PENNON GROUP PLC

FULL YEAR RESULTS 2015/16

DELIVERING FOR CUSTOMERS AND SHAREHOLDERS

25 MAY 2016

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AGENDA

OVERVIEW

FINANCIAL PERFORMANCE

OPERATIONAL PERFORMANCE

OUTLOOK

Q&A

CHRIS LOUGHLIN

CHIEF EXECUTIVE OFFICER

DELIVERING OUR STRATEGY

DELIVERING FOR CUSTOMERS AND SHAREHOLDERS

STRONG PERFORMANCE ACROSS WATER AND WASTE

DRIVING VALUE THROUGH EFFICIENCY

GROWING AND MAINTAINING OUR ASSET BASE

OPERATIONAL PERFORMANCE DELIVERING FINANCIAL BENEFITS RORE 11.7%

WELL-PREPARED FOR THE FUTURE

SECTOR-LEADING DIVIDEND POLICY - +4% P.A. GROWTH OVER RPI TO 2020

PENNON GROUP PLC

SUSAN DAVY

CHIEF FINANCIAL OFFICER

FINANCIAL HIGHLIGHTS 2015/16

STRONG RESULTS

RESULTS IN-LINE WITH MANAGEMENT EXPECTATIONS

VIRIDOR GROWTH AND BOURNEMOUTH WATER CONTRIBUTION MITIGATING SOUTH WEST WATER REVENUE RESET

SIGNIFICANT CAPITAL INVESTMENT CONTINUES

STRONG FUNDING POSITION

FINANCIAL HIGHLIGHTS 2015/16

STRONG RESULTS

£M

Underlying[1]		2015/16	2014/15	CHANGE
Group Revenue		1,352.3	1,357.2	(0.4%)
Group EBITDA		448.4	411.0	+9.1%
Group Adjusted EBITDA [2]		508.4	465.9	+9.1%
Group Operating Profit		261.8	246.6	+6.2%
Group Profit Before Tax	A	211.3	210.7	+0.3%
Earnings per share [4] (p)	B	39.5	39.8	(0.8%)
Dividend per share (p)		33.58	31.80	+5.6%

Underlying Profit Before Tax to Statutory Profit After Tax (PAT)

Non-underlying Items (Profit Before Tax)	C	(5.0)	(13.7)	+63.5%
Tax	D	(38.0)	(54.7)	+30.5%
PAT (attributable to holders of hybrid capital)		(16.2)	(16.0)	(1.3%)
PAT (attributable to shareholders)		152.1	126.3	+20.4%

(1) Before non-underlying items as set out on p.12
(2) Statutory EBITDA plus share of Joint Venture EBITDA and IFRIC 12 interest receivable (previously reported as "underlying EBITDA")
(3) Cost of capital reset £35.7m net of 14/15 bill smoothing £22.2m
(4) Before deferred tax. Basic earnings per share (statutory basis) 37.0p

A

PBT IN-LINE WITH 2014/15

- Net £13.5m[3] impact of revenue reset mitigated by ERF profit growth
- Contribution from Bournemouth Water

B

EPS COMPARABLE WITH 2014/15

- Growth in Viridor
- Outperformance in water

C

NON-UNDERLYING ITEMS

- Restructuring
- Derivatives

D

TAX

- Government headline corporation tax rates reduced

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VIRIDOR FINANCIAL HIGHLIGHTS 2015/16

GROWTH DRIVEN BY ERFs

£M		2015/16	2014/15	CHANGE
Revenue[1]		**806.2**	**835.9**	**(3.6%)**
EBITDA[2]		**116.5**	**80.4**	**+44.9%**
ERFs	A	89.7	33.7	+166.2%
Landfill	B	6.3	15.4	(59.1%)
Landfill Gas	B	31.5	35.8	(12.0%)
Recycling	C	13.1	11.5	+13.9%
Contracts, Collections & Other		36.5	37.5	(2.7%)
Indirect Costs		(60.6)	(53.5)	(13.3%)
Share of JV EBITDA		43.3	41.4	+4.6%
IFRIC 12 Interest Receivable		16.7	13.5	+23.7%
Adjusted EBITDA[2][3]		**176.5**	**135.3**	**+30.5%**
Profit Before Tax[2]		**30.7**	**27.7**	**+10.8%**
Non-underlying Items Before Tax[4]		**(5.0)**	**(26.7)**	**+81.3%**
Capital Investment[5]		**182.8**	**262.2**	**(30.3%)**

(1) Including landfill tax and construction spend on service concession arrangements
(2) Before non-underlying items
(3) Statutory EBITDA plus share of Joint Venture EBITDA and IFRIC 12 interest receivable (previously reported as "underlying EBITDA")
(4) £5.0m restructuring charge in 2015/16
(5) Including construction spend on service concession arrangements

A

GROWTH IN ERF EBITDA

- Increasing as plants ramp-up, 8 plants now on-stream
- Expected to contribute c.£100m of EBITDA in 2016/17

B

OPTIMISING LANDFILL

- Landfill declining as expected, focused on delivering value
- Maximising gas yields

C

RECYCLING SELF-HELP

- EBITDA up year-on-year reflecting self-help measures

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WATER BUSINESS FINANCIAL HIGHLIGHTS 2015/16

OUTPERFORMING THE REGULATORY CONTRACT – 11.7% RORE

£M	2015/16	2014/15	CHANGE
Revenue A	**547.0**	**522.2**	**+4.7%**
South West Water	505.1	522.2	(3.3%)
Bournemouth Water	41.9	N/A	N/A
EBITDA(1) B	**335.2**	**331.3**	**+1.2%**
South West Water	317.8	331.3	(4.1%)
Bournemouth Water	17.4	N/A	N/A
Operating Profit(1)	**224.5**	**225.4**	**(0.4%)**
South West Water	215.0	225.4	(4.6%)
Bournemouth Water	9.5	N/A	N/A
Profit Before Tax(1)	**165.7**	**167.9**	**(1.3%)**
South West Water	159.7	167.9	(4.9%)
Bournemouth Water	6.0	N/A	N/A
Non-underlying Items Before Tax(2)	**(5.2)**	**11.8**	**(144.1%)**
Capital Expenditure	**134.1**	**145.1**	**(7.6%)**
South West Water	126.3	145.1	(13.0%)
Bournemouth Water	7.8	N/A	N/A

A

REVENUE

- SWW revenue reset impact
- Bournemouth Water contribution

B

EBITDA

- Totex outperformance of £56m (2.5% RORE)
- Operating costs reduced, SWW bad debt charges reduced from 1.7% to 1.5%, BW from 0.8% to 0.4%

RCV INCREASING

- +7.6% to £3,150m in 2015/16
- +21% over K6

(1) Before non-underlying items
(2) £5.2m restructuring charge in 2015/16

TAXATION

CORPORATION TAX

£M		2015/16	2014/15
Current Year			
Current tax	A B	34.3	44.7
Deferred tax	B	23.3	8.5
		57.6	**53.2**
Prior Year[(1)]	C		
Current tax		(1.4)	(5.5)
Deferred tax		15.9	9.7
		14.5	**4.2**
Total Underlying Tax		**72.1**	**57.4**
Deferred tax – change of rate	A	(33.1)	-
Tax credit on non-underlying items		(1.0)	(2.7)
		38.0	54.7

(1) Includes a charge relating to a financial instrument item that remains to be agreed with HMRC. This is largely offset by credits relating to the finalisation of prior year tax computation submissions and a reassessment of uncertain tax positions relating to capital allowance claims

A

CHANGE IN TAX RATE

- Current year current tax lower y-o-y reflecting reduction in headline corporation tax rate
- Deferred tax credit

B

CAPITAL ALLOWANCES

- Increased as ERFs came on-stream
- Impact: reduces current tax, increases deferred tax

C

TAX POSITIONS

- Outstanding tax positions in process of being agreed with HMRC
- Nature of investment and financing programme

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NON-UNDERLYING ITEMS

2015/16 POSITION

£M		2015/16	2014/15
Operating (costs)/ credits			
• Restructuring costs	A	(10.2)	-
• Pension scheme benefit changes		-	14.9
• Environmental and landfill restoration provisions		-	6.7
• Underperforming contracts		-	(11.0)
• Impairment of property, plant and equipment(1)		-	(24.3)
Net operating costs		**(10.2)**	**(13.7)**
Movement in derivatives(2)	B	5.2	-
Impact on profit before tax		***(5.0)***	***(13.7)***
Deferred tax – change of rate	C	33.1	-
Tax credit on non-underlying items		1.0	2.7
Net credit/ (charge) for the year		**29.1**	**(11.0)**

A

RESTRUCTURING

- Initiatives across the Group, will have enduring benefits in excess of £11m p.a. from 2017/18

B

DERIVATIVES (LONG-DATED)

- Movements in fair value shown separately within the income statement to make clearer
- Considered non-underlying

C

CHANGE IN RATE

- Change in the headline tax rate has resulted in a deferred tax credit

(1) The net impairment for 2015/16 consists of a gross charge of £60.9m (2015 £33.5m) offset by an impairment reversal of £60.9m (2015 £9.2m)
(2) Associated with movements in one long-term (2040) fixed rate debt instrument

