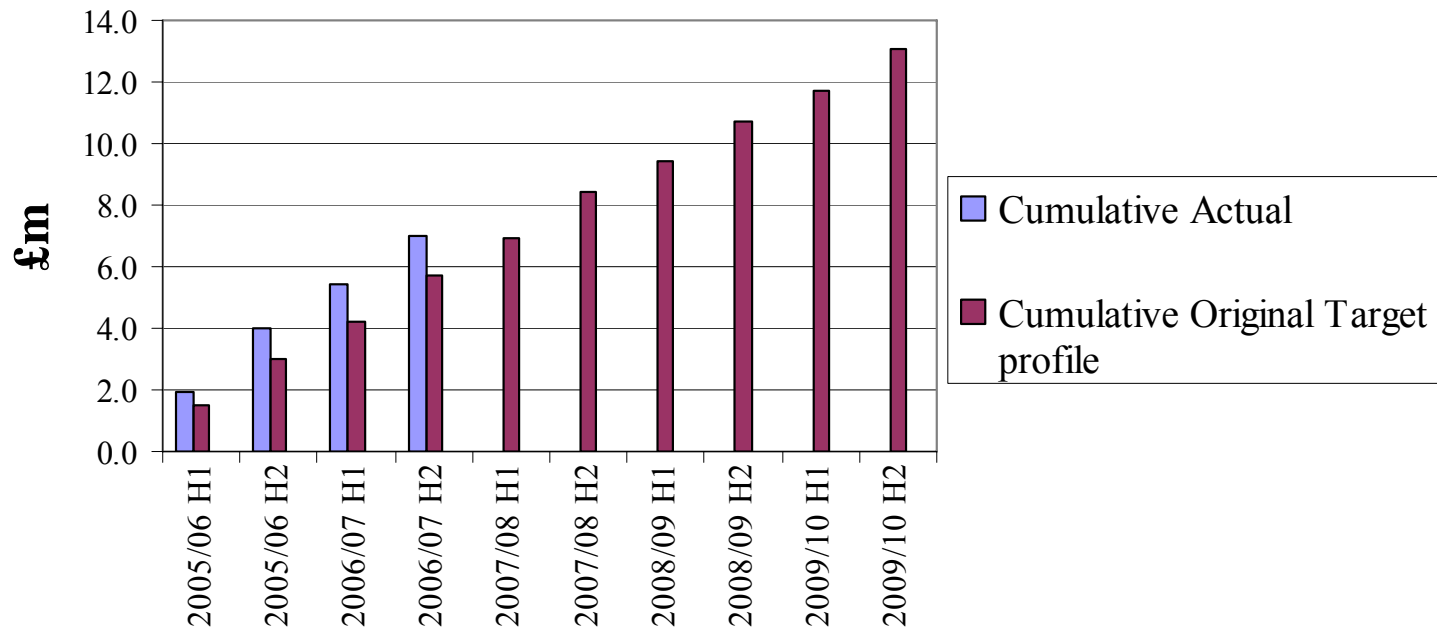
	2006/07 £m	2005/06 ⁽¹⁾ £m
Total operating costs	224.7	207.0
<u>Less</u> depreciation charges	(77.7)	(71.9)
Operating costs before depreciation charges	147.0	135.1
Cash costs:		
- inflation (including power costs (£5.5m) and chemicals)	10.2	
- new capital schemes	2.7	
- other (including infrastructure opex and net of profit on disposal of fixed assets £1.1m)	2.0	
- efficiency savings	(3.0)	

- ***Bad debts rising more slowly than tariff increases***
- ***Power prices for 2007/08 fixed at c.£2.5m better than 2006/07***

⁽¹⁾ Before exceptional costs of £14.5m

South West Water

K4 Efficiency Achievement versus Target



- **K4: £7m efficiency savings to date**

South West Water *Capital Programme*

- Capital expenditure 2006/07 – £184m (2005/06 – £191m)
 - 638km water mains replaced/refurbished (2005/06 – 695km)
 - reflecting switch to urban areas
- K4 capital programme on track
 - investment to date £375m (outturn prices)
 - all major projects delivered in line with Ofwat/DWI/EA expectations
- K4 capital programme of £762m (2002/03 price base)
 - **on track to achieve 5% outperformance**

