

18 June 2012

**This document is important and requires your immediate attention. If you are in any doubt about the action you should take, you should immediately consult your stockbroker, solicitor, accountant, bank manager or other independent financial adviser who is authorised under the Financial Services and Markets Act 2000.**

If you have sold or otherwise transferred all of your Ordinary shares please send this document, together with the accompanying Form of Proxy, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. The Form of Proxy, if used, should be lodged with the Company's Registrars, Capita Registrars, not less than 48 hours before the time fixed for the meeting.

Dear shareholder

#### **Annual General Meeting 2012 and Financial Results for the year ended 31 March 2012**

Please find attached to this letter the Notice of our 2012 Annual General Meeting, together with notes explaining the business of the meeting. The Annual General Meeting will be held on Thursday 26 July 2012, starting at 11.00am at the Sandy Park Conference Centre, Sandy Park Way, Exeter, Devon EX2 7NN. Details of how to reach this venue are set out on the first page of the Notice. Parking will be available.

If you are unable to attend the Annual General Meeting, please register your vote with us electronically by visiting [capitashareportal.com](http://capitashareportal.com). Registering your vote electronically is entirely secure and ensures the privacy of your personal information. Alternatively, please complete and return your Form of Proxy by post.

**Your Directors consider that all the proposals to be considered at the Annual General Meeting are in the best interests of the Company and its shareholders as a whole and recommend shareholders to vote in favour of the Resolutions as they intend to do so in respect of their own shareholdings.**

#### **Electronic communications**

The Company's policy is to provide all shareholder documents electronically whenever possible. As a consequence you will only receive copies of the Annual Report and other shareholder communications by post if you have specifically opted to do so or if you became a shareholder on the register after 26 November 2010. For those of you who have not requested to receive shareholder communications by post, you can now view a copy of the Company's Annual Report on the Company's website [pennon-group.co.uk/pennon/en/investor/freports/Annual\\_Report\\_2012.pdf](http://pennon-group.co.uk/pennon/en/investor/freports/Annual_Report_2012.pdf)

Using our website allows us to offer you greater choice on how you receive your shareholder communications. Electronic communications are not only secure, but they are also quicker, more cost effective, and are in line with the Company's sustainable development objectives as less resources are required compared with traditional printing and distribution methods.

If you previously elected to receive a written copy of the Annual Report, a copy is enclosed. If a copy of the Annual Report is not enclosed and you wish to receive a copy rather than viewing it on the Company's website, a copy may be obtained on request from our Registrars, Capita Registrars, by telephoning 0871 664 9234 (lines are open 8.30am-5.30pm Monday-Friday. Calls cost 10p per minute plus network extras) or +44 800 141 2951 (from outside the UK) and quoting your Investor Code which can be found on your Form of Proxy.

If you have not already done so and now wish to sign up to receive future shareholder communications electronically, you can do so via the share portal service provided by our Registrars. To register, simply go to [capitashareportal.com](http://capitashareportal.com) and select 'Account Registration' and then follow the on-screen instructions by inputting your surname and your Investor Code. You will also need to input your postcode as well as entering an e-mail address and selecting a password.

#### **Pennon Group's financial and operational results for the year ended 31 March 2012**

I am pleased to set out overleaf a summary of the highlights of Pennon Group's financial and operational results for the year ended 31 March 2012. Full details are set out in the Company's Annual Report.

Yours sincerely



**Ken Harvey**  
Chairman

# Summary of Pennon Group's financial and operational results

for the year ended 31 March 2012

## Pennon Group

- profit before tax up 6.4% to £200.5 million
  - South West Water up 9.8% to £141.5 million
  - Viridor down 8.4% to £57.6 million
- earnings per share before deferred tax up 11.8% to 47.3p<sup>(1)</sup>
- dividend
  - Recommended final dividend per share up 6.7% to 18.30p
  - Full year dividend up 7.6% to 26.52p
- strong liquidity and funding position
- £1,084 million cash and facilities at 31 March 2012 including £566 million of new/financed facilities sourced during the year
- Group businesses well positioned for the future.

<sup>(1)</sup> Basic earnings per share were 48.1p.

## South West Water

- strong performance against 2010-2015 regulatory contract
- average funding cost 4.1%
- substantial progress in operating efficiency
- strong water resource position, expect 16th summer without restrictions
- best ever leakage performance
- repeated best ever drinking water quality at 99.98% compliance
- record percentage of bathing waters achieving excellent status
- private sewers transferred to South West Water on 1 October 2011 – estimated network length increased by over 50%
- further improvements in Service Incentive Mechanism (SIM) performance.

