PENNON
GROUP PLC

Preliminary Results

24 May 2011

Pennon Group Plc ("Pennon Group")

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Pennon Group Plc

2010/11 Financial Highlights

- Profit before tax up 1.5% to £188.5m[(1)]
  - South West Water down 0.5%[(1)]
  - Viridor up 14.2%
- Underlying earnings per share[(1)] [(2)] up 3.7% to 42.3p
- Dividend
  - Recommended final dividend per share up 9.9% to 17.15p
  - Full year dividend up 9.3% to 24.65p
- Strong liquidity and funding position
  - £400m new/refinanced facilities since 31 March 2010
  - £825m cash/facilities at 31 March 2011
- Group businesses well positioned in current economic conditions

(1) *Reflects the application of IFRIC18 "Transfers of assets from customers", effective from 1 July 2009*
(2) *Underlying earnings per share exclude deferred tax*

Pennon Group Plc

2010/11 Operational and Business Highlights

South West Water

- Strong start to the new 2010 – 2015 regulatory contract
- Profit before tax stable despite reduced allowed rate of return
- Step change in operating efficiency delivered
- Average funding cost 4.0%
- 2010 fourteenth consecutive summer without hosepipe bans or drought orders; no water restrictions envisaged summer 2011
- Industry leader in tackling leakage - target achieved despite coldest December in England in the last 100 years

Pennon Group Plc

2010/11 Operational and Business Highlights

Viridor

- Continued strong growth in profit, driven by
  - further progress in recycling
  - Greater Manchester 25 year PFI contract
  - Lakeside Energy from Waste (EfW) plant
- 46% of profits from recovering value in waste
- Runcorn EfW Plant Phases I and II under construction
- 25 year Oxfordshire PPP contract signed
- Planning permissions achieved for Cardiff, Dunbar, Oxfordshire [1] and Avonmouth [1][2] EfWs
- c.£50m of acquisitions of recycling companies in key strategic areas

(1) *Secretary of State's planning decision subject to challenge*
(2) *Post year-end*

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Pennon Group Plc

Summary Financial Highlights

	2010/11 £m	2009/10 (Restated) [1] £m	Increase/ (decrease)
Group revenue	1,159.2	1,068.9	8.4%
Group operating profit	260.9	266.3	(2.0%)
- SWW	189.8	193.5	(1.9%)
- Viridor	71.6	72.8	(1.6%)
Viridor PBIT plus joint ventures	*82.6*	*77.0*	*7.3%*
Group profit before tax	188.5	185.8	1.5%
- SWW	128.9	129.5	(0.5%)
- Viridor	62.9	55.1	14.2%
- Plc	(3.3)	1.2	
Earnings per share [2]	42.3p	40.8p	3.7%
Dividend per share	24.65p	22.55p	9.3%

(1) *Restated for the application of IFRIC 18 (effective from 1 July 2009) in SWW*
(2) *Underlying – before deferred tax*

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Cash Flow

	2010/11 £m	2009/10 (Restated) [1] £m
Cash inflow from operations	411.8	381.8
Net interest paid	(63.8)	(69.7)
Dividends paid	(56.8)	(63.8)
Tax paid	(43.2)	(3.8)
Capital expenditure	(185.6)	(193.7)
Acquisitions and investment in joint ventures	(37.6)	(40.1)
Pension contributions	(35.6)	(16.4)
Net cash outflow	(10.8)	(5.7)
Shares issued	1.6	1.9
Equity component of convertible bond issued	-	10.0
Debt acquired with acquisitions	(22.0)	(5.4)
Non-cash movements	(7.3)	(4.1)
Increase in net borrowings	(38.5)	(3.3)

(1) *Restated for the application of IFRIC18 (effective from 1July 2009) in SWW*

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Net Borrowings

	As at 31 March 2011 £m	2010 £m
Loans and finance leases		
- over one year	2,390	2,160
- under one year	99	229
	2,489	2,389
Less: cash and cash deposits	(555)	(494)
Net borrowings	1,934	1,895
Net gearing [1]	71%	74%
SWW debt/RCV	57%	61%

- **Gearing reduced**
- **Significant pre-funding for SWW & Viridor**
- **Net debt includes £46m for EfW plant under construction (Runcorn II)**

[1] *Net debt / (equity + net debt)*

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Net Debt Analysis as at 31 March 2011

	£m
Finance leasing	1,214
Bank bilaterals - RCFs/term loans	403
EIB	274
Index linked bond 2057	229
Bond 2040	132
Private placements	100
Convertible bond	115
Other	22
Total gross debt	2,489
Less: Cash/liquid investments	(555)
Total net debt	1,934

- **Key role of finance leasing**
- **Diversified funding sources**

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Net Interest Payable (1)

	2010/11 £m	2009/10 £m
Interest payable	(90.0)	(87.4)
Interest receivable on shareholder loans to joint ventures	6.7	3.1
Other interest receivable	6.1	6.1
Net interest payable	(77.2)	(78.2)
Average rate of interest	4.0%	4.1%
Net interest cover	3.4x	3.4x

- **Growing contribution from shareholder loans to JVs**
- **Effective management of interest rates**
  - **Group 4.0%**
  - **SWW 4.0%**
- **Average interest rate impacted by the cost of carry of pre-funding**
  - **SWW rate comprises debt interest cost 3.5% and cost of pre-funding 0.5%**
- **Higher Plc interest costs from the pre-funding of Viridor investment**

(1) *Excludes pensions net interest, discount unwind on provisions and IFRIC12 "Contract interest receivable"*

Pennon Group Plc

Efficient Financing Strategy

- Mix of fixed, floating and index-linked rate borrowings
  - locks in benefit of low interest rates versus OFWAT assumptions
  - c.24% of SWW current debt index-linked to 2041-2057
- 50% of SWW net debt fixed for K5
  - in line with Group Policy
  - weighted average rate of 3.8%
- Significant finance leasing with long maturity and secured margins
- New financing initiatives in 2010/11
  - £340m new/refinanced facilities since 31 March 2010 including the SWW £150m 2040 Bond
  - US$100m longer-term facility
- £125m EIB loan under negotiation