South West Water Regulatory Capital Value

Year End	2005	2006	2007	2008	2009	2010
	£m	£m	£m	£m	£m	£m
At 2002/03 prices ⁽¹⁾	1847	1929	1994	2042	2095	2136
Actual/expected outturn prices ⁽²⁾	1956	2091	2265	2379	2501	2614

- ***34% growth in RCV 2005-10 – highest percentage increase of any quoted water company***
- ***Growth in RCV significantly exceeding growth in net debt (excluding effect of capital return)***

⁽¹⁾ Source: Ofwat

⁽²⁾ Source: South West Water

South West Water

Delivering K4: Operational Performance – on track

- No hosepipe bans or drought orders – 10th consecutive year
- Ofwat leakage target met every year
 - lowest ever leakage level achieved in 2006/07
- Drinking water quality – high quality sustained
- Waste water quality – all time high
- Bathing waters - 100% compliant for first time
- OPA improvement maintained

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Delivering K4: Operational Performance – on track (cont)

- “Service+” successfully launched
- New call centre telephony platform now operating
- New debt recovery system under development
- Stakeholder engagement plan making impact
- “WaterCare” successfully launched
- Organisational restructuring – expected 2007/08 £3-4m provision

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Looking to the future

- Customer contact/billing contract re-tendering is underway
- “Service+” phase 2 under development
- Examining tariff structures to address affordability and sustainability
- “Puros” launched - service excellence/operational efficiency from more centralised operation
- “Rightsourcing” review – optimal internal/external resource

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PR09 - Timetable

- Customer and stakeholder engagement well underway
- Ofwat methodology consultation paper – October 2007
- Strategic Direction Statement – October 2007
- Draft Business Plan – late summer 2008
- Final Business Plan – spring 2009
- Final Determination – November 2009

South West Water

PR09 – Likely Investment Drivers

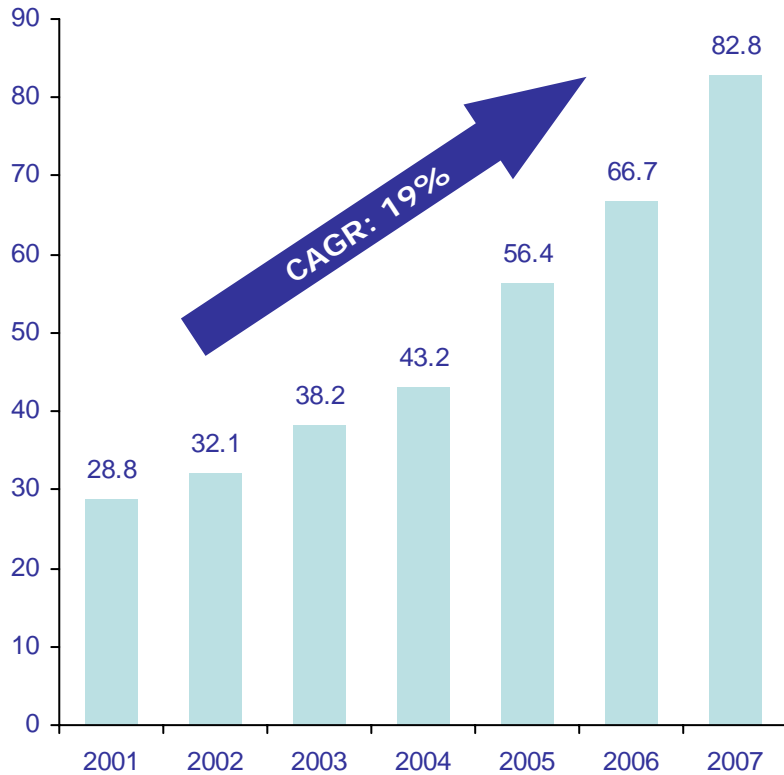
- Quality – revised bathing water and water framework directives
- Adoption of private sewers
- Supply/demand focus and climate change impacts
- Enhanced focus on sustainability and energy efficiency
- Capital maintenance – reinvestment in 1990s asset stock
- Above average population growth