## Viridor

- continuing growth in profits from recycling, contracts and joint ventures offset this year by reduction in landfill plus increased bid costs associated with its developing project pipeline
- recyclate prices have fallen from their first half 2011/12 peak reflecting world economic conditions – cost base adjusted accordingly: more than 50% of impact recovered via terms of customer supply contracts and by cost reductions
- significant progress in developing pipeline of long-term projects including:
  - becoming preferred bidder for the 25 year South London Waste Partnership residual waste PPP
  - confirmation as successful participant for the 25 year Glasgow residual waste PPP
  - the successful resolution of the legal challenge for the Ardley EfW plant with Oxford PPP Notice to Proceed issued and construction commenced
  - construction commenced on Exeter EfW
  - construction contract signed (post year-end) for Cardiff EfW
  - strong pipeline of future opportunities
- five acquisitions in 2011/12 for around £40 million
- transforming waste – around 50% of profits from recovering the value in waste.

# Notice of Annual General Meeting

The twenty-third Annual General Meeting of Pennon Group Plc will be held at **Sandy Park Conference Centre, Sandy Park Way, Exeter, Devon EX2 7NN** on Thursday 26 July 2012 at 11.00am.

**This document is important and requires your immediate attention. If you are in any doubt about the action you should take, you should immediately consult your stockbroker, solicitor, accountant, bank manager or other independent financial adviser who is authorised under the Financial Services and Markets Act 2000.**

If you have sold or otherwise transferred all of your Ordinary shares please send this document, together with the accompanying Form of Proxy, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. The Form of Proxy, if used, should be lodged with the Company's Registrars, Capita Registrars, not less than 48 hours before the time fixed for the meeting.

This Notice of Annual General Meeting should be read in conjunction with Pennon Group Plc's Annual Report and Accounts in respect of the year ended 31 March 2012.

Copies of this Notice of Annual General Meeting and the Annual Report and Accounts are available to view and download from the Company's website:

[pennon-group.co.uk](http://pennon-group.co.uk)

## **How to get to the Pennon Group Plc Annual General Meeting at the Sandy Park Conference Centre, adjacent to the Sandy Park Stadium at Sandy Park Way, Exeter, Devon EX2 7NN**

### **By road:**

From junction 30 on the M5 take the A379 for Exeter and Dawlish: Sandy Park is the first exit left off the dual carriageway. Parking is available at the venue.

### **By rail:**

By rail – Nearest rail station is Exeter Digby and Sowton – 10 minutes walk. Mainline station is Exeter St David's – 4 miles.

### **By bus:**

By bus – Service 52 (Exeter to Sidmouth) – 5 minutes walk.

# Annual General Meeting

The twenty-third Annual General Meeting of Pennon Group Plc will be held at Sandy Park Conference Centre, Sandy Park Way, Exeter, Devon EX2 7NN on Thursday 26 July 2012 at 11.00am for the transaction of the following business:

## The following resolutions will be proposed as ordinary resolutions:

### Report and Accounts

#### Resolution 1

That the Directors' Report and the financial statements for the year ended 31 March 2012 be received and adopted, together with the report of the auditors.

### Dividend

#### Resolution 2

That a final dividend of 18.30 pence per Ordinary share recommended by the Directors for the year ended 31 March 2012 be declared for payment on 5 October 2012.

### Remuneration report

#### Resolution 3

That the Directors' remuneration report for the financial year 2011/12, as contained in the Company's Annual Report 2012, be approved.

### Directors

#### Resolution 4

That Mr K G Harvey who is retiring in accordance with the recommendations of the UK Corporate Governance Code be re-elected as a Director.

#### Resolution 5

That Mr M D Angle who is retiring in accordance with the Company's Articles of Association and the recommendations of the UK Corporate Governance Code be re-elected as a Director.

#### Resolution 6

That Mr G D Connell who is retiring in accordance with the recommendations of the UK Corporate Governance Code be re-elected as a Director.

#### Resolution 7

That Mr C I J H Drummond who is retiring in accordance with the Company's Articles of Association and the recommendations of the UK Corporate Governance Code be re-elected as a Director.

#### Resolution 8

That Mr D J Dupont who is retiring in accordance with the recommendations of the UK Corporate Governance Code be re-elected as a Director.

#### Resolution 9

That Mr C Loughlin who is retiring in accordance with the recommendations of the UK Corporate Governance Code be re-elected as a Director.