GROUP CAPITAL INVESTMENT

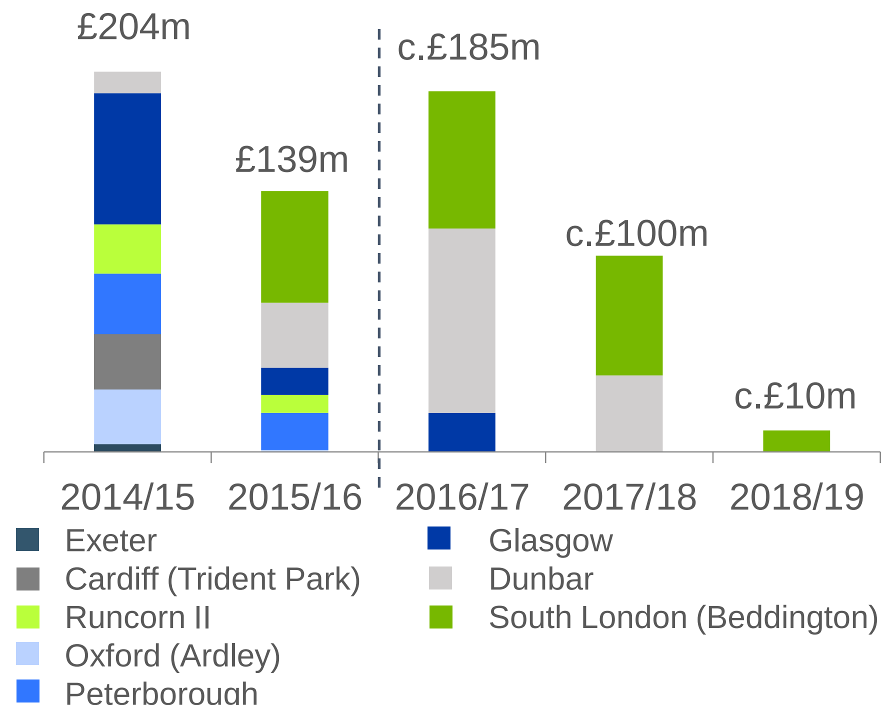
INVESTING FOR GROWTH

£M	2015/16	*2014/15*
Viridor		
ERFs	139	*204*
Recycling	7	*22*
Landfill Energy	12	*16*
Contracts and Collections	11	*5*
Other[1]	14	*15*
Viridor Total	***183***	***262***
South West Water		
Clean Water	51	*57*
Waste Water	75	*88*
Bournemouth Water		
Clean Water	8	*N/A*
Water Business Total	***134***	***145***
Total Pennon Capital Investment[2][3]	***317***	***407***

ERF CAPITAL INVESTMENT[4][5]

REMAINING ERF CAPITAL INVESTMENT

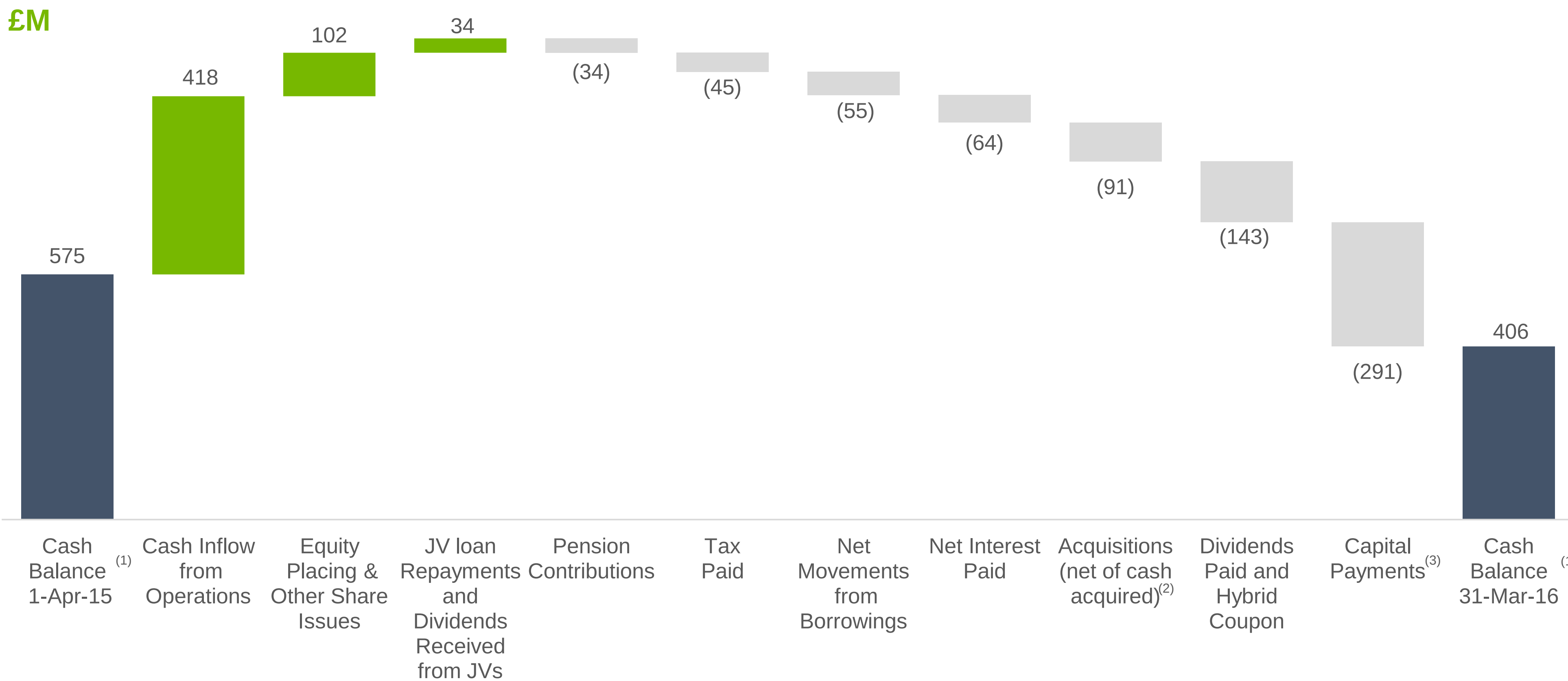
c.£295M



(1) Includes Viridor Project Enterprise to integrate and advance Viridor's new business-wide systems
(2) Including construction spend on service concession arrangements
(3) Includes £9.4m of capitalised interest
(4) Committed portfolio, excludes Avonmouth ERF
(5) Future periods exclude capitalised interest and capital expenditure during operation

CASH FLOW STATEMENT

STRONG CASH INFLOW FROM OPERATIONS, CONTINUING INVESTMENT



(1) Cash and cash equivalents (excluding restricted cash)
(2) Predominantly includes costs related to the acquisition of Bournemouth Water
(3) Including construction spend on service concession arrangements and proceeds from sale of property, plant and equipment

BALANCE SHEET

STRONG FUNDING POSITION UNDERPINNING CAPITAL INVESTMENT

GROUP NET BORROWINGS

£2,484m

(31 March 2015 £2,197m)

GROUP NET GEARING[1]

62.5%

(31 March 2015 61.9%)

WATER BUSINESS NET DEBT/RCV

59.7%

(SWW 31 March 2015 62.1%)

CASH/COMMITTED FACILITIES[2]

£1,707m

NET BORROWINGS INCREASED WITH CAPITAL INVESTMENT

- Bournemouth Water debt assumed on acquisition

GEARING REMAINS WELL WITHIN THE OFWAT EFFICIENT LEVELS

COMMITTED FUNDING IN PLACE

- £470m of new/renewed facilities arranged
  - £130m EIB funding
  - £100m new 20 year facility with deferred drawdown
  - £100m new South West Water finance leases
  - £140m of term loans and revolving credit facilities
- South West Water funded to March 2019, ERF programme fully funded - 83% of this is corporate finance – representing our wholly-owned ERFs

(1) Net borrowings/(equity + net borrowings)
(2) Including £227m deposits with Letters of Credit providers and Lessors

BALANCE SHEET

STRONG FUNDING POSITION UNDERPINNING CAPITAL INVESTMENT

GROUP NET FINANCE COSTS(1)

£54.1m

(2014/15 £40.8m)

GROUP AVERAGE INTEREST RATE

3.3%

(2014/15 3.4%)

WATER BUSINESS AVERAGE INTEREST RATE

3.1%

(2014/15 SWW 3.3%)

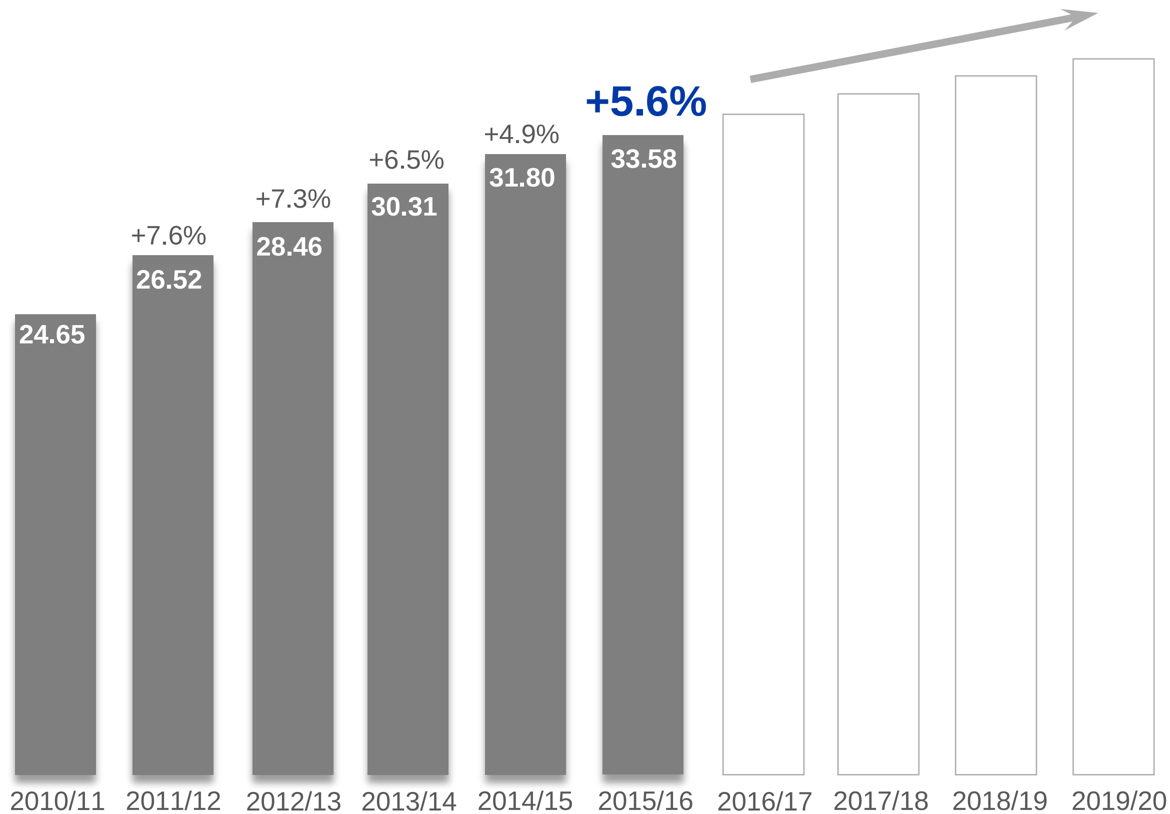
SUSTAINABLE FUNDING

- Diversified funding mix of fixed, floating and index linked borrowings
- Weighted average debt maturity of 22 years - matching the asset base
- Water business funding:
  - 2/3 of funding from finance leases
  - Long maturity and secured margins of finance leases
  - 25% of funding from RPI-linked debt(2)
  - Bournemouth Water RPI index-linked Artesian financing structure de-securitised and transferred to South West Water