- **Average debt maturity 23 years**
- **Index-linked debt: average real rate 1.66%**

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Fair Value of Indebtedness

	As at 31 March 2011			As at 31 March 2010		
	Principal Value £m	Fair Value £m	Diff £m	Principal Value £m	Fair Value £m	Diff £m
Finance Leases	1,214	987	227	1,205	968	237
Bank bilaterals – RCFs/term loans	403	403	-	250	250	-
EIB	274	241	33	274	236	38
Index-linked bond 2057	229	183	46	219	190	29
Bond 2040	150	147	3	-	-	-
Private placements	100	83	17	200	199	1
Convertible bond	125	162	(37)	125	141	(16)
	2,495	2,206	289	2,273	1,984	289

- **'Fair value' benefit unchanged at £289m**

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Liquidity

- Cash balances of £555m at 31 March 2011 (includes c.£123m deposits with Letter of Credit providers and lessors)

- Undrawn facilities of £270m at 31 March 2011

- Committed funding in place for South West Water up to March 2014
  - c.£165m will mature over the rest of K5 (c.9% of SWW gross debt)
  - c.£290m due to mature in K6

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Taxation

	2010/11 £m	2009/10 £m
UK corporation tax	38.6	43.0
Deferred tax	3.4	1.3
Deferred tax reduction on change of corporation tax rate	(25.1)	-
	16.9	44.3

- **Mainstream tax charge 20% (2009/10 - 23%)**

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Pensions as at 31 March 2011

- Gross pension deficit of £86m (March 2010 - £108m)
  - £64m net of tax (March 2010 - £78m)

	March 2011	March 2010
• Pension schemes' assets	£454m	£402m
Pension schemes' liabilities	£540m	£510m
	£86m = £64m net of tax	£108m = £78m net of tax

- **Actuarial valuation (as at 31 March 2010) now completed**
- **SWW cash contributions within Ofwat's Final Determination**
- **Net deficit less than 3% of Group's market capitalisation**

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Dividends

- Recommended final dividend up 9.9% to 17.15p
- Full year dividend up 9.3% to 24.65p, reflecting RPI of 5.3% to March 2011
- Scrip dividend alternative

SOUTH WEST WATER

South West Water

Financial Performance Summary

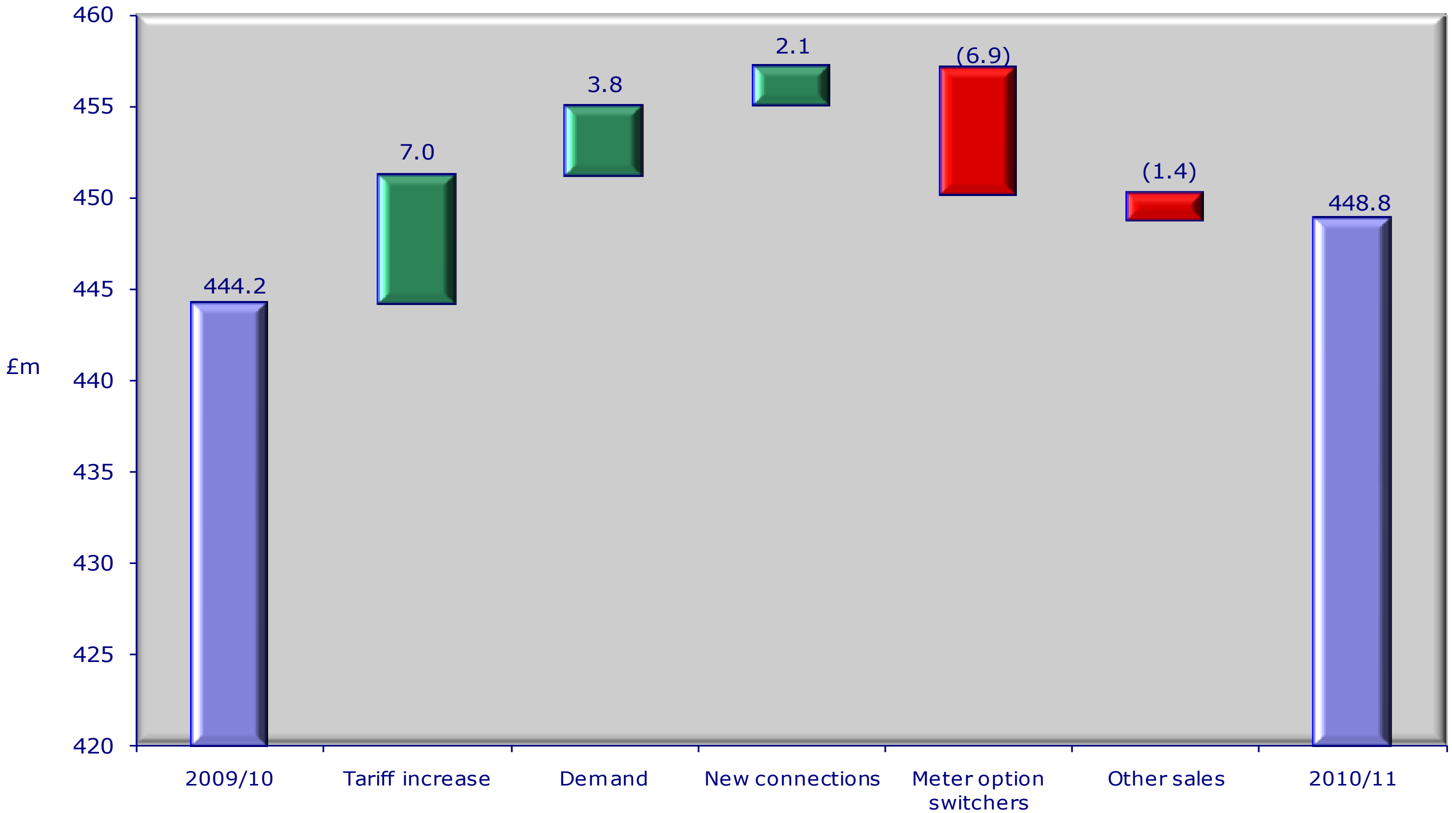
	2010/11 £m	2009/10 (Restated [1]) £m
Revenue	448.8	444.2
Operating profit [1]	189.8	193.5
Profit before tax	128.9	129.5