#### Resolution 10

That Ms D A Nichols who is retiring in accordance with the Company's Articles of Association and the recommendations of the UK Corporate Governance Code be re-elected as a Director.

### Auditors

#### Resolution 11

That PricewaterhouseCoopers LLP be appointed auditors of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company.

#### Resolution 12

That the Directors be authorised to fix the remuneration of the auditors.

### Political donations

#### Resolution 13

That in accordance with Section 366 of the Companies Act 2006 the Company, and all companies that are subsidiaries of the Company at any time during the period for which the resolution has effect, be generally and unconditionally authorised to:

- (a) make political donations to political parties and/or independent election candidates not exceeding £75,000 in total;
- (b) make political donations to political organisations other than political parties not exceeding £75,000 in total; and
- (c) incur political expenditure not exceeding £75,000 in total,

during the period from the date of this resolution to the date of the next Annual General Meeting of the Company in 2013, provided that the aggregate amount of any such donations and expenditure shall not exceed £75,000 and that for the

purpose of this resolution the terms 'political donations', 'political parties', 'independent election candidates', 'political organisations' and 'political expenditure' have the meanings set out in Sections 363 to 365 of the Companies Act 2006.

*It continues to be the policy of the Company and its subsidiaries not to make political donations, but as explained in more detail under the 'Political donations' section of the Explanatory notes on page 8 of this Notice, it is considered to be necessary to obtain such authorisation to avoid any possible technical breach of the Companies Act 2006 due to the uncertainty created by the wide definitions in the Act of what can be regarded as a political donation or political expenditure.*

## **Authority to allot shares**

### **Resolution 14**

That:

- (a) the Directors be generally and unconditionally authorised, in accordance with Section 551 of the Companies Act 2006, to exercise all powers of the Company to allot shares in the Company and grant rights to subscribe for, or convert any security into, shares in the Company:
  - (i) up to a maximum nominal amount of £49,141,234 (such amount to be reduced by the nominal amount of any equity securities (as defined in Section 560 of the Companies Act 2006) allotted under paragraph (ii) below in excess of £49,141,234); and
  - (ii) comprising equity securities (as defined in Section 560 of the Companies Act 2006) up to a maximum nominal amount of £98,282,468 (such amount to be reduced by any shares allotted or rights granted under paragraph (i) above) in connection with an offer by way of a rights issue:
    - (A) to holders of Ordinary shares in proportion (as nearly as may be practicable) to their existing holdings; and
    - (B) to holders of other equity securities if this is required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities;and so that the Directors may make such exclusions or other arrangements as they consider expedient in relation to treasury shares, fractional entitlements, record dates, shares represented by depositary receipts, legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange or any other matter;
- (b) this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or, if earlier, at the close of business on 1 October 2013;
- (c) the Company may, before this authority expires, make an offer or enter into an agreement which would or might require shares to be allotted or rights to be granted after it expires and the Directors may allot shares or grant rights in pursuance of such offer or agreement as if this authority had not expired; and
- (d) all previous unutilised authorities under Section 551 of the Companies Act 2006 shall cease to have effect (save to the extent that the same are exercisable pursuant to Section 551(7) of the Companies Act 2006 by reason of any offer or agreement made prior to the date of this resolution which would or might require shares to be allotted or rights to be granted on or after that date).

### **The following resolutions will be proposed as special resolutions:**

## **Authority to disapply pre-emption rights**

### **Resolution 15**

That:

- (a) the Directors be given power:
  - (i) subject to the passing of Resolution 14 above, to allot equity securities (as defined in Section 560 of the Companies Act 2006) for cash pursuant to the authority conferred on them by that resolution under Section 551 of that Act; and
  - (ii) to allot equity securities as defined in Section 560 of that Act, including a sale of treasury shares, wholly for cash, in either case as if Section 561 of that Act did not apply to the allotment or sale, but this power shall be limited:
    - (A) to the allotment of equity securities in connection with an offer or issue of equity securities (but in the case of the authority granted under Resolution 14 (a)(ii), by way of a rights issue only) to or in favour of:
      - I. holders of Ordinary shares in proportion (as nearly as may be practicable) to their existing holdings; and
      - II. holders of other equity securities if this is required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities;

and so that the Directors may make such exclusions or other arrangements as they consider expedient in relation to treasury shares, fractional entitlements, record dates, shares represented by depositary receipts, legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange or any other matter; and

## Annual General Meeting continued

- (B) to the allotment of equity securities pursuant to the authority granted under Resolution 14 (a)(i) and/or by virtue of Section 560(3) of the Companies Act 2006 (in each case otherwise than under paragraph (A) above) up to a maximum nominal amount of £7,444,892;
- (b) this power shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or, if earlier, at the close of business on 1 October 2013;
- (c) all previous unutilised authorities under Sections 570 and 573 of the Companies Act 2006 shall cease to have effect; and
- (d) the Company may, before this power expires, make an offer or enter into an agreement which would or might require equity securities to be allotted after it expires and the Directors may allot equity securities in pursuance of such offer or agreement as if this power had not expired.