(1) Before non-underlying items
(2) RPI-linked debt as a proportion of gross debt

DIVIDEND POLICY

SECTOR-LEADING, PROGRESSIVE DIVIDENDS



Note: Full Year dividend in pence per share

+4%

annual increase above RPI policy to 2020

- Recommended final dividend up 6.0% to 23.12p
- Full year dividend up 5.6% to 33.58p, reflecting RPI of 1.6% at March 2016

Scrip dividend alternative available as an option to shareholders

CHRIS LOUGHLIN

GROUP CHIEF EXECUTIVE OFFICER

STRONG PERFORMANCE ACROSS WATER AND WASTE

WATER - DELIVERING NET ODI REWARD FOR 2015/16

NO WATER RESTRICTIONS

SWW 19 YEARS

BW SINCE PRIVATISATION

STRONG PROGRESS ON ODIs, K6 DELIVERY ON TRACK

- Asset reliability - stable serviceability across all areas
- Leakage targets met every year
- No water restrictions for customers

DRINKING WATER QUALITY(1)

SWW 99.97%

BW 100.00%

SECTOR LEADING DRINKING WATER QUALITY

- 2015 report will be published in July
  - South West Water expected to be in the top quartile
  - Bournemouth Water expected to be top of the table

SWW BATHING WATER COMPLIANCE(2)

97.2%

ACCELERATED INVESTMENT IN BATHING WATER IMPROVEMENTS DELIVERING

- Over 97% of beaches achieved the new, more stringent EU standards
- Zero ‘serious’ (Category 1) pollution incidents in 2015/16

(1) As measured by mean zonal compliance, the recognised industry measure for overall drinking water quality

STRONG PERFORMANCE ACROSS WATER AND WASTE

VIRIDOR - ERFs DELIVERING GROWTH

ERF PORTFOLIO

8 operational

3 under construction

OPERATIONAL ERFs

2.1MT processed

142 MW capacity

LANDFILL

14 sites

99 MW(1)

SECURED REVENUE STREAMS FOR ERFs

- Ramp-up progressing well at the 5 ERFs brought on-stream in 2014/15
- Peterborough added H2 2015/16
- c.80% long-term contracted volumes (and associated price) across the ERF portfolio
  - And the remaining c.20% from short and medium-term contracts
  - Index-linked contracts, risk-mitigation built-in

CONTRACTS AND COLLECTIONS DELIVERING ERF FUEL / RECYCLING INPUTS

- Performing in-line with expectations, increasing role in securing waste inputs/ ERF fuel

DELIVERING CASH FLOW FROM LANDFILL - OPTIMISING CAPACITY

- Closing sites, reducing to a small number of strategic sites
- Extracting value from sites - maximising opportunities for existing grid connections
- Optimising landfill gas output

(1) Excluding 3MW of capacity at sub-contract sites in Suffolk

STRONG PERFORMANCE ACROSS WATER AND WASTE

VIRIDOR AREAS OF FOCUS - RECYCLING

VOLUMES
+7.3%
1.8MT (2014/15 1.7MT)

REVENUES
⬇ £1/T
£85/T (2014/15 £86/T)

COSTS
⬇ £2/T
£77/T (2014/15 £79/T)

EBITDA MARGIN
⬆ £1/T
£8/T (2014/15 £7/T)

RECYCLING 'SELF-HELP' TO DRIVE MARGIN IMPROVEMENT

- Short term outlook for recyclate prices relatively stable
- Not relying on a near term recyclate price recovery
- Further 'self-help' measures to drive margin improvement
  - Improved asset utilisation
  - Cost and overhead reduction
  - Organisation simplification
  - Portfolio rationalisation to improve returns

MARKET SHIFT TO SHARING COMMODITY RISK/OPPORTUNITY WITH CLIENTS

STRONG PERFORMANCE ACROSS WATER AND WASTE

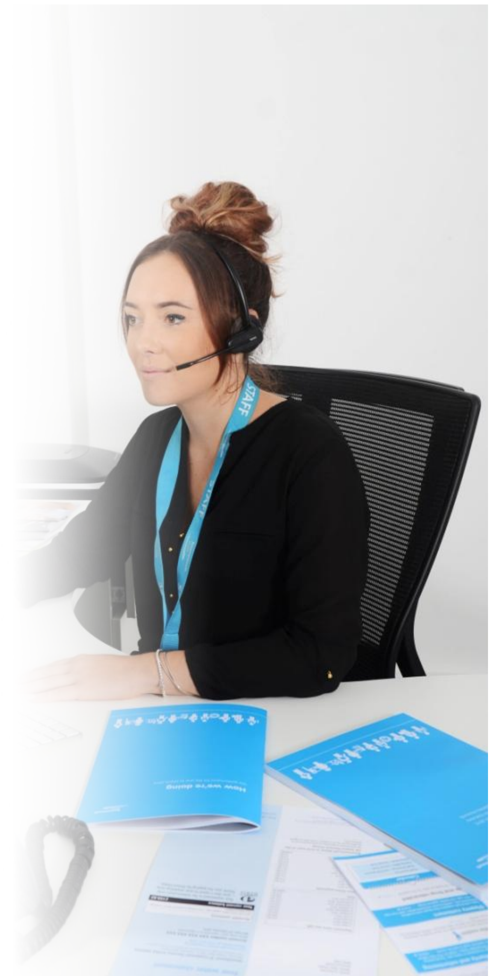
WATER AREAS OF FOCUS – SIM AND WASTEWATER

SIM IMPROVEMENTS

- Sharing best practice between South West Water and Bournemouth Water
- Bournemouth Water at SIM performance frontier
- Year-on-year improvements in South West Water SIM

WASTEWATER IMPROVEMENTS

- Continuing our improving trend on compliance
- Additional investment in monitoring technologies and maintenance to target a reduction in pollution risk
- Zero Category 1 (‘serious’) pollution incidents



Note: Service Incentive Mechanism (SIM) - industry-wide measurement

DRIVING VALUE THROUGH EFFICIENCY

COST REDUCTION PLANS – EXISTING AND NEW

TOTEX OUTPERFORMANCE(1)

£56m

2015/16

SWW/BW SYNERGIES

£27m

2015-2020

ADDITIONAL EFFICIENCIES ACROSS THE GROUP

£11m p.a.

By 2017/18

STRONG TOTEX OUTPERFORMANCE IN 2015/16

- Delivering Totex outperformance – front-end loaded
  - Opex lower than last year
  - H_5O alliance continuing to deliver capital efficiency(2)

INTEGRATION OF BOURNEMOUTH INTO SOUTH WEST WATER

- Back offices merged, licences merged, NHH combined, customer service capabilities aligned

FURTHER COST SAVINGS AND SYNERGIES UNDERWAY

- Future cost savings of c.£9m p.a.(3) planned at Viridor
  - Reorganisation and restructuring, streamlining overheads
  - Centralising and optimising sales force, logistics and fleet management
- c.£2m p.a(3) of additional Totex outperformance planned in water
- Shared services review - integrating, sharing best practice, reducing costs
- Natural energy hedge within the Group, a third of generation
  - c.90% hedged for 2016/17, and over 50% hedged out to 2019/2020

(1) £53m from South West Water, £3m from Bournemouth Water including integration synergies already delivered. Outperformance includes a reduction in the RCV run-off for the RCV element of TOTEX outperformance calculated based on the Final Determination PAYG. Tax impacts reflect actual effective tax rates of 10.5%
(2) H_5O alliance consists of Balfour Beatty, Hyder Consulting, Interserve Project Services, Pell Frischmann and South West Engineering
(3) Non-underlying Group restructuring costs of c.£10m recognised in 2015/16 to implement changes, with a two year payback

GROWING AND MAINTAINING OUR ASSET BASE

OPTIMISING THE RISK/REWARD PROFILE

GROWING ASSET BASE

- Water RCV growth of 21% over K6
- ERFs - all 11 plants on-stream by H1 2018/19
  - Glasgow – commissioning expected to commence in H1 2016/17
  - Dunbar and Beddington (South London) - construction in progress

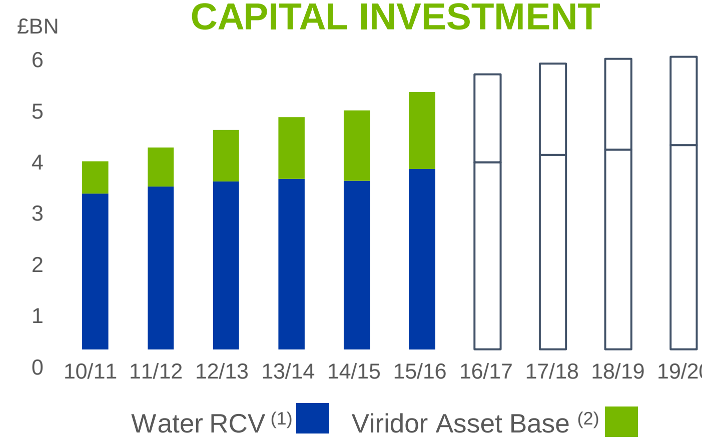
TWO THIRDS OF REVENUES INDEX-LINKED AND LONG-TERM CONTRACTED

- c.80% of ERF portfolio volumes (and associated price) contracted long-term
- 25-year rolling licence for water