Viridor

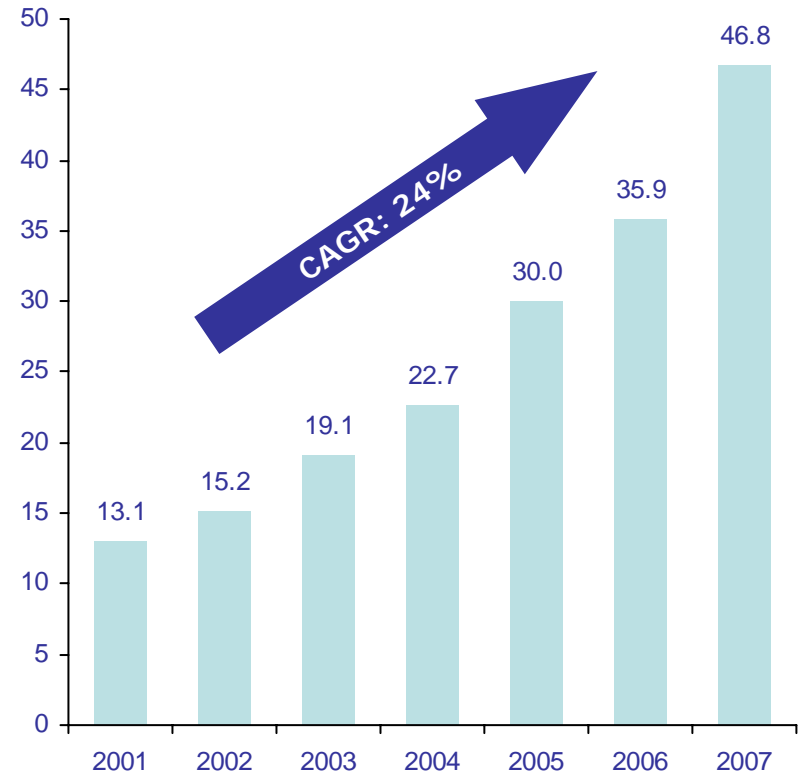
Viridor

Continuing to Deliver Strong Financial Performance

EBITDA



PBITA



Viridor

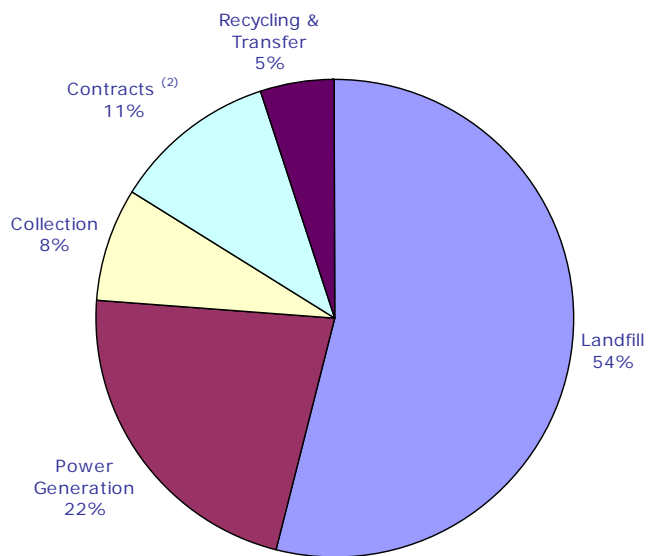
2006/07 Financial Highlights: particularly strong growth

- At beginning of year projected continued moderate growth in PBITA
- Revenue increased by £68.8m (23%) to £367.7m
 - acquisitions (Brett full year, Wyvern and Skipaway) accounted for £39.6m and underlying business £29.2m
 - includes increase in landfill tax of £21.7m
- EBITDA increased by £16.1m (24.1%) to £82.8m
- PBITA increased by £10.9m (30.4%) to £46.8m
 - £6.1m due to acquisitions
 - one-off disposal profit of £0.6m
 - excluding the above, existing business grew £4.2m or 12.6%
- Capex £60.9m (2005/06 £58.9m)