### Authority to purchase own shares

#### Resolution 16

That in accordance with the Companies Act 2006, the Company is generally and unconditionally authorised for the purposes of Section 701 of the Companies Act 2006 to make market purchases (within the meaning of Section 693(4) of the Companies Act 2006) of Ordinary shares of 40.7p each in the capital of the Company on such terms and in such manner as the Directors of the Company may from time to time determine, provided that:

- (a) the maximum number of Ordinary shares that may be purchased under this authority is 36,222,039 (being no more than 10% of the issued share capital exclusive of treasury shares of the Company as at 15 June 2012);
- (b) the minimum price which may be paid for each Ordinary share is 40.7p (exclusive of expenses payable by the Company in connection with the purchase);
- (c) the maximum price which may be paid for each Ordinary share purchased under this authority shall not be more than the higher of (i) an amount equal to 105% of the average of the middle market quotations for such Ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that Ordinary share is purchased; and (ii) the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003 (in each case exclusive of expenses payable by the Company in connection with the purchase);
- (d) this authority will, unless previously varied, revoked or renewed, expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, on 1 October 2013, but the Company may make a contract or contracts to purchase Ordinary shares under this authority before its expiry which will or may be executed wholly or partly after the expiry of this authority and may make purchases of Ordinary shares pursuant to any such contract; and
- (e) all existing authorities for the Company to make market purchases of Ordinary shares are revoked, except in relation to the purchase of shares under a contract or contracts concluded before the date of this resolution and which has or have not yet been executed.

### Notice of general meetings

#### Resolution 17

That a general meeting, other than an Annual General Meeting, may be called on not less than 14 clear days' notice.

**The Directors believe that all the Resolutions to be considered at the Annual General Meeting are in the best interests of the Company and its shareholders as a whole and recommend shareholders to vote in favour of the resolutions in respect of their own shareholdings as the Directors intend to do in respect of their own shareholdings.**

By Order of the Board

**K D Woodier, Group General Counsel & Company Secretary**  
**Peninsula House, Rydon Lane, Exeter EX2 7HR (Registered Office)**

18 June 2012



# Important notes

## **The following notes explain your general rights as a shareholder and your rights to attend and vote at this meeting or to appoint someone else to attend and vote on your behalf.**

Only those shareholders registered on the Register of Members of the Company as at 6.00pm on 24 July 2012 (or, if this meeting is adjourned, at 6.00pm on the two days prior to the adjourned meeting), shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries in the Register after 6.00pm on 24 July 2012 or, if this meeting is adjourned, at 6.00pm on the two days prior to the adjourned meeting, shall be disregarded in determining the rights of any shareholder to attend or vote at the Annual General Meeting.

A shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to exercise all or any of his rights to attend, speak and vote instead of him provided that each proxy is appointed to attend, speak and vote in respect of a different share or shares. A proxy need not be a shareholder but must attend the meeting for the shareholder's vote to be counted. Appointing a proxy does not prevent a shareholder from attending and voting in person if he so wishes. If a share is held by joint shareholders, and more than one of the joint shareholders votes (including by way of proxy), the only vote that will count is the vote of the person whose name is listed before the other voters on the Register for the share.

A Form of Proxy is enclosed with this Notice of Annual General Meeting. A shareholder can only appoint a proxy using the procedures set out in these notes and the notes to the Form of Proxy. Details of how to appoint the Chairman of the meeting or another person as a shareholder's proxy using the Form of Proxy are set out in the notes to the Form of Proxy. If a shareholder wishes his proxy to speak on his behalf at the meeting, he will need to appoint his own choice of proxy (not the Chairman) and give his instructions directly to them. A shareholder may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. To appoint more than one proxy, a shareholder must complete a separate Form of Proxy for each proxy or, if appointing multiple proxies electronically, follow the instructions given on the relevant electronic facility. Shareholders can copy their original Form of Proxy, or additional Forms of Proxy can be obtained by telephoning Capita Registrars on 0871 664 9234 (lines are open 8.30am-5.30pm Monday-Friday. Calls cost 10p per minute plus network extras) or +44 800 141 2951 (from outside the UK). A shareholder appointing more than one proxy should indicate on the relevant Forms of Proxy the number of shares for which each proxy is authorised to act on his behalf.