- Profit before tax stable despite lower rate of return following 2009 Final Determination

(1) *Reflects the application of IFRIC18 "Transfers of assets from customers", effective from 1 July 2009*

South West Water

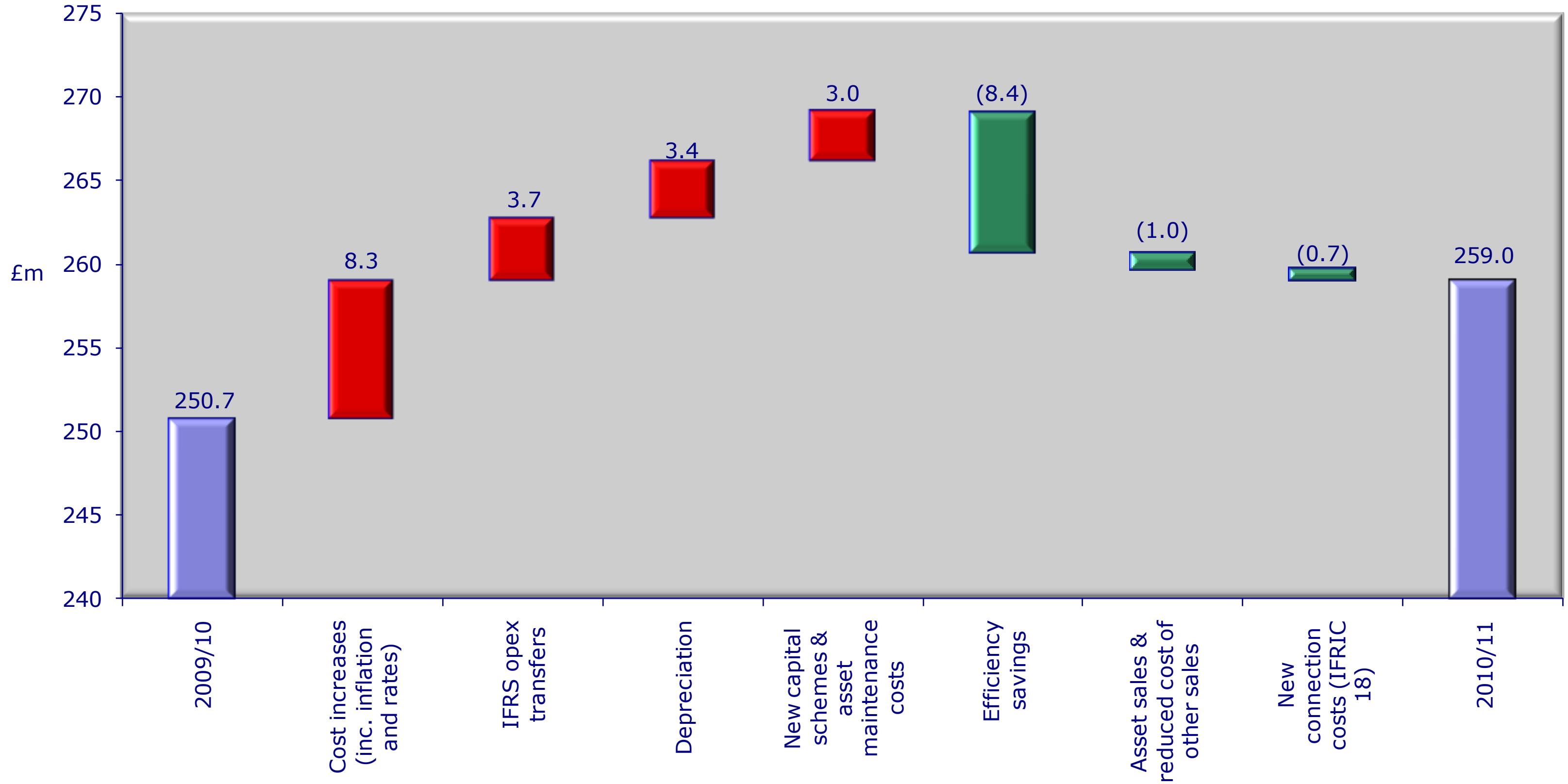
Revenue



- Tariff increase of 1.4% (inc RPI)
- Increased demand of 1.3% reflecting summer usage
- Continued programme of domestic meter optants – 71% of domestic customers now metered

South West Water

Operating Costs

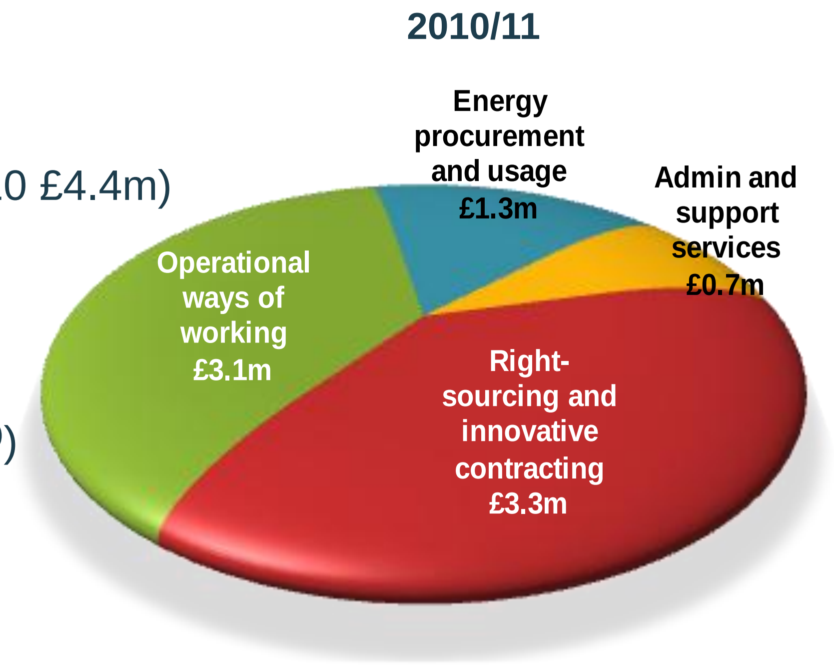


- Step change in operating cost efficiency - efficiency savings offsetting cost increases
- Cost increases from rates and higher accounting charges for pensions
- Cost increases lower than headline rate of inflation
- New capital scheme costs and depreciation reflects growing asset base