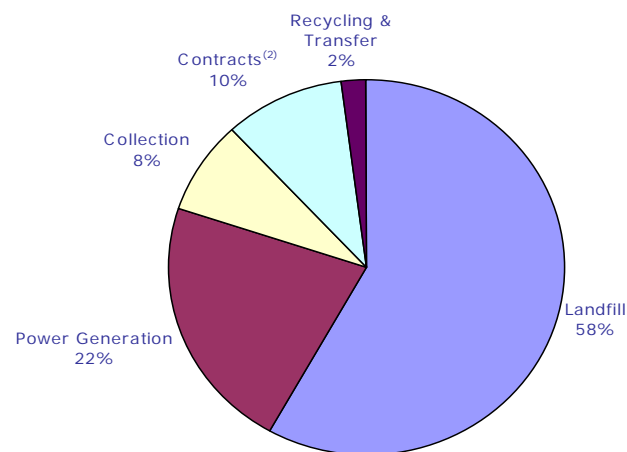
Viridor

Profit Contribution by Segment ⁽¹⁾

Year Ended 31 March 2007



Year Ended 31 March 2006



⁽¹⁾ Contribution before intangibles and central overheads (incl pensions)

⁽²⁾ "Contracts" include West Sussex PFI, other civic amenity contracts and sludge contracts

Viridor

Operational and Business Highlights – Landfill

- Total volumes increased by 9% to 4.7m tonnes
 - excluding acquisitions held constant at 4.3m tonnes
- Average gate fees increased by 7% (to £19 per tonne)
- Margin per tonne increased by 50p (now exceeds £6)
- Consented landfill capacity grew from 87m cubic metres 31 March 2006 to 90m cubic metres 31 March 2007 reflecting:
 - Wyvern acquisition 5
 - usage (6)
 - net planning gains (at 4 sites) 4

Viridor

Operational and Business Highlights – Power Generation

- Total landfill gas power generation increased by 15% to 423GWH
- Average price increased 4.3% to £62 per MWH
 - reflecting strong brown energy prices and ROCs premium
 - timing of open market sales for 2006/07 particularly favourable; 2007/08 brown energy price lower
- Total capacity⁽¹⁾ grew 14 MW from 61 MW at 31 March 2006 to 75 MW at 31 March 2007 (of which Wyvern contributed 7 MW)
- 50% ROCs; 50% NFFO at 31 March 2007

(1) Excludes 3 MW sub-contract in Suffolk

Viridor

Wyvern Waste Acquisition/Somerset PPP

- In May 2006 completed acquisition of Wyvern Waste for £25m (including £3m cash on balance sheet) and entered into 25 year Public Private Partnership agreement with Somerset County Council
- Integration complete and the business is significantly earnings enhancing in its first ten months

Viridor

Greater Manchester Waste PFI Contract

- Viridor/Laing consortium announced as preferred bidder in January 2007
 - expect to sign and commence operations in the current financial year
- 1.4m tonnes per annum with total capex of around £300m
- In addition, Viridor one of the nominated landfill contractors for 5 years from April 2008

Viridor

Lakeside Energy from Waste Plant

- Joint venture with Grundon Waste Management
 - 400kt and up to 37MW energy from waste plant at Colnbrook near Heathrow
 - £160m capex, 86% non-recourse debt with balance split equally between equity providers
 - under construction and on schedule to open second half calendar 2008