To be valid any Form of Proxy must be received by the Company's Registrars, Capita Registrars, at the address shown on the Form of Proxy or received via the [capitashareportal.com](http://capitashareportal.com) website if the appointment is made electronically, no later than 11.00am on 24 July 2012, or 48 hours before the time for holding any adjourned meeting or (in the case of a poll not taken on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used or lodged using the CREST proxy voting service, details of which are given overleaf. Any power of attorney or any other authority under which the Form of Proxy is signed (or a certified copy of such authority) must be included with the Form of Proxy.

Completion of a Form of Proxy does not preclude a shareholder from attending and voting in person at the Annual General Meeting. The 'Vote Withheld' option on the Form of Proxy is provided to enable shareholders to abstain on any particular resolution. However, it should be noted that a 'Vote Withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.

As an alternative to completing a paper copy of the Form of Proxy shareholders may register a proxy appointment or voting directions electronically by visiting [capitashareportal.com](http://capitashareportal.com). If you have already registered to receive all shareholder communications electronically, you can also submit your Form of Proxy via this website. Shareholders will need their Investor Code number printed under their name on the Form of Proxy. Full instructions are given on the website. The proxy appointment and instructions should reach Capita Registrars not less than 48 hours before the time appointed for the holding of the Annual General Meeting or any adjournment thereof. If you return more than one proxy appointment, either by paper or electronic communication, that received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Any electronic communication found to contain a computer virus will not be accepted. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him or her and the shareholder by whom he or she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he or she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

The statement of the rights of shareholders in relation to the appointment of proxies in the notes above does not apply to Nominated Persons. The rights described in these notes can only be exercised by shareholders of the Company.

Nominated Persons are reminded that they should contact the registered holder of their shares (and not the Company) on matters relating to their investments in the Company.

## Important notes continued

As soon as practicable following the Annual General Meeting, the results of the voting at the meeting and the numbers of proxy votes cast for and against and the number of votes actively withheld in respect of each of the Resolutions will be announced via a Regulated Information Service and also placed on the Company's website [pennon-group.co.uk](http://pennon-group.co.uk)

As at 15 June 2012 (being the last practicable date prior to the publication of this Notice of Annual General Meeting) the Company's issued share capital consists of 365,842,392 ordinary shares of 40.7p each, of which 3,621,993 Ordinary shares are held in treasury. Therefore, the total voting rights in the Company as at 15 June 2012 are 362,220,399.

### Electronic Proxy appointment through CREST

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 26 July 2012 and any adjournment(s) thereof by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via [euroclear.com/CREST](http://euroclear.com/CREST)). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's Registrars, Capita Registrars (ID reference RA10) by no later than 11.00am on 24 July 2012, or, if the meeting is adjourned, 48 hours before the time fixed for the adjourned meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) at which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instruction to proxies appointed through CREST should be communicated to the appointees through other means.

CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings [euroclear.com/CREST](http://euroclear.com/CREST)

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Members satisfying the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to (a) the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (b) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Companies Act 2006, and which the members propose to raise at the meeting. The Company may not require the members requesting the publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Any statement placed on the website must also be sent to the Company's auditors not later than the time it makes its statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement under Section 527 of the Companies Act 2006 that the Company has been required to publish on its website.

A member attending the meeting has the right to ask questions. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the Annual General Meeting any question relating to the business being dealt with at the Annual General Meeting which is put by a member attending the meeting, except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered or if to do so would involve the disclosure of confidential information.

**A copy of this Notice, and other information required by Section 311A of the Companies Act 2006, can be found on the Company's website, [pennon-group.co.uk/pennon/en/investor/shareholderservices/aggm](http://pennon-group.co.uk/pennon/en/investor/shareholderservices/aggm)**

**You may not use any electronic address provided either in this Notice of Annual General Meeting or any related documents (including the Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.**



**Documents available for inspection**

Copies of the Executive Directors' service contracts and the Chairman's and the Non-executive Directors' contracts for service are available for inspection during normal business hours at the Registered Office of the Company. They will also be available for inspection at the Annual General Meeting from 10.00am on 26 July 2012 until the conclusion of the Annual General Meeting.