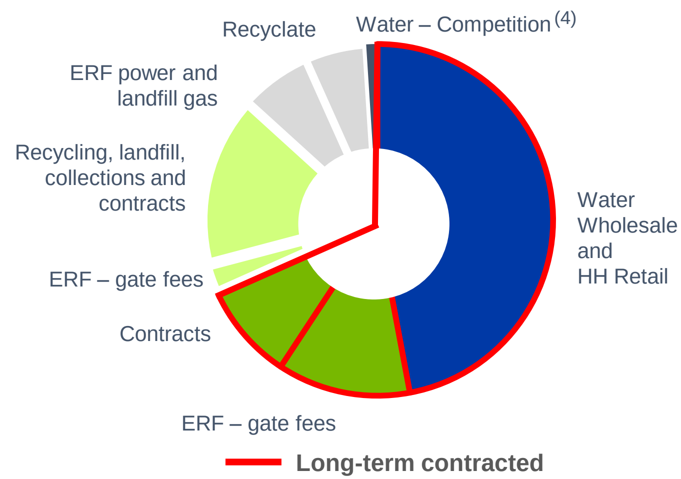
REMAINING ONE THIRD OF REVENUES

- Ensuring viable long-term market
- Seeking appropriate risk/reward balance

CAPITAL INVESTMENT



REVENUE PROFILE(3)



(1) South West Water RCV, plus Bournemouth Water RCV from 2015-16 onwards
(2) Includes NBV of PPE assets, JV Shareholder Loans and IFRIC 12 Financial Assets
(3) Adjusted to include share of JV revenue and excluding landfill tax, IFRIC 12 construction revenue and revenue subject to natural offset within the Group (i.e. power and recyclate purchase costs)
(4) Non-Regulated and Non-Household Retail Revenue (excluding wholesale charges)

OPERATIONAL PERFORMANCE

DELIVERING FINANCIAL BENEFITS

11.7% RETURN ON REGULATED EQUITY

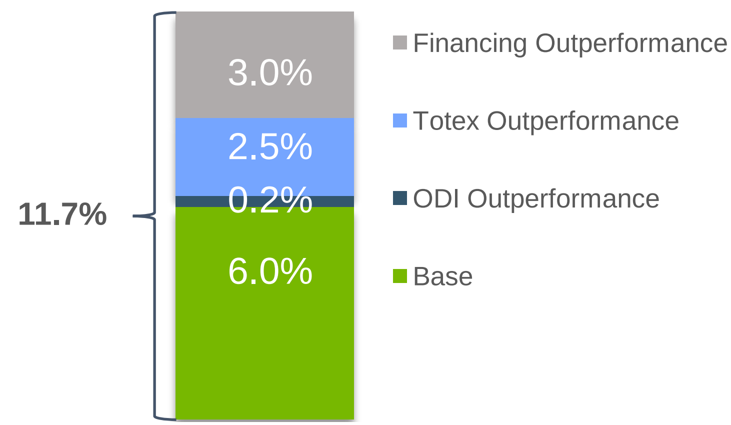
DRIVING EARNINGS GROWTH FROM ERFs AT VIRIDOR

- On track for c.£100m EBITDA from ERFs in 2016/17

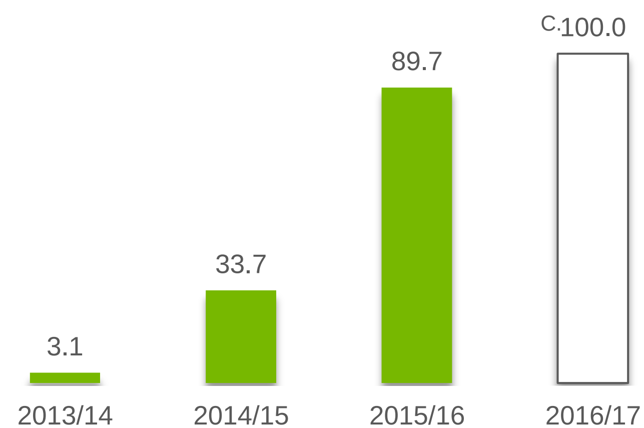
RORE AND ERF EBITDA UNDERPINNING SECTOR-LEADING DIVIDEND POLICY

- +4% growth per annum above RPI to 2020

2015/16 RORE[1]



VIRIDOR ERF EBITDA £M[2]



(1) RoRE reflects the Ofwat regulatory guidance of Base RoRE + Outperformance. It is calculated using actual results (before non-underlying items, deflated into 2012/13 prices) and compared against the Final Determination allowances sourced from Ofwat published models and based on notional gearing and annual average RCV. No SIM reward/penalty recognised this year in-line with Ofwat's guidance. Financing outperformance is based on comparing average iBoxx rates, adjusted by notional Final Determination RPI of 2.8% and compared to the cost of debt assumed of 2.75%. This is applied to an assumed new debt proportion of 25% and adjusted for the notional tax impact

(2) Before non-underlying items

WELL-PREPARED FOR THE FUTURE

WATER 2020 – INITIAL REACTION

CUSTOMER ENGAGEMENT

RPI/CPI

SLUDGE

WATER RESOURCES

DIRECT PROCUREMENT FOR CUSTOMERS

LICENCE CHANGES

PENNON GROUP PLC

WELL-PREPARED FOR THE FUTURE

OUTLOOK

STRONG WATER BUSINESS

- Outperforming and well-prepared to take opportunities in a changing regulatory environment

ERFs DELIVERING GROWTH

- On track to contribute c.£100m to EBITDA in 2016/17, despite removal of LECs and lower energy prices
- Avonmouth ERF option remains

RECYCLING ‘SELF-HELP’ TO DELIVER MARGIN IMPROVEMENT

- Reducing costs, simplifying the organisation, improving utilisation and rationalising portfolio to focus on core assets

DRIVING VALUE THROUGH EFFICIENCY

- Cost reduction plans – existing and new
- Shared Services Review - opportunities to create additional value sharing skills and knowledge across Pennon’s businesses and reduce costs

SECTOR-LEADING DIVIDEND POLICY

- +4% p.a. growth over RPI to 2020

DELIVERING OUR STRATEGY

DELIVERING FOR CUSTOMERS AND SHAREHOLDERS

STRONG PERFORMANCE ACROSS WATER AND WASTE

DRIVING VALUE THROUGH EFFICIENCY

GROWING AND MAINTAINING OUR ASSET BASE

OPERATIONAL PERFORMANCE DELIVERING FINANCIAL BENEFITS RORE 11.7%

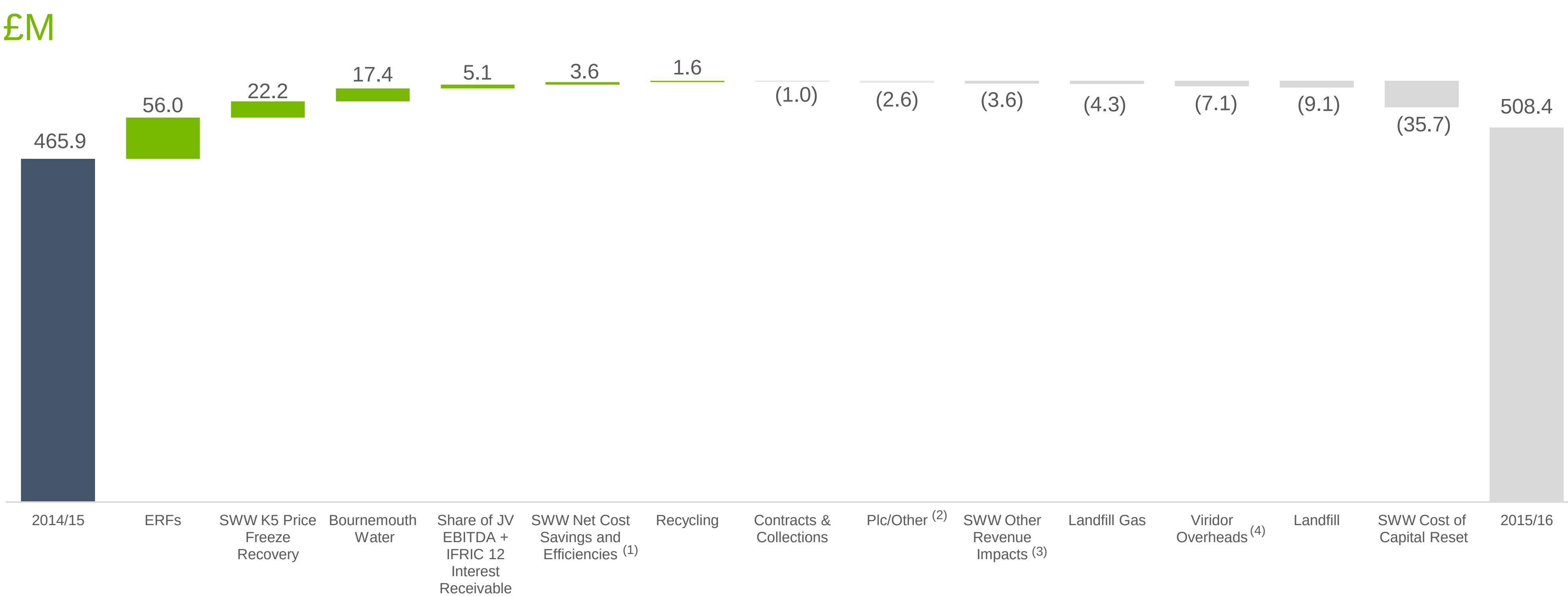
WELL-PREPARED FOR THE FUTURE

SECTOR-LEADING DIVIDEND POLICY - +4% P.A. GROWTH OVER RPI TO 2020

QUESTIONS

APPENDIX

PENNON
ADJUSTED GROUP EBITDA



(1) Includes cost increases due to inflation
(2) Includes Bournemouth Water acquisition related costs
(3) Includes impact of meter switchers and new connections
(4) Includes Project Enterprise costs

PENNON

DIVERSIFIED FUNDING SOURCES

£M (As at 31 March 2016)	
Finance Leasing	1,341
Bank Bilaterals - Term Loans	403
European Investment Bank Loans	273
Index-Linked Bond	412
Fixed Rate Bond	133
Private Placements	554
Total Gross Debt	3,116
Less: Cash/liquid Investments	(632)
Net Borrowings	2,484

KEY ROLE OF FINANCE LEASING IN PROVIDING LONG-DATED FUNDING

PENNON

FAIR VALUE OF NON-CURRENT DEBT

	AS AT 31 MARCH 2016			AS AT 31 MARCH 2015		
£M	BOOK VALUE	FAIR VALUE	DIFF	BOOK VALUE	FAIR VALUE	DIFF
Finance Leases	1,315	1,163	152	1,304	1,182	122
Bank and Other Loans	403	403	-	338	338	-
Private Placements	554	600	(46)	548	607	(59)
Fixed Rate Bond	133	198	(65)	133	200	(67)
Index-Linked Bonds	412	365	47	259	204	55
European Investment Bank Loans	235	209	26	273	250	23
Total	3,052	2,938	114	2,855	2,781	74