South West Water

Operating Cost Efficiency

- K5 opex efficiency target 2.8% [(1)] pa
  - step change required
  - focus on front loaded delivery
  - targeting highest efficiency band rating
- 2010/11 efficiency of £8.4m (5.8%) (2009/10 £4.4m)
- Efficiency delivery
  - right-sourcing and innovative contracting
  - operational ways of working (PUROS [(2)])
  - energy procurement and usage (94% fixed for K5)
  - rationalising administration and support services

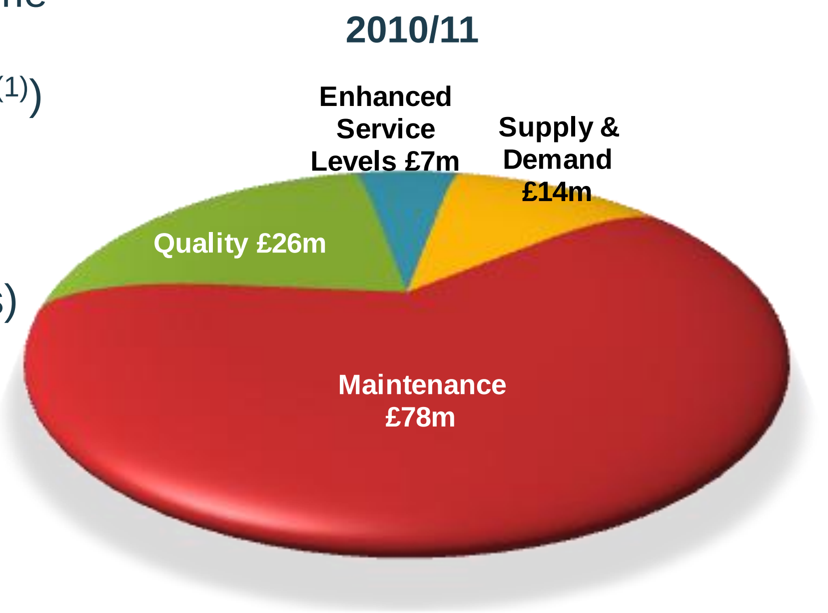


(1) *Average over K5*

(2) *PUROS – Phased Utilisation of Remote Operating Systems*

South West Water
Capital Programme

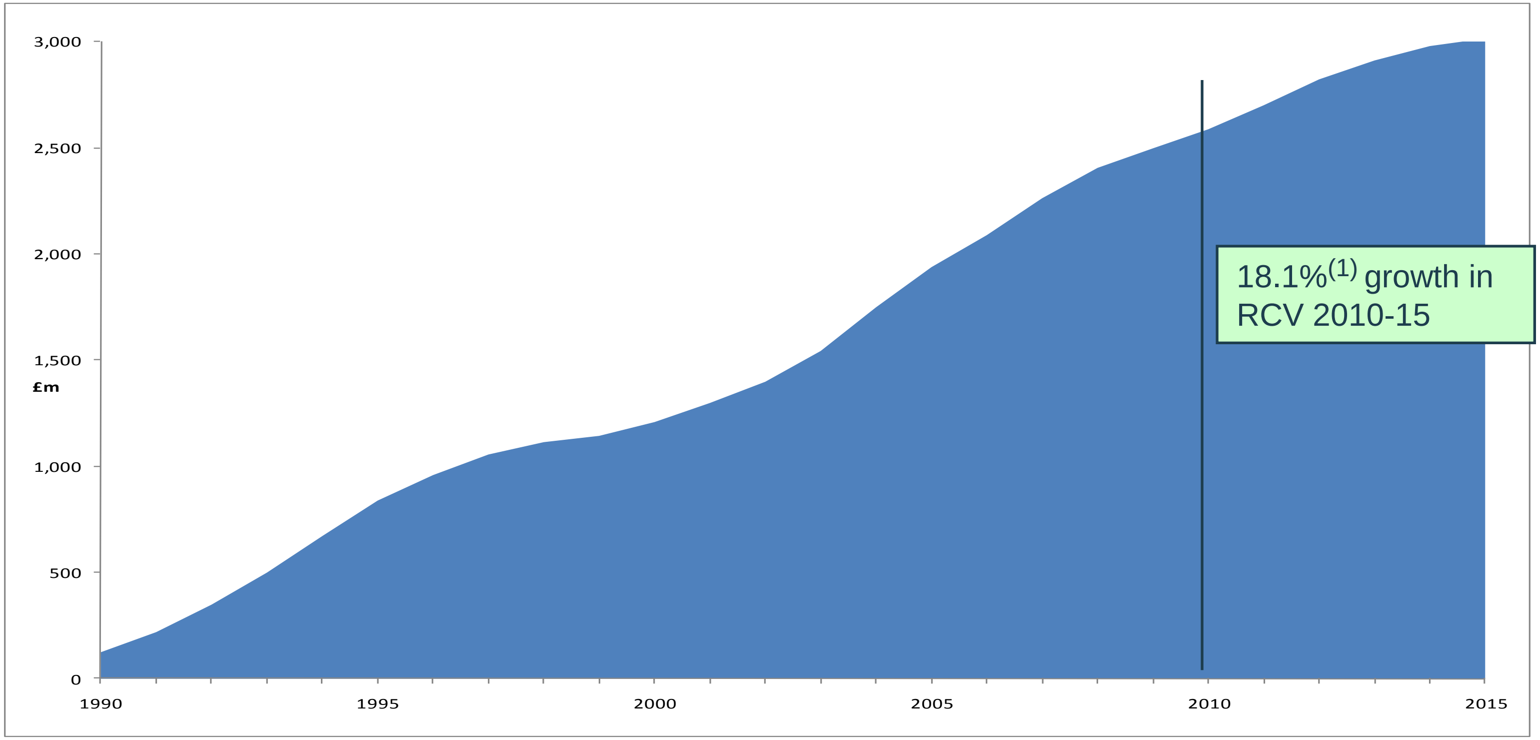
- Maintenance focused K5 investment programme
- Expenditure £125m 2010/11 (2009/10 £145m [(1)])
  - Exeter WTW flood defence scheme completed
  - Stannon & Park Lakes both online for Summer 2011 (4th & 5th largest reservoirs)
  - maintenance expenditure focused on maintaining excellent tap water quality
- Expenditure lower than CIS [(2)] baseline in 2010/11
- Targeting continued below CIS baseline expenditure and 5% outperformance of FD [(3)]