# Explanatory notes

## on certain business of the Annual General Meeting

### Directors' remuneration report

**Resolution 3** proposes the approval of the Directors' remuneration report which is set out on pages 52 to 60 inclusive of the Annual Report. It is a requirement, pursuant to Section 439 of the Companies Act 2006, that the Directors' remuneration report be submitted to shareholders for approval, albeit that any voting on the report is advisory only.

### Re-election of Directors

**Resolutions 4, 5, 6, 7, 8, 9, and 10** propose the re-election of Messrs K G Harvey, M D Angle, G D Connell, C I J H Drummond, D J Dupont, C Loughlin and Ms D A Nichols as Directors of the Company.

The Company's Articles of Association require Directors to retire and submit themselves for reappointment by shareholders at the first Annual General Meeting following their appointment and for reappointment at least every three years. Irrespective of this provision, in accordance with the provisions of the UK Corporate Governance Code, all Directors will stand for reappointment at the Annual General Meeting as they did at the 2011 Annual General Meeting. Ken Harvey, who is Chairman, offers himself up for re-election annually in any event in accordance with the UK Corporate Governance Code as he has been a Director for in excess of nine years. Dinah Nichols, who is due for re-election in accordance with the Company's Articles of Association, will have been a Director for nine years since her first election. The Board has determined that Dinah Nichols remains independent as she demonstrates independence of character and judgement in her conduct of matters with the Board.

Martin Angle and Colin Drummond are also due for re-election in accordance with the Company's Articles of Association. The Directors' biographies are set out below and details of the Directors' remuneration are set out in the Annual Report.

### Kenneth George Harvey CBE, BSc

**Chairman** **Committees:** [Nomination \(Chairman\)](#) Appointed on 1 March 1997. Ken was formerly chairman and chief executive of Norweb Plc. He was chairman of National Grid Holdings in 1995 and was previously deputy chairman of London Electricity and earlier its engineering director. He has also been chairman of a number of limited and private equity funded companies. Currently he is the senior independent non-executive director of National Grid Plc.

### Martin David Angle BSc Hons, FCA, MCSI

**Non-executive Director** **Committees:** [Audit](#), [Sustainability](#), [Nomination](#), [Remuneration \(Chairman\)](#) Appointed on 1 December 2008. Martin currently holds non-executive directorships with Savills plc, OAO Severstal, Shuaa Capital PSC and The National Exhibition Centre where he is Chairman. In addition he sits on the Board of the FIA Foundation where he is a vice-chairman. Formerly he held senior positions with Terra Firma Capital Partners and various of its portfolio companies, including the executive chairmanship of Waste Recycling Group Limited. Before that he was the group finance director of TI Group plc and held a number of senior investment banking positions with SG Warburg & Co Ltd, Morgan Stanley and Dresdner Kleinwort Benson.

### Gerard Dominic Connell MA

**Senior Independent Non-executive Director** **Committees:** [Audit \(Chairman\)](#), [Sustainability](#), [Nomination](#), [Remuneration](#) Appointed on 1 October 2003. Gerard is currently also a non-executive director and chairman of the audit committee of the Defence Science and Technology Laboratory and the independent director, finance and investment, of the Nuclear Decommissioning Fund Company Limited. He was previously group finance director of Wincanton Plc. Before that he was a director of Hill Samuel and a managing director of Bankers Trust, having trained originally at Price Waterhouse. In addition he has held other corporate finance and business development positions in the City and in industry. He is also a governor of King's College School, Wimbledon.

### Colin Irwin John Hamilton Drummond OBE, MA, MBA, LTCL, CCMi

**Chief Executive, Viridor** **Committees:** [Sustainability](#), [Executive](#) Appointed on 1 April 1992. Prior to joining the Company Colin was a divisional chief executive of Coats Viyella, having previously been corporate development director of Renold plc, a strategy consultant with the Boston Consulting Group and an official of the Bank of England. He is chairman of the Government's Living with Environmental Change Business Advisory Board and of the Environmental Sustainability Knowledge Transfer Network. He is a senior visiting research fellow in Earth Sciences at Oxford University and a Past Master of the Worshipful Company of Water Conservators.

### David Jeremy Dupont MA, MBA

**Group Director of Finance** **Committees:** [Executive](#) Appointed on 2 March 2002. David was formerly regulatory and finance director of South West Water Limited, having joined Pennon Group Plc (then South West Water Plc) in 1992 as strategic planning manager. Previously he held business planning and development roles with Gateway Corporation. He is a member of the CBI Environmental Affairs Committee and the CBI South West Regional Council.