Viridor

Lakeside Energy from Waste Plant – under construction



Viridor

Lakeside Energy from Waste Plant – artist's impression



Viridor

Other Significant New Developments

- **Poole** recycling and disposal contract 70kt pa extension to 2027
- **Plymouth** landfill contract 120kt pa for 7 years starting in April 2008
- **South Lanarkshire** 5 year landfill and 7 year recycling contracts totalling £20m
- Preferred bidder for medium term disposal contracts with **West Sussex** and **Suffolk** County Councils
- **Skipaway** acquired for £14.7m in February 2007
 - 3 transfer stations plus associated collection and recycling in Kent
 - handles 240kt of material per annum
- Planning application submitted for 60kt energy from waste facility in **Exeter**



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Summary

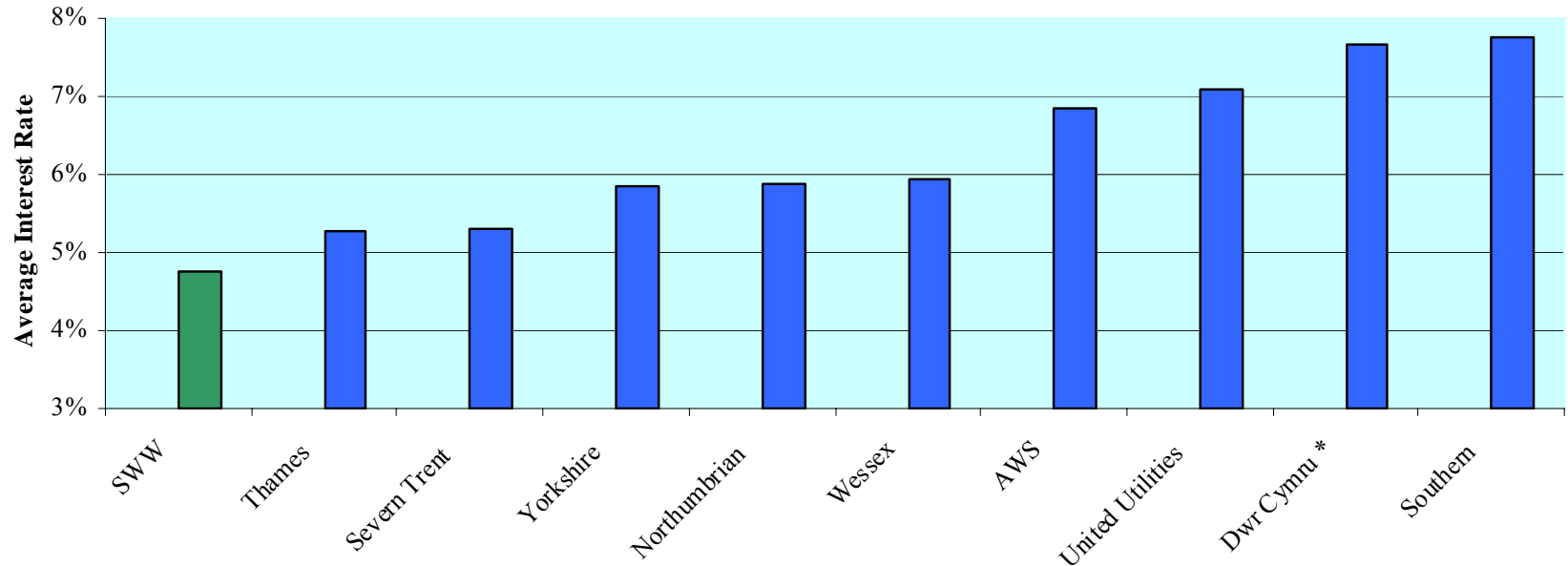
- An excellent year
- Strategy clearly focused on water, sewerage and waste management
- **South West Water**
 - delivery of K4 contract well under way
 - strong growth in K4 RCV reaching £2.6bn by March 2010
 - preparing for PR09
- **Viridor** delivering strong growth by
 - capitalising on landfill asset base
 - exploiting landfill gas power generation opportunities
 - PFIs/PPPs/Lakeside
- Efficient financing



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Appendix A

**Water Industry 2005/06 Average Interest Rate
(Pre Exceptional Items)**



Source: Pennon calculation based on Annual Reports and Regulated accounts

Basis: Net Interest Payable/Average Net Debt

* Accounts prepared under IFRS