(1) Prior year includes £20.9m water mains rehabilitation project and K5 advance spend of £9.7m
(2) CIS – Ofwat's Capital Incentive Scheme
(3) Performance based on COPI assumptions in Final Determination

South West Water

Shareholder Value



- Growth in RCV is expected to continue to exceed growth in net debt
- RCV of £2,703m at 31 March 2011, debt/RCV gearing 57%
- RCV growth benefiting from higher inflation forecasts
- Future investment will further increase RCV growth
  - private sewers adoption, water framework and revised bathing water directives (c£50m-£100m)

(1) *Outturn prices growth for K5 based on RPI 3.5% for 2011/12, 3.3% average thereafter*

South West Water

Operational Highlights: Delivering the Regulatory Contract - I

- Annual and 3 year rolling leakage targets achieved - despite severe winter
- No hosepipe bans or drought orders – 14th consecutive summer
  - anticipating 15th consecutive summer in 2011
  - Park and Stannon reservoirs both on stream 2011
- Water quality 99.97% – industry-leading
- Asset serviceability - stable

South West Water

Operational Highlights: Delivering the Regulatory Contract - II

- SIM [(1)] plans and targets in place
  - customer complaints reduced for second year running. Written complaints down by a quarter

- Step change in operational cost efficiency delivered
  - £4m restructuring costs in 2010/11 (£3m expected in 2011/12)

- Bad debt charge broadly stable
  - schemes assisting vulnerable customers in place
    - FreshStart and Watercare schemes
    - funded debt advice programme for vulnerable customers
  - Government commitment to assist customers in South West welcomed

[(1)] *Service Incentive Mechanism*

South West Water

Operational Highlights: Delivering the Regulatory Contract - III

- Protecting and enhancing the environment
  - bathing waters - record percentage (90.3%) achieved ‘excellent’ standard
  - national leadership on catchment management – Upstream Thinking
  - pioneered bathing water management projects

- Arrangements in place for private sewer transfer
  - incremental operating and capital costs incurred will be funded by future adjustments to price limits

- **Strong start to new regulatory contract**
- **Solid financial performance**

Viridor

Viridor

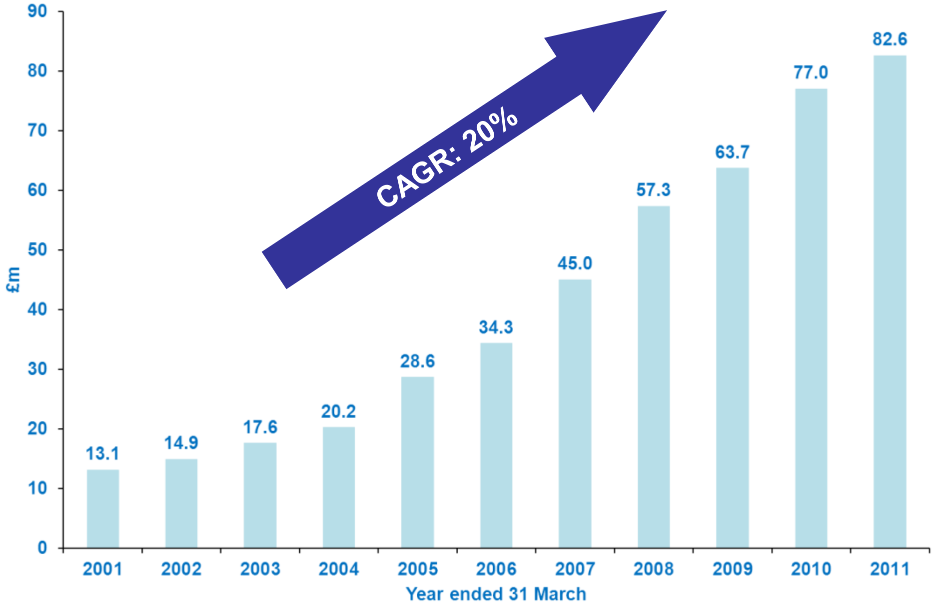
Strategy and 2010/11

- Strategy is to grow and add value by
  - proactively developing new recycling operations to meet ambitious EU/UK targets
  - successfully exploiting the huge potential in waste-based renewable energy generation
  - capitalising on strong position in landfill waste disposal
- At the beginning of the year
  - we projected moderate overall profit growth (including JVs' contribution), despite impact of lower landfill gas power generation prices
  - we highlighted a number of strategic EfW plants held up in the planning process