### Christopher Loughlin BSc Hons, MICE, CEng, MBA

**Chief Executive, South West Water** **Committees:** [Sustainability](#), [Executive](#) Appointed on 1 August 2006. Chris was previously chief operating officer with Lloyd's Register and earlier in his career was an executive director of British Nuclear Fuels Plc and executive chairman of Magnox Electric Plc. He was also a senior diplomat in the British Embassy, Tokyo, working in both the consulting and contracting sectors. Chris started his career as a chartered engineer and subsequently held a number of senior positions with British Nuclear Fuels. Between April 2008 and March 2012 he was chairman of Water

UK and currently is vice-chairman of the Cornwall Local Enterprise Partnership and a member of the audit committee of the charity, WaterAid.

### **Dinah Alison Nichols CB, BA Hons**

**Non-executive Director** Committees: Audit, Sustainability (Chairman), Nomination, Remuneration Appointed on 12 June 2003. Dinah was formerly Director General Environment at the Department for Environment, Food and Rural Affairs and previously held various senior appointments within Government, including being head of the water directorate during the period of water privatisation. She is also a Crown Estate Counsellor, a non-executive director of the Land Trust and Keep Britain Tidy and, until recently, a director of Aberdeen Smaller Companies High Investment Trust.

The Board supports the re-election of each Director as it believes that the particular knowledge and experience of each Director assists in ensuring that the Board has an appropriate balance of skills and experience for the requirements of the business. The Chairman confirms that, following the formal annual performance evaluation, each Non-executive Director continues to perform effectively and demonstrates commitment to his or her role, including commitment to time for Board and Committee meetings and other duties as they are likely to arise. The Board has determined that, other than the Chairman, (because the UK Corporate Governance Code acknowledges that an ongoing test of independence is not appropriate in relation to the chairman) each of the Non-executive Directors is independent.

### **Reappointment of auditors**

**Resolution 11** proposes the reappointment of PricewaterhouseCoopers LLP as auditors of the Company. PricewaterhouseCoopers LLP have indicated their willingness to continue in office and their appointment is supported by the Audit Committee of the Board.

### **Political donations**

While **Resolution 13** requests shareholder approval by way of an ordinary resolution to approve donations to political parties, please note that the Company and all its subsidiaries have a policy that they do not make donations to, or incur expenditure on behalf of, political parties. However, the Companies Act 2006 contains restrictions on companies making donations or incurring political expenditure and defines these terms very widely, such that activities that form part of the normal relationship between the Company and its subsidiaries and bodies concerned with policy review, law reform and other business matters affecting the Company may be included. These types of activities, which are in the shareholders' interests for the Company and its subsidiaries to conduct, are not designed to support, or implement support for, a particular political party.

The Company believes that the authority proposed under this Resolution (which is the same as that agreed by shareholders at the Annual General Meeting last year and in previous years) is necessary to ensure that it, and its subsidiaries, do not commit any technical breach that could arise from the uncertainty generated by the wide definitions contained within the Act when carrying out activities in the furtherance of their legitimate business interests.

### **Authority to allot shares**

**Resolution 14** requests shareholder approval by way of an ordinary resolution to renew (in compliance with published institutional guidelines) until 1 October 2013 or, if earlier, the conclusion of the next Annual General Meeting of the Company, the Directors' authority to allot Ordinary shares or grant rights to subscribe for or convert any security into shares in the Company in accordance with Section 551 of the Companies Act 2006. It is the Directors' intention to seek to renew this authority annually in accordance with investor guidelines.

Paragraph (a)(i) of Resolution 14 will allow the Directors to allot ordinary shares up to a maximum nominal amount of £49,141,234 representing approximately one third (33.33%) of the Company's existing issued share capital (excluding shares held in treasury) and calculated as at 15 June 2012 (being the latest practicable date prior to publication of this Notice of Annual General Meeting). In accordance with the latest institutional guidelines issued by the Association of British Insurers (ABI), paragraph (a)(ii) of Resolution 14 will allow Directors to allot, including the Ordinary shares referred to in paragraph (a)(i) of Resolution 14, further of the Company's Ordinary shares in connection with a pre-emptive offer by way of a rights issue to ordinary shareholders up to a maximum nominal amount of £98,282,468 representing approximately two thirds (66.67%) of the Company's existing issued share capital (excluding shares held in treasury) and calculated as at 15 June 2012 (being the latest practicable date prior to publication of this Notice of Annual General Meeting).