FAIR VALUE OF DEBT £114M LESS THAN BOOK VALUE

PENNON

NET INTEREST ANALYSIS

£M	2015/16	2014/15
Interest payable	(85.0)	(66.0)
Capitalised interest payable	(9.4)	(22.5)
Other finance income	14.7	13.5
Net interest payable	**(79.7)**	**(75.0)**
Average rate of interest	3.3%	3.4%
Net interest cover	4.4x	6.0x

- Net interest payable broadly unchanged, reflecting lower rates, offsetting higher net debt
- Effective management of interest rates
- Net interest cover reflecting lower capitalised interest as ERFs come on stream

GROUP	SWW
3.3%	**3.1%**

Note: Excludes pensions net interest, IFRIC12 “contract interest receivable”, discount unwind on provisions, interest receivable on shareholder loans to joint ventures and non-underlying items

PENNON
PENSIONS

£M	31 MARCH 2016	31 MARCH 2015
Pension schemes' assets	£793m	£692m
Pension schemes' liabilities	£834m	£752m
	£41m = £33m net of tax	£60m = £48m net of tax

- Bournemouth Water pension scheme has assets of around £87m resulting in a small surplus
- Excluding the addition of Bournemouth Water, the underlying increase in asset values reflects tax efficient accelerated contributions of around £23m
- Net deficit c.1% of Group's market capitalisation

PENNON WATER SERVICES

A STRATEGY TO RETAIN AND GROW

MERGER OF SOUTH WEST WATER AND BOURNEMOUTH WATER PROVIDES OPPORTUNITY FOR LARGER, EFFICIENT RETAILER

- Integration of existing businesses delivers operating synergies of c.10%

RETAIN EXISTING CUSTOMERS, GROW THROUGH CUSTOMER ACQUISITION NATIONWIDE

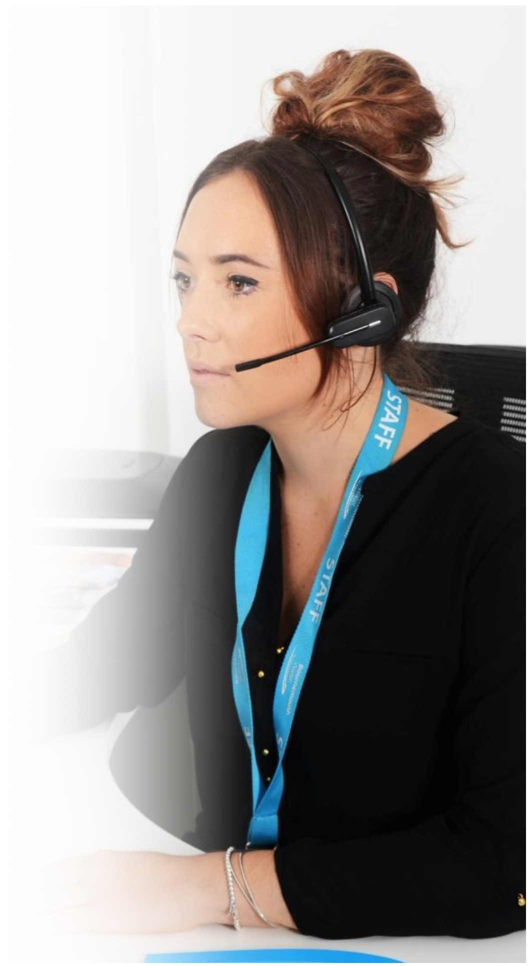
- Competitive advantage through Viridor’s 32,000 customer base

LOW RETAIL MARGINS SO CUSTOMER RETENTION IS KEY

- Tariffs and services to help customers save water and save money

ADD VALUE THROUGH MARGIN ENHANCING SUPPLEMENTARY SERVICES

- Flow monitoring
- Leak detection and repair
- Water hygiene services
- Water management services



PENNON ENERGY

SIGNIFICANT GENERATION

GROUP ENERGY GENERATION

- Total renewable energy generation of c.1.5TWh in 2015/16
  - 8 ERFs - 903GWh
  - Landfill gas – 562GWh
  - 25 Hydro turbines – 12.8GWh generation
  - 52 solar PV installations – 10.4GWh(1)
  - Anaerobic digestion – 3GWh
  - CHP – 5.1GWh
  - 1 wind turbine – 0.3GWh generation

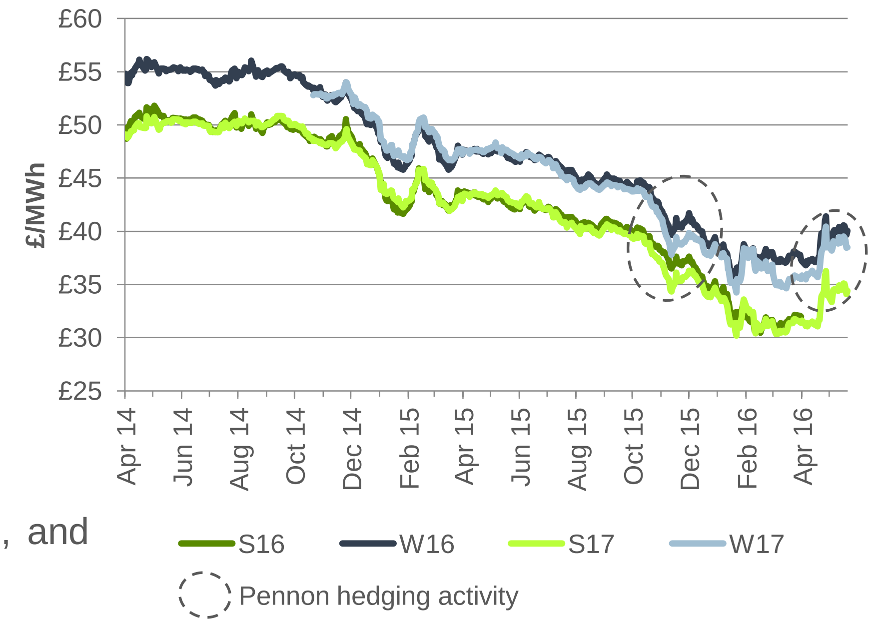
UTILISING EXISTING GRID CONNECTIONS AT LANDFILL SITES

- Capitalising on landfill gas and solar generation opportunities, and exploring energy storage

PORTFOLIO MANAGEMENT STRATEGY

- Portfolio management team in place, maximising earnings from energy trading
- Net Group hedge in place for 2016/17
  - Natural hedge within the Group, a third of generation
  - c.90% hedged for 2016/17, and over 50% hedged out to 2019/2020

UK FORWARD POWER PRICES



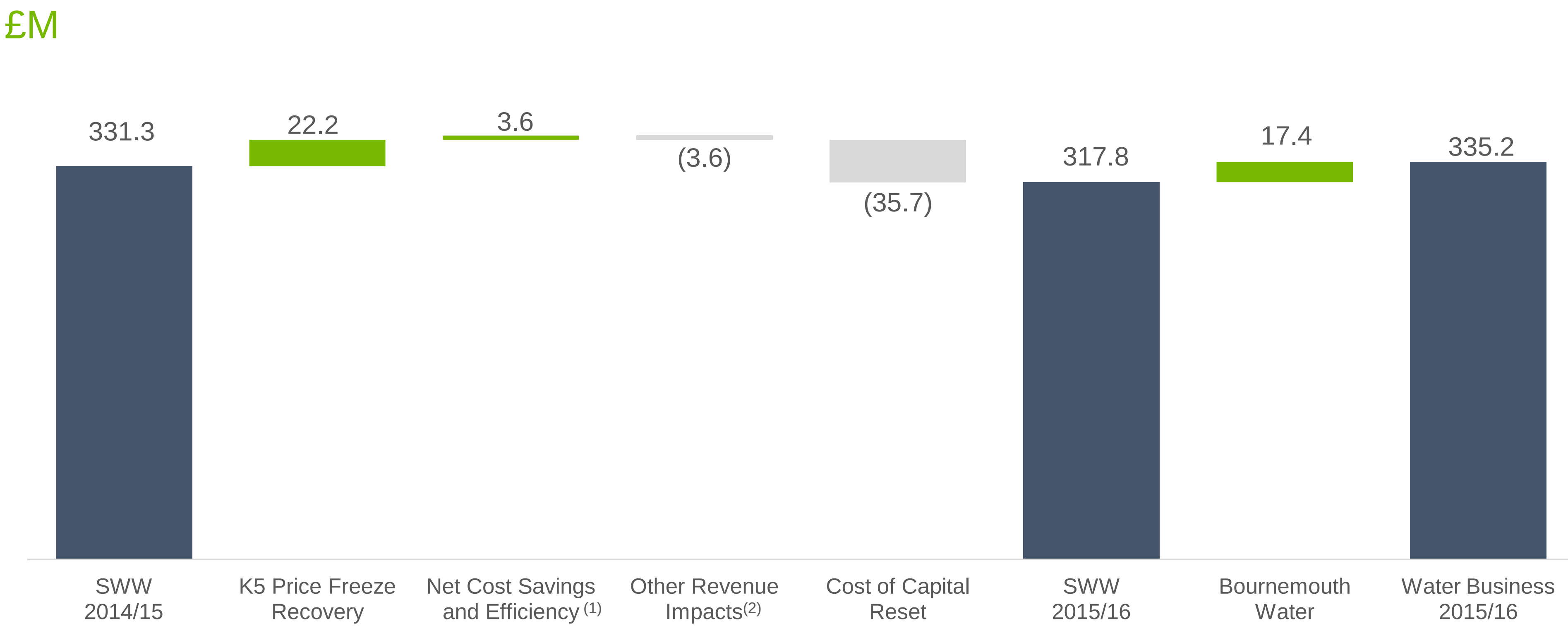
PENNON HEDGING

Largely completed in Q4 2015, further trading in early Q2 2016

(1) This includes 5.1GWh of output from two private wire schemes – Polmaugan (Restormel) and Wadebridge Renewable energy network (Nanstallon)