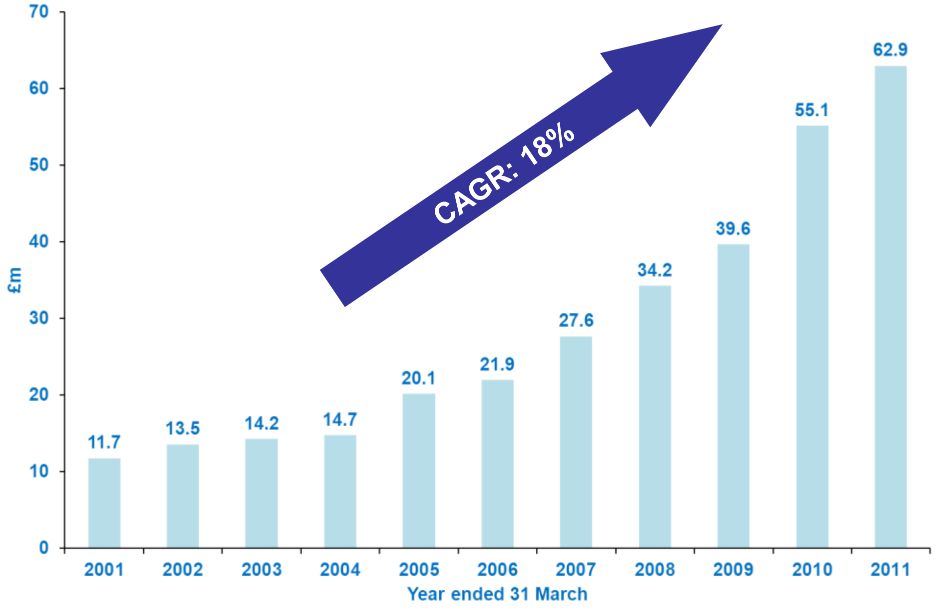
Viridor

Continuing to Deliver Strong Financial Performance [1]

PBIT + JVs [2]



PBT



[1] *Figures after 2009 on an IFRIC 12 basis*
[2] *JVs contributed from 2008*

Viridor
Financial Performance Summary

	2010/11 £m	2009/10 £m	Change
Turnover [1]	712.0	626.5	13.6%
EBITDA	116.5	114.8	1.5%
PBIT	71.6	72.8	(1.6)%
PBIT plus joint ventures [2]	**82.6**	**77.0**	**7.3%**
PBT	**62.9**	**55.1**	**14.2%**

(1) *Including landfill tax*
(2) *Interest receivable on shareholder loans plus share of PAT*

Viridor
2010/11 Financial Highlights

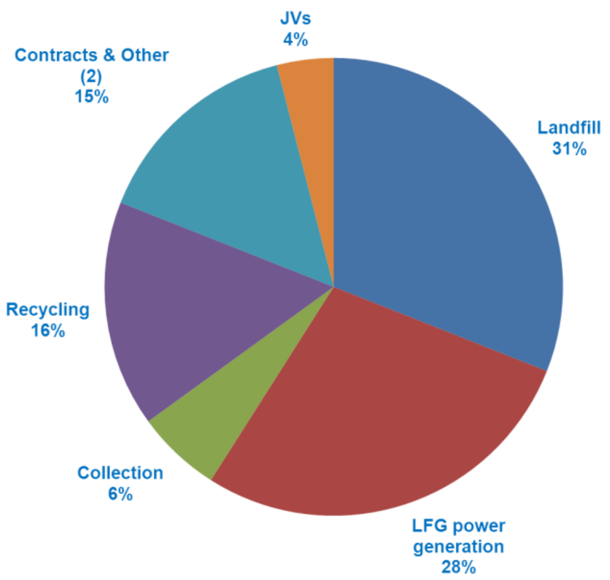
- Revenue increased by £85.5m (13.6%) to £712.0m
  - acquisitions [(1)] accounted for £40.6m
  - existing business increased by £44.9m (including increase in landfill tax of £14.0m)
- EBITDA increased by £1.7m to £116.5m
- PBIT decreased by £1.2m (1.6%) to £71.6m
- Joint ventures (Lakeside and VLGM) interest receivable on shareholder loans and share of profit after tax increased by £6.8m
- PBIT plus joint ventures increased by £5.6m (7.3%) to £82.6m
- PBT increased by £7.8m (14.2%) to £62.9m
- Capex £73.7m (2009/10 - £46.6m) including £38.3m on Runcorn II
- Investment in joint ventures £12.5m (2009/10 - £30.8m)

(1) Reconomy, Pearsons, Adapt Recycling, Swinnerton and Martock in 2010/11 and full year effect of 2009/10 acquisitions (London Recycling and International Recycling)

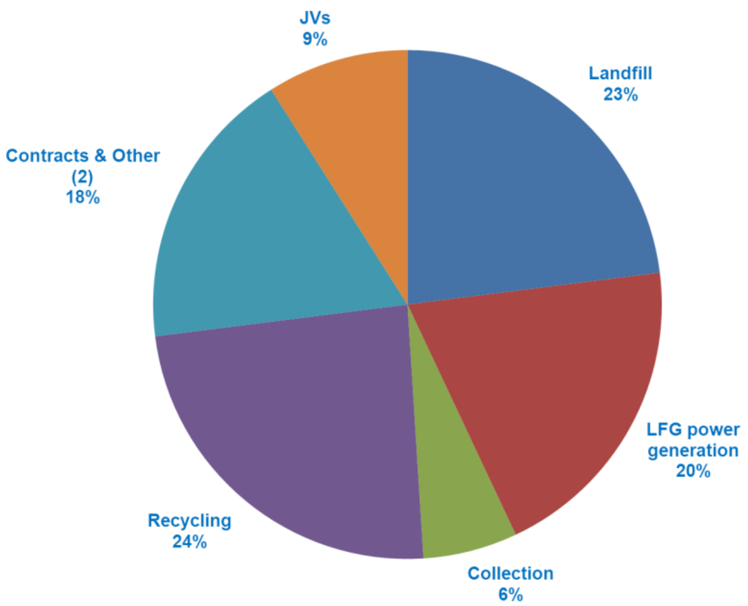
Viridor

Profit Contribution by Segment [1]

Year ended 31 March 2010



Year ended 31 March 2011



- **Business continues successfully to evolve**
- **46% of profits from recovering value in waste** [3]

(1) *Contribution plus joint ventures (share of PAT and interest) before intangibles and overheads (including pensions)*