The Directors have no present intention of exercising this authority (other than pursuant to the Company's Scrip Dividend Alternative and employee share schemes) but they do consider that they should have this authority in order to be able to take advantage of opportunities as they arise and to retain flexibility. If they do exercise this authority, the Directors intend to follow best practice as regards its use (including as regards the Directors standing for re-election in certain cases), as recommended by the ABI.

As at 15 June 2012, the Company held 3,621,993 Ordinary shares in treasury, which represents approximately 1% of the total Ordinary share capital in issue as at 15 June 2012 (being the latest practicable date prior to publication of this Notice of Annual General Meeting).

### Disapplication of pre-emption rights

**Resolution 15** requests shareholder approval by way of a special resolution to renew until 1 October 2013, or if earlier, the conclusion of the next Annual General Meeting of the Company, the Directors' authority to allot equity securities for cash without first being required to offer such securities to existing shareholders. If approved, the Directors will be authorised to issue shares in connection with a rights issue and otherwise to issue shares for cash up to a maximum nominal amount of £7,444,892 which includes the sale on a non pre-emptive basis of any shares for cash the Company may hold in treasury. The maximum nominal amount of equity securities to which this authority relates (inclusive of treasury shares) represents not more than 5% of the issued share capital of the Company as at 15 June 2012 (being the latest practicable date prior to publication of this Notice of Annual General Meeting). This is in accordance with investor protection guidelines. In addition the Directors do not intend to offer more than 7.5% of the Company's issued share capital in any rolling three-year period without prior consultation with shareholders and the Investment Committees of the Association of British Insurers and the National Association of Pension Funds. It is the Directors' intention to seek to renew this authority annually in accordance with investor guidelines.

### Authority to purchase Ordinary shares of the Company

**Resolution 16** requests shareholder approval by way of a special resolution to renew the Company's authority to purchase up to 10% of its Ordinary shares in issue at or between the minimum and maximum prices specified in the Resolution. This authority is requested in order to increase the Company's flexibility to optimise the long-term financial and tax efficiency of its capital structure. It can lead to increases in future earnings per share on those shares not purchased. This Resolution complies with investor protection guidelines which limit share purchases to 10% of the issued share capital per annum. The Directors confirm that they will only purchase shares where they believe the effect would be to increase earnings per share and would be in the best interests of shareholders. The Directors have no current plans to exercise such authority.

The Companies Act 2006 allows companies to hold shares acquired by way of market purchase in treasury, rather than having to cancel them. In addition to shares already held in treasury, the Directors may decide to hold further of the Company's own shares that may be purchased pursuant to the authority conferred by this Resolution as treasury shares as an alternative to cancelling them. Shares held in treasury may subsequently be cancelled, sold for cash or issued for the purposes of satisfying share options and share awards under the Company's employee share schemes. The Directors believe that holding shares in treasury provides the Company with greater flexibility in management of its share capital. No dividends may be paid on shares held in treasury and no voting rights are exercisable in respect of treasury shares.

The total number of options to subscribe for Ordinary shares that were outstanding as at 15 June 2012 (being the latest practicable date prior to publication of this Notice of Annual General Meeting) was 2,625,846. The proportion of issued share capital that they represented at that time was 0.72% and the proportion of issued share capital that they will represent if the full authority to purchase shares is used is 0.81%.

### Calling of general meetings

**Resolution 17** requests shareholder approval by way of a special resolution to enable Directors to continue to be able to call general meetings, other than Annual General Meetings, on 14 clear days' notice. A similar resolution was passed by shareholders at the 2011 Annual General Meeting. This resolution reflects the changes made to the Companies Act 2006 by the Companies (Shareholders' Rights) Regulations 2009 (the 'Shareholders' Rights Regulations') which, as referred to above, increased the notice period of listed companies to call general meetings on at least 21 clear days' notice unless shareholder approval has been obtained for the holding of such meetings on not less than 14 clear days' notice; as sought by Resolution 17. The Company undertakes to meet the requirements for electronic voting under the Shareholders' Rights Regulations before calling a general meeting on 14 clear days' notice. If given, the approval will be effective until the Company's next Annual General Meeting when it is intended that a similar resolution will be proposed. The Directors will only consider taking advantage of the flexibility permitted by this authority if it is appropriate and considered necessary to do so in the interests of the Company and shareholders as a whole.