SOUTH WEST WATER

EBITDA BEFORE NON-UNDERLYING ITEMS



(1) Includes cost increases due to inflation
(2) Includes impact of meter switchers and new connections

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SOUTH WEST WATER

RECONCILIATION OF RORE TO FINANCIALS

COMBINED TOTEX OUTPERFORMANCE

- Operating costs £211.8m + Capital Expenditure £134.1m = £345.9m
- Totex allowance(1) assumed for 2015/16 = £401.1m
- £55.2m Totex saving equates to £27.7m of RoRE benefit after applying company sharing rate and tax impact

ODI OUTPERFORMANCE

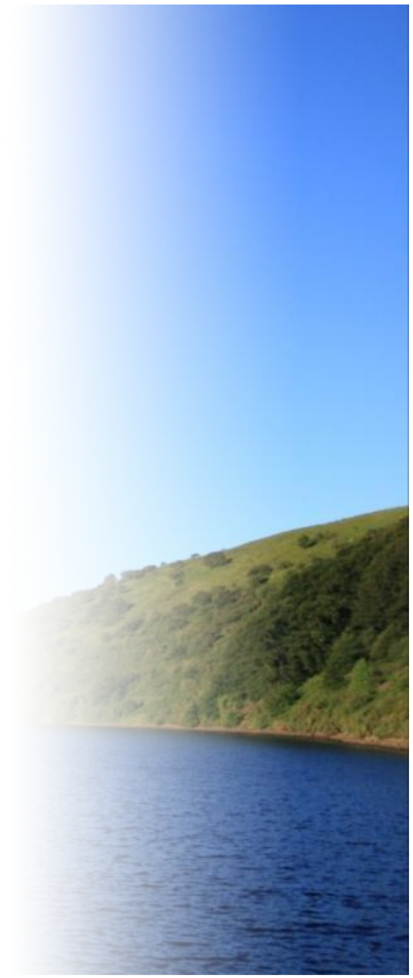
- Total net reward £2.1m(2)
- Rewards: bathing water quality, odour complaints, water restrictions, BW interruptions and leakage
- Penalties: SWW duration of supply interruptions, pollution incidents

SIM OUTPERFORMANCE

- No reward or penalty assumed in 2015/16 in-line with Ofwat's guidance for 2020 in SWW, BW assumed to remain in upper quartile with £0.2m reward
- Currently on track to deliver business plan targets in both businesses

REGULATED EQUITY

- Based on notional gearing levels of 62.5%
- 2015/16 average RCV(3):
  - SWW: £2,795m
  - BW: £142m



(1) £53m from South West Water, £3m from Bournemouth Water including integration synergies already delivered. Phasing of actual expenditure compared to the planned programme has been reflected. Outperformance includes a reduction in the RCV run-off for the RCV element of Totex outperformance calculated based on the Final Determination PAYG. Tax impacts reflect actual effective tax rates.
(2) 22% of ODIs are in period rewards/penalties
(3) 2012/13 prices

SOUTH WEST WATER

DELIVERING OPERATIONAL OUTPERFORMANCE

HIGHEST POTENTIAL RETURNS IN THE INDUSTRY

£56M(1) OF TOTEX SAVINGS DELIVERED

- Totex largest element of potential operational outperformance

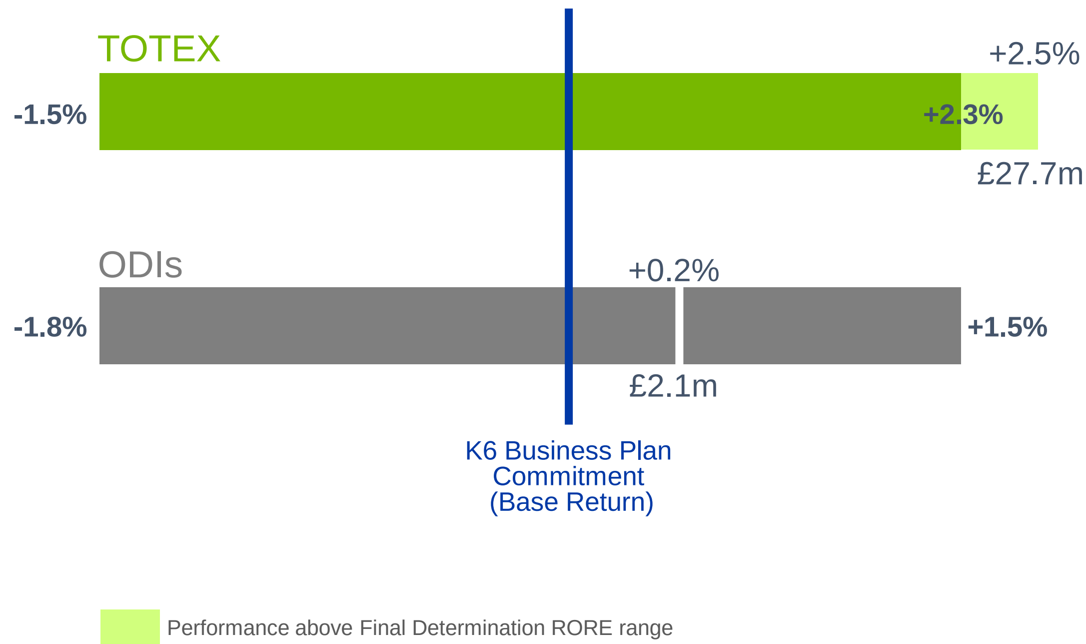
FRONT-END LOADING OF EFFICIENCIES

- Opex lower than last year – delivering operational savings
- Innovative planning, scoping and maximising construction savings

DELIVERING NET ODI REWARDS

- Early investment securing rewards
- ODIs for 2020 delivery on track
- No SIM reward/penalty recognised this year in-line with Ofwat's guidance

2015/16 OPERATIONAL RORE(2)



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(2) Operational RoRE calculated from outperformance on Total Expenditure (Totex) compared to 2014 Price Review allowances and performance on Outcome Delivery Incentives (ODI)

SOUTH WEST WATER

PERFORMANCE & WATERSHARE(1)

	Shareholder (£m)	Customer (£m)
Net Totex savings(2)	25.5	21.0
ODIs	1.8 Shareholder value	1.8 Investment in enhancing services
Other items(3)	-	3.1
Total Value Benefit	**27.3**	**25.9**

Shared through:
- Dividends

Shared through:
- Re-investment options
- Future bill reductions
- Service improvements exceeding planned targets

(1) WaterShare relates to South West Water performance and customers only
(2) Gross Totex savings of £52m (inclusive of retail), net of tax for sharing and performance purposes. Enhanced sharing ratio of 56.7% for water and 55.1% wastewater
(3) Other items including market movements on new financing returned to customers and the impact of new legislation

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SOUTH WEST WATER

RECONCILIATION OF WATERSHARE

DRIVING COST BASE EFFICIENCY

- Totex efficiencies delivered despite cost pressures

DELIVERING OUTCOMES

- ODI net rewards delivered of £1.8m

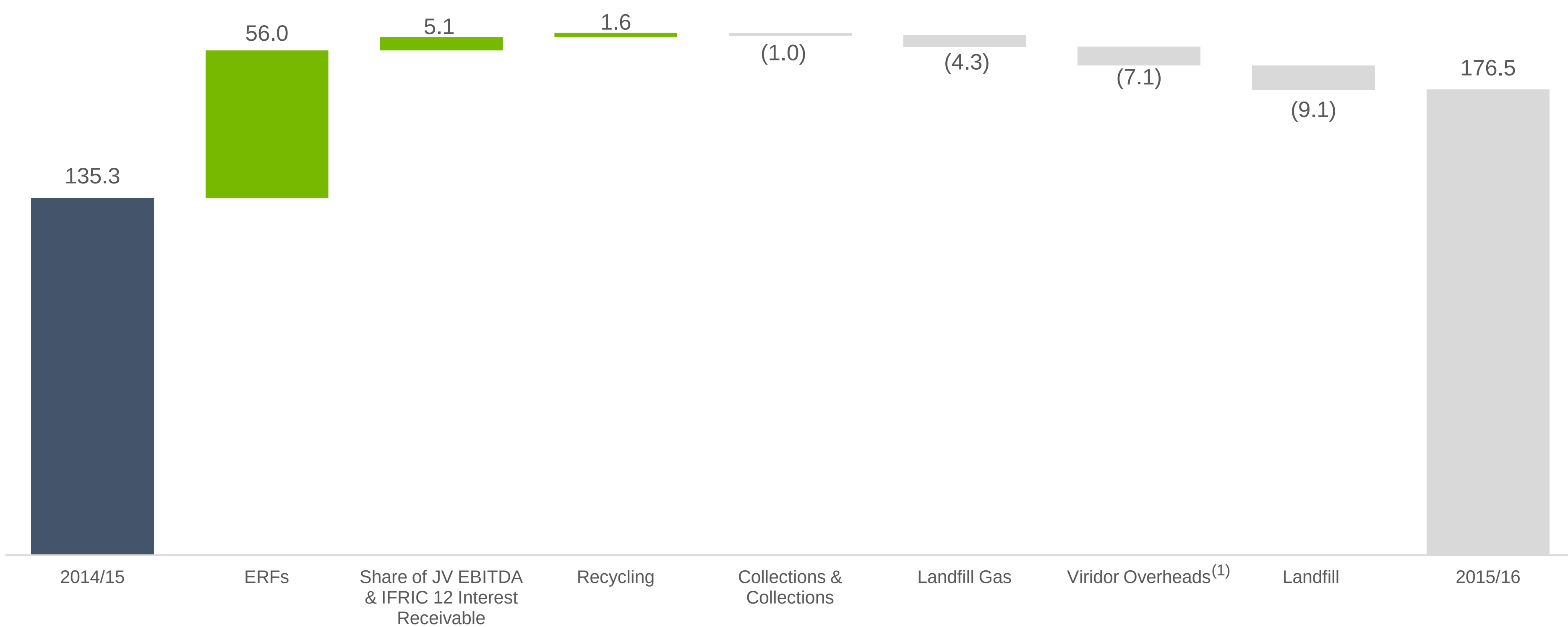
OTHER FACTORS

- Market movements on new financing returned to customers
- Changes in legislation
- Costs associated with Market Reform are significantly higher than allowed within the determination – including costs of establishing the central market operator
- Bad debt costs higher than allowances for adjusted average cost to serve (ACTs)