(2) *"Contracts" includes West Sussex PFI, Lakeside and Greater Manchester sub-contracts, other municipal contracts and sludge contracts and "Other" includes asset disposals*

(3) *Including more than 2% energy generation / recycling in JVs and Contracts & Other*

Viridor

Operational Highlights – Joint Ventures

- JVs' contribution increased to £11.0m (from £4.2m in 2009/10)
- Lakeside
  - total profit approaching £9m in first full year on c.£17.5m Viridor investment (average during the year)
    - £3.6m share of PAT
    - £2.5m interest on shareholder loans
    - profit in Viridor contracts segment
- Viridor Laing Greater Manchester
  - £0.7m share of PAT, IFRIC 12 basis (£3.2m profit UK GAAP)
  - £4.2m interest on shareholder loans
  - 31 of the total 42 new planned facilities now completed

- **For a six minute introduction to Viridor's Energy from Waste plants and Lakeside, see http://www.youtube.com/user/ViridorTV**

Viridor

Operational Highlights – Recycling

- Volumes traded increased by 0.3m tonnes (22%) to 1.7m tonnes with improved mix
  - existing business 0.2m tonnes (13% increase)
  - acquisitions 0.1m tonnes
- Overall recycling revenues per tonne back up to peak levels (after the deterioration in H2 2008/09 and H1 2009/10)
- Landfill tax to increase by £8 per year from current £56 per tonne to £80 per tonne from 1 April 2014
  - enhances long-term economics of recycling and energy recovery
- Recycling and Waste Management Business of the Year (National Recycling Awards, July 2010)

- **Profit per tonne in recycling appreciably above the level in landfill**
- **Recyclate very economical compared to virgin materials**

Viridor
Acquisitions

- 2010/11 five recycling companies acquired for c.£50m:
  - Reconomy, £23.8m: 3 MRFs in East Anglia and the South Midlands
  - Pearsons, £16.0m: MRF and associated facilities in Norfolk
  - Adapt Recycling, £0.7m: recycling and waste management operator in Bury
  - Swinnerton, £1.8m: recycling and waste management operator, also in Bury
  - Martock, £7.4m: MRF and associated facilities in Somerset
- Above acquisitions
  - have significant operational synergies in the UK
  - provide additional recyclate volumes for Viridor network
    - nationally
    - internationally
- Reinforces Viridor's position as the largest operator of MRFs in the UK

- **For a three minute introduction to Viridor's MRFs, see http://www.youtube.com/user/ViridorTV**

Viridor
Operational Highlights – Contracts & Other

- Profits well ahead
  - Lakeside local authority volumes (referred to earlier)
  - increased profits from municipal PFI/PPP contracts/sub-contracts (Somerset, West Sussex and Greater Manchester)
  - other municipal contracts also ahead more than offsetting reduced profits from sludge contracts

Viridor
Operational Highlights – Landfill

- Total volumes decreased by 0.4m tonnes (11%) to 3.5m tonnes
  - decrease is primarily third party industrial and commercial
  - ongoing impact of landfill diversion/recycling and recession

- Average gate fees increased by 2.0% (to £22.15 per tonne)

- Consented landfill capacity fell from 77 million cubic metres (mcm) at 31 March 2010 to 69mcm at 31 March 2011
  - usage in the period: 4.1mcm
  - lapse of planning at a redundant site: 2.0mcm
  - use of void at Ardley (Oxfordshire) for EfW facility and other items: 2.2mcm

- Post year-end planning gain at Pilsworth: 1.8mcm

Viridor

Operational Highlights – Landfill Gas Power Generation

- Total landfill gas power generation increased by 2% to 566GWh [(1)]
- As flagged, average price down 9% to £82 per MWh (£90 per MWh 2009/10)
  - ROC [(2)]-able electricity output (brown energy component) sold forward to March 2010 at peak May 2008 forward prices
- Total operational capacity [(1)] increased by 8MW during the year to 108MW at 31 March 2011
  - 69% ROCs, 31% NFFO [(3)]
  - c.60% of NFFOs migrate to ROCs in 2013/14; balance up to 2016/17

(1) *Excludes 3MW capacity at sub-contract sites in Suffolk*
(2) *ROC – Renewables Obligation Certificate*
(3) *NFFO – Non Fossil Fuel Obligation*

Viridor

EfW: Major Planning Successes since 31 March 2010

- **Cardiff** EfW (Trident Park)
  - planning permission achieved June 2010
- **Dunbar** EfW/CHP [1]
  - planning appeal won December 2010
- **Ardley** EfW (Oxfordshire)
  - planning permission achieved February 2011 and Residual Waste Treatment PPP contract signed March 2011; Secretary of State decision being challenged locally
- **Avonmouth** EfW
  - planning appeal won with costs April 2011; Secretary of State decision being challenged locally

- **Total 1.3m tonnes, 125MW (electricity plus heat)**

(1) Combined Heat and Power

Viridor

Renewable Energy Summary – Operational

- Landfill gas
  - 108MW (as at 31 March 2011)
- Lakeside Energy from Waste (EfW) plant at Colnbrook near Heathrow joint venture with Grundon Waste Management
  - 410,000 tonnes pa and up to 37MW
- Bolton EfW facility (part of GMW sub-contract)
  - 120,000 tonnes pa and 9MW
- Reliance Street, Manchester mechanical biological treatment / anaerobic digestion (first of 4 facilities as part of GMW sub-contract) operational post year-end
  - 50,000 tonnes pa and 2MW
- **Total operational capacity 136.5MW [(1)]**

(1) *Includes share of joint venture capacity*

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Renewable Energy Summary – Consented

- Runcorn / Ineos Chlor Combined Heat and Power (EfW / CHP)
  - 750,000 tonnes pa, 120MW, Phases I and II
  - both phases under construction
- Ardley (Oxfordshire) EfW - 300,000 tonnes, 25MW
  - contracts signed March 2011; Secretary of State's planning decision subject to challenge
- Exeter EfW - 60,000 tonnes pa, 3MW
- Cardiff EfW - (Trident Park) - 350,000 tonnes pa, 30MW
- Dunbar EfW / CHP - 300,000 tonnes pa, total 40MW
- Avonmouth EfW - 350,000 tonnes pa, 30MW; Secretary of State's planning decision subject to challenge
- Planning permission achieved for 3 further AD plants in Manchester, now all under construction; also in Somerset and Croydon

- **Total consented but not operational capacity (1) c.190MW (electricity plus heat)**
- **Target total capacity over 300MW (1) in 5 years' time**

(1) *Includes share of joint venture capacity*

Viridor

Current PPP/PFI Projects

- Oxfordshire PPP – contract signed March 2011 [(1)]
  - 25 years; £205m capex
  - EfW; 300kt; 25MW
- Greater Manchester PFI – April 2009
  - 25 years; £640m capex, 1.1m tonnes pa
  - UK's largest ever combined waste and renewable energy project
  - HWRCs, MRFs, MBT, AD, composting, transfer stations, bulk transport (including rail)
  - associated EfW / CHP (Runcorn)
- South London Waste Partnership PPP – September 2008
  - 14 years, 450kt pa
  - recycling, transfer stations, transport, AD, landfill
- Somerset PPP – May 2006
  - 25 years, 200kt pa
  - landfill, composting, HWRC centres, partnership re AD / future residual treatment
- West Sussex PFI – April 2005
  - 25 years, 350kt pa
  - HWRCs, MRF, transfer stations and bulk transport

(1) *Secretary of State's planning decision subject to challenge*

PENNON GROUP PLC

Viridor

PPP Prospects [1]

- Provisional preferred bidder for Cheshire
- One of last two for South Lanarkshire
- One of last two for Glasgow
- One of last two for South London Waste Partnership
- One of last two for each of Peterborough EfW and MRF
- One of last two for West Lothian
- One of last three for South East Wales (Gwyrdd)
- One of last three for Heads of the Valleys
- Viridor continues to bid selectively for other contracts

- **Increasing landfill tax is the fundamental driver for the above projects**
- **Healthy list of prospects including renewable energy / Combined Heat and Power and recycling opportunities**

(1) *Government PFI cutbacks may lead to some delays or changes (PPP vs merchant)*

Viridor

2010/11 Key Achievements

- PBT up 14%
  - including approaching £9m first full year of Lakeside
  - 46% of profits from recovering value in waste
- 4 major EfW planning permissions achieved [(1)]
- 25 year Oxfordshire PPP contract signed
  - Viridor in last 2 on South Lanarkshire, Glasgow, South London, Peterborough and West Lothian PPPs
- c.£50m of acquisitions in recycling
- Runcorn EfW plant phases I and II under construction
- **Strong successful strategy**
  - **recycling key to profit growth in the next two years**
  - **long-term profit momentum underpinned by EfW/PPP pipeline**

(1) Secretary of State's planning decisions on Ardley and Avonmouth subject to challenge

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Summary

- Strategy clearly focused on water and sewerage services; recycling; waste management; and renewable energy
- **South West Water**
  - strong start to the K5 contract
  - targeting outperformance
- **Viridor** delivering strong growth by exploiting opportunities in recycling and renewable energy
  - 46% of profits from recovering value in waste
  - EfW / PPP pipeline underpins long-term profit momentum
- Well funded with efficient long-term financing
- **Group businesses well positioned in current economic conditions**

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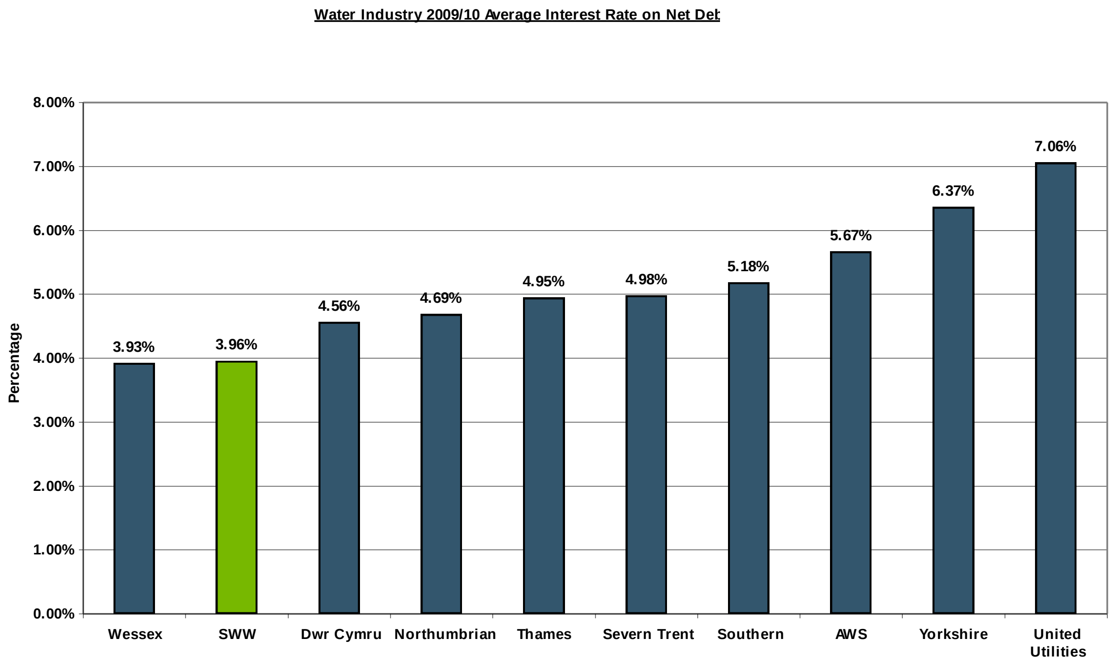
Appendix

Water Industry

2009/10 Average Interest Rate



- **One-off benefit from 2009/10 low/negative RPI for companies with high level of index-linked debt**
- **SWW interest rate consistently low**

Source: Pennon calculation based on company Annual Reports

Basis: Net interest payable (excluding pensions net interest) / average net debt