VIRIDOR

ADJUSTED EBITDA

£M



(1) Including Project Enterprise costs

VIRIDOR

JOINT VENTURE PROFITABILITY

£M	2015/16	2014/15	CHANGE
Lakeside			
Share of EBITDA	15.6	18.1	(13.8%)
Share of JV Profit After Tax (PAT)	6.6	8.2	(19.5%)
Viridor Laing Greater Manchester			
Share of EBITDA	3.1	3.0	+3.3%
Share of IFRIC 12 interest receivable	11.7	12.1	(3.3%)
Share of JV PAT	(0.1)	(1.3)	+92.3%
TPSCo			
Share of EBITDA	12.9	8.2	+57.3%
Share of JV PAT	(2.9)	(2.0)	(45.0%)
Share of JV EBITDA	**43.3**	**41.4**	**+4.6%**
Share of JV PAT	**3.6**	**4.9**	**(26.5%)**

SCHEDULED LAKESIDE OUTAGE DEFERRED FROM 2014/15

VIRIDOR
ERF ACCOUNTING

AN ILLUSTRATIVE, LARGE ERF (C.300KT) WILL CONTRIBUTE C.£28M TO VIRIDOR EBITDA

	ILLUSTRATIVE ERF[1]		
	IAS 16	IFRIC 12	JVs
EBITDA	£28m	£12m	--
IFRIC 12 Interest Receivable	--	£16m	--
Share of JV EBITDA (50%)	--	--	£14m
Underlying EBITDA	**£28m**	**£28m**	**£14m**

Energy Recovery Facility

IAS 16

- Oxford (Ardley)
- Cardiff (Trident Park)
- Runcorn II
- Dunbar
- South London (Beddington)
- Bolton
- Avonmouth (not committed)

IFRIC 12

- Exeter
- Glasgow
- Peterborough[2]

JVs

- Lakeside
- Runcorn I

(1) From first full year of operation
(2) Local authority funding, interest income will be negligible

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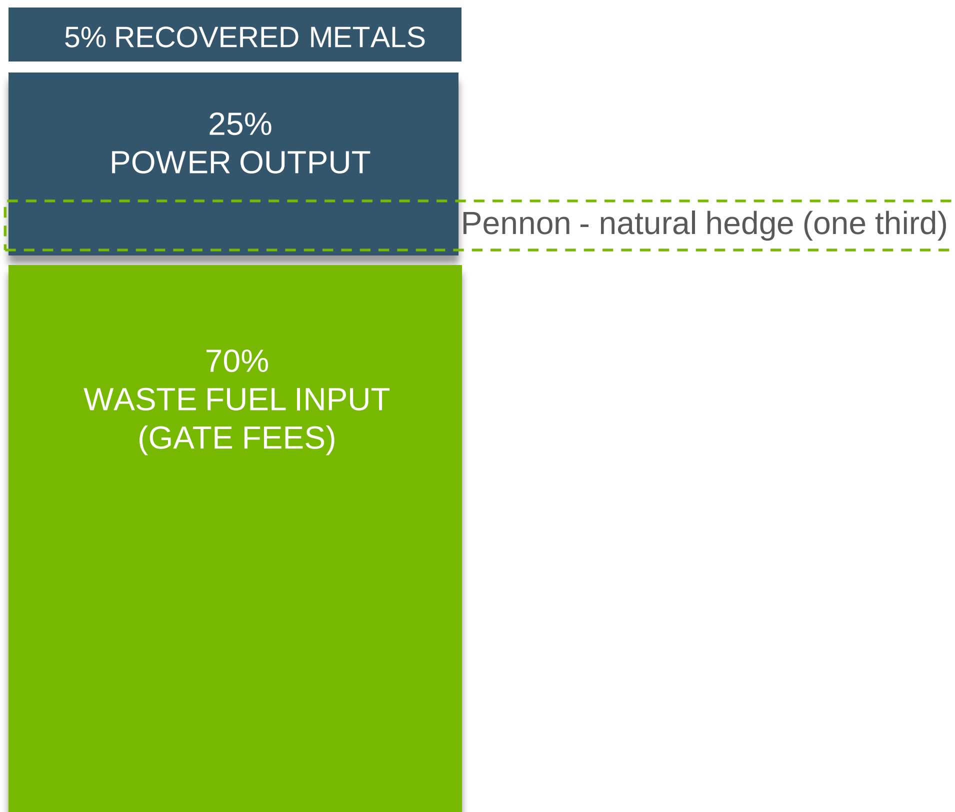
VIRIDOR

LONG-TERM REVENUE STREAMS FOR ERFs SECURED



WASTE INPUTS SECURED AT PLANT OPENING

- c.80% of volumes (and associated price) secured across the total ERF portfolio under long-term contracts
- The remaining c.20% is under short and medium-term contracts
- Index-linked contracts and risk-mitigation built-in with customer pass-through (e.g. new legislation)
- Track record of converting merchant capacity to contracted revenues

RECENT LARGE, LONG-TERM INTEGRATED CONTRACT SUCCESSES

- Tomorrow's Valley in Wales, Residual Waste Contract for 90ktpa over 25 years
- Clyde Valley in Scotland, Residual Waste Contract for 190ktpa over 25 years
- South Lanarkshire, Residual Waste Contract for 80ktpa over 10 years

VIRIDOR

LONG TERM CONTRACT BASE, WHICH COVERS c.80% OF CAPACITY

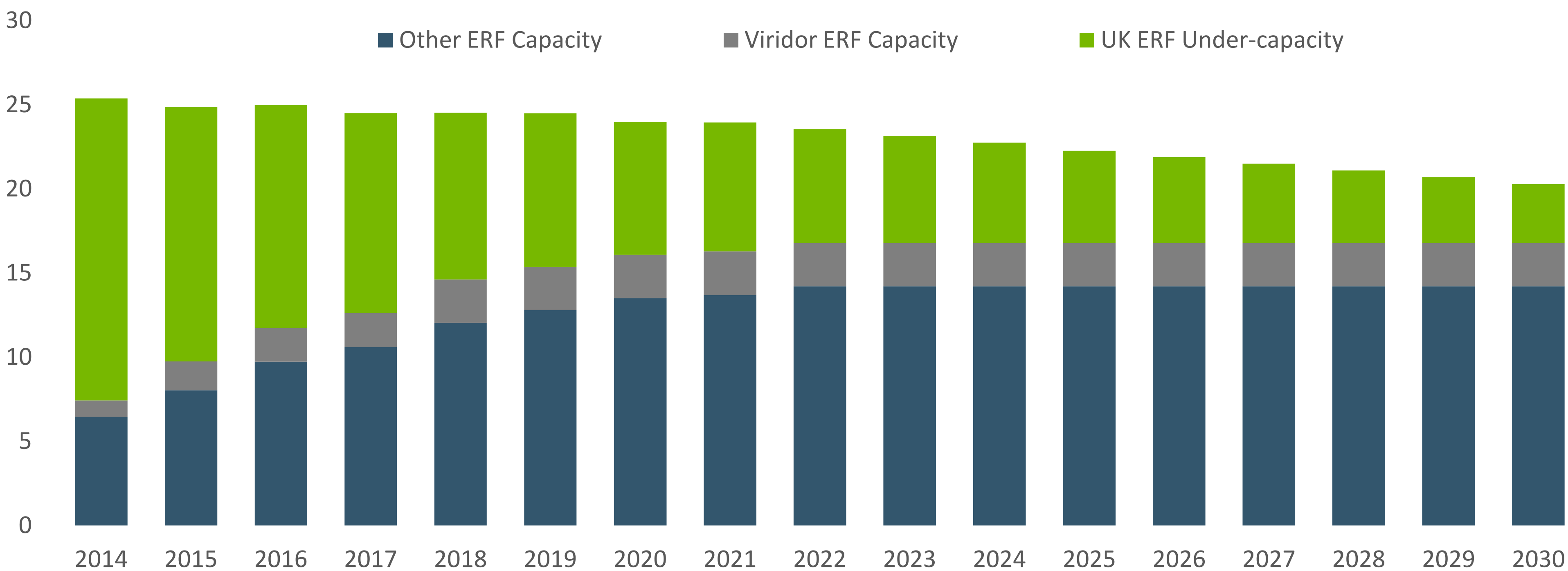
VIRIDOR ERF CAPACITY

Source: Viridor Analysis

VIRIDOR

ERF UNDER-CAPACITY CONTINUES TO 2030 AND BEYOND

UK COMBUSTIBLE RESIDUAL WASTE MARKET (MT)



Source: DEFRA, SEPA, NRW and Viridor analysis

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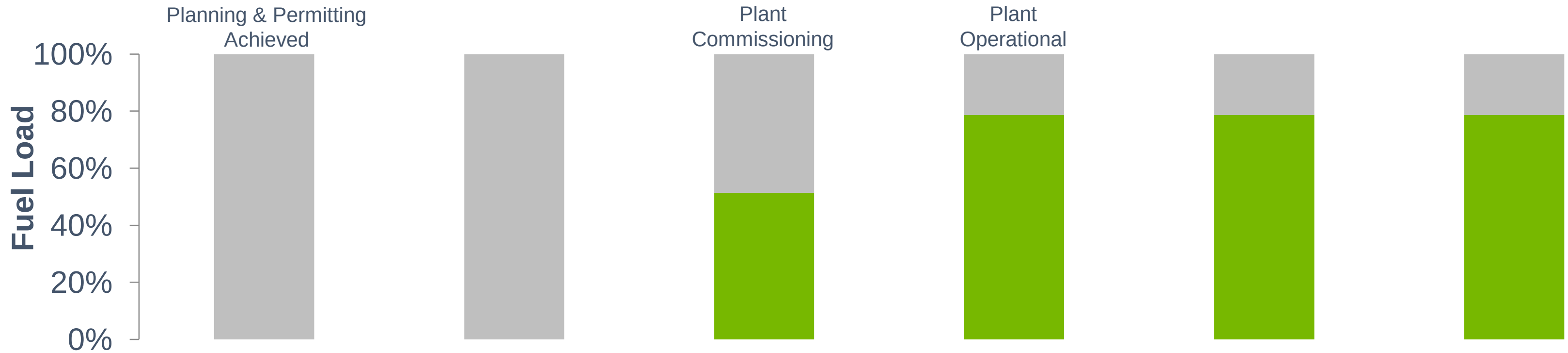
VIRIDOR

MINIMISING RISK – MERCHANT BECOMES LONG TERM CONTRACTED

Contracted %
Merchant %

TRIDENT PARK ERF



Trident Contracting Status

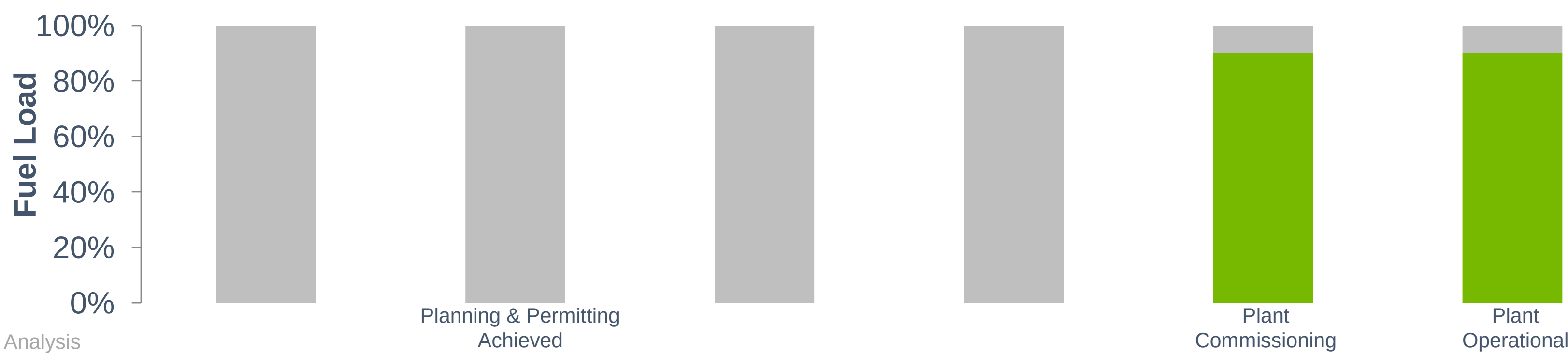
Project Gwyrdd Outline Bid Staged Stage → Project Gwyrdd in Detailed Bid & Final Bid Stage → Project Gwyrdd Contract signed & Tomorrow's Valley in Procurement → Tomorrow's Valley Completed → Further capacity available

2010 → 2011/12 → 2013/14 → 2015/16 → 2017/18 → 2019/20

Dunbar Contracting Status

Clyde Valley Preparation → Clyde Valley PQQ, ISOS & Detailed Submission Stage → Clyde Valley contract signed, new South Lanarkshire contract awarded → 90% of fuel requirement secured

DUNBAR ERF



Source: Viridor Analysis

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VIRIDOR

DELIVERING THE ERF PROGRAMME

OPERATIONAL RAMP-UP AT NEW PLANTS

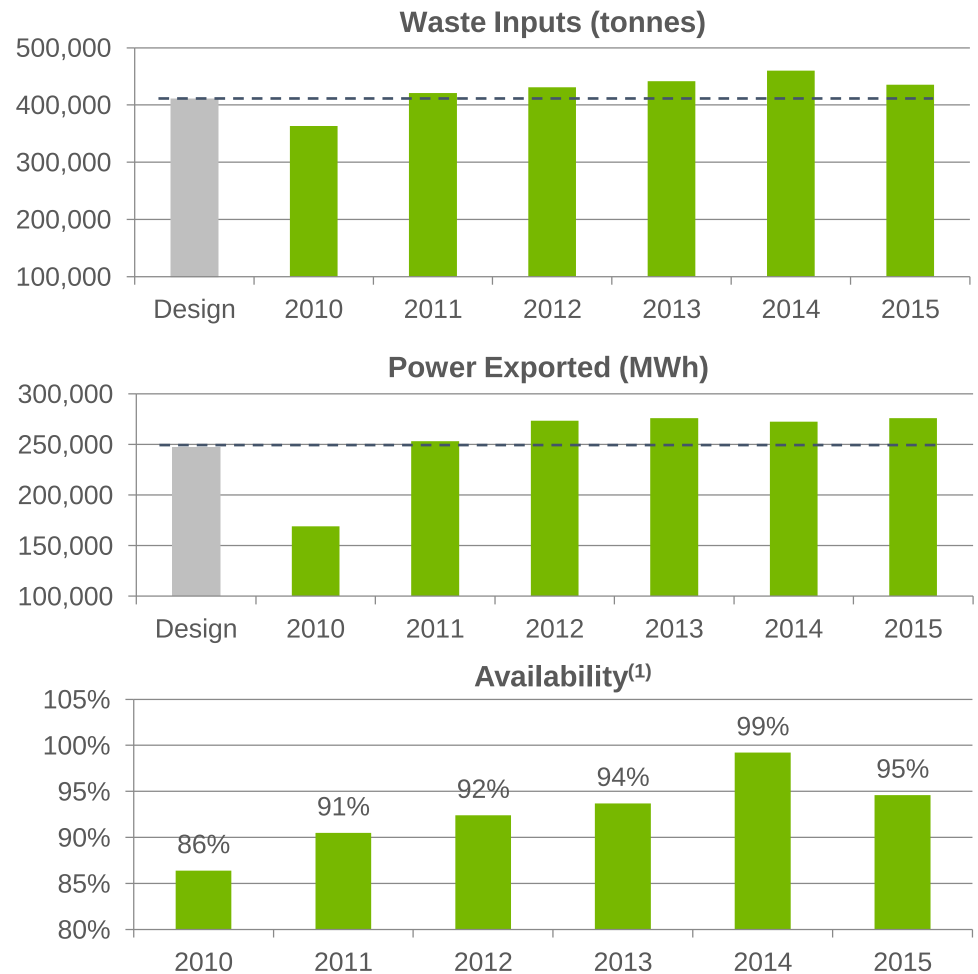
- Eight operational facilities
- Managed operational ramp-up of new ERFs, the same process performed at Lakeside
- Transition from commissioning to full operational performance at design capacity over c.12 months
- Targeting outperformance of design capacity over the life of each plant and world class utilisation

CONSTRUCTION OF THREE NEW ERFs PROGRESSING AND TO BUDGET

- Glasgow ERF commissioning expected to commence in H1 2016/17
- Dunbar and Beddington (South London) ERFs, construction underway

LAKESIDE OUTAGE DEFERRED FROM 2014/15 – RELIABILITY CENTRED MAINTENANCE

LAKESIDE RAMP-UP



(1) Hours processing in period divided by total hours in the year.

Source: Viridor Analysis

VIRIDOR

ERFs (INCLUDING JOINT VENTURES)

PROGRESS ON ERF PIPELINE

ERF BUILD-OUT NEARING COMPLETION

SITE	CAPITAL COST (1)	GROSS CAPACITY		STATUS	BASE LOAD MUNICIPAL CONTRACT	ACTUAL/EXPECTED COMMISSIONING
		Tonnes (000)	Electricity MWe			
Lakeside[2]	150	410	38	Fully operational	Merchant	Commissioned
Bolton	N/A	120	9	Fully operational	Greater Manchester	Commissioned
Exeter	47	60	3	Fully operational	Exeter	Commissioned
Oxford (Ardley)	204	300	24	Fully operational	Oxfordshire	Commissioned
Cardiff (Trident Park)	207	350	28	Fully operational	Gwyrdd (SE Wales)	Commissioned
Runcorn I[2]	236	375	28[4]	Fully operational	Greater Manchester	Commissioned
Runcorn II	216	375	41	Fully operational	Merchant	Commissioned
Peterborough	72	80	7	Operational ramp-up	Peterborough	Commissioned
Glasgow	155	200	15	Moving to early commissioning	Glasgow	H1 2016/17
Dunbar	177	300	23[5]	Construction in progress	Merchant (Clyde Valley)	H2 2017/18
South London (Beddington)	199	275	26	Construction in progress	S London	H1 2018/19
Sub Total		**2,845**	**242**			
Avonmouth[3]	233	350	28	Planning permission achieved	TBA	TBA
Grand Total		**3,195**	**270**			

(1) Capital cost excludes capitalised interest and for projects for which the Engineering Procurement Construction (EPC) contract has not yet been executed, capital cost may vary in accordance with the Euro exchange rate
(2) Joint ventures economic interest (Lakeside 50%; Runcorn I 37.5%)
(3) Project is not yet committed
(4) Plus heat 51MWth
(5) Plus heat 17MWth

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VIRIDOR

ERF CAPEX(1) – EFFICIENT INVESTMENT TO DELIVER GROWTH

£M	CUMULATIVE SPEND AT 1 APRIL 2015(2)	CAPITAL INVESTMENT 2015/16	CUMULATIVE SPEND TO 31 MAR 2016	REMAINING SPEND TO COMPLETION	TOTAL PROJECT SPEND	ORIGINAL PLANNED PROJECT SPEND
ERF projects in operation						
Exeter	47	-	47	-	47	47
Oxford (Ardley)	203	1	204	-	204	210
Cardiff (Trident Park)	207	-	207	-	207	223
Peterborough	53	19	72	-	72	72
Runcorn II	207	9	216	-	216	216
Total	**717**	**29**	**746**	**-**	**746**	**768**
ERF projects under construction						
Glasgow	121	14	135	20	155	155
Dunbar	11	33	44	133	177	177
South London (Beddington)	-	57	57	142	199	199
Total	**132**	**104**	**236**	**295**	**531**	**531**
Total	**849**	**133**	**982**	**295**	**1,277**	**1,299**
Peterborough financed by local authority	(53)	(19)	(72)	-	(72)	(72)
Total impact on net debt	**796**	**114**	**910**	**295**	**1,205**	**1,227**

- £22m of efficiencies realised across capital investment programme
- Debt includes £910m(1) for Runcorn II / Exeter / Oxford / Cardiff / Glasgow / Dunbar/ South London

(1) Excluding capitalised interest, £3m in 2015/16 and £61m cumulatively
(2) Including capital investment reclassified from construction in progress

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GROUP PLC

FULL YEAR RESULTS 2015/16

DELIVERING FOR CUSTOMERS AND SHAREHOLDERS

25 MAY 2016