

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**IF YOU WISH TO TAKE YOUR DIVIDENDS IN CASH YOU NEED TAKE NO ACTION.**

**If you are in any doubt about the action you should take with this document, you should immediately seek your own financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000.**

**If you have sold some or all of your shares prior to 19 January 2011, you should contact your stockbroker or agent without delay for advice as to how to proceed.**

18 February 2011

Dear Shareholder

**SCRIP DIVIDEND ALTERNATIVE**

I am pleased to inform you that the Directors have decided to offer a Scrip Dividend Alternative in respect of the interim dividend of 7.5p per Ordinary share for the year ended 31 March 2011.

By electing for the Scrip Dividend Alternative, shareholders can receive their dividend in the form of new Ordinary shares instead of cash and thereby increase their shareholding in the Company without incurring stamp duty or dealing expenses. The Company benefits from the retention in the business of cash which would otherwise be paid out as dividends.

**FORM OF MANDATE**

If you wish to elect for the Scrip Dividend Alternative in respect of all of your holding to apply to the interim dividend for the year ended 31 March 2011 and all future dividends for which the Scrip Dividend is offered, you should complete the enclosed Form of Election/Mandate, as indicated. Do not complete Step 2. You will then receive all future dividends automatically in the form of new Ordinary shares and any fractional entitlements will be carried forward.

If your shareholding is held in uncertificated form in CREST, you will not be able to complete a mandate.

**FORM OF ELECTION (FOR THIS INTERIM DIVIDEND ONLY)**

If you wish to elect for the Scrip Dividend Alternative in respect of all or part of your holding to apply to the interim dividend only and not all future dividends, you will need to complete the Form of Election/Mandate including Step 2.

If your shareholding is in uncertificated form in CREST, you can only elect for the SCRIP Dividend Alternative by submitting a 'Dividend Election Input Message' through the CREST system; no other method of election will be permitted.

You may elect to receive one new Ordinary share for every 621.2p otherwise payable as a cash dividend on the Ordinary shares registered in your name on 21 January 2011; this equates to approximately one new Ordinary share for every 82.83 Ordinary shares held. If you own fewer than 83 Ordinary shares you cannot make a valid election on this occasion.

**BASIS OF ENTITLEMENT**

621.2p (the "share price") was the average of the middle market quotations for the Company's Ordinary shares for the day on which they were quoted "ex" dividend and the four subsequent dealing days as derived from the London Stock Exchange's Daily Official List. Your entitlement to new Ordinary shares has been based on this share price. The value of your entitlement has been subject to rounding to ensure that it is as nearly as possible equal to but not greater than the cash amount of the interim cash dividend (disregarding any tax credit).

The formula used in calculating your maximum entitlement is as follows:

$$\frac{\text{Number of Ordinary shares held at the record date} \times \text{interim cash dividend}^*}{\text{share price}}$$

\* plus cash residue from the last SCRIP Dividend Alternative (if any) for those shareholders who have a SCRIP Dividend Mandate in place.

For your protection, the Directors may (and absent mitigating circumstances intend to) declare elections void and pay an interim cash dividend instead if the middle market quotation for the Company's Ordinary shares by the final date for receipt of the Forms of Election/Mandate falls by 15 per cent or more from the share price used to calculate your entitlement. The Directors may also declare your election void and pay a cash dividend instead if the middle market quotation for the Company's Ordinary shares by the final date for receipt of the Forms of Election/Mandate rises by 15 per cent or more from the share price used to calculate your entitlement.

**The full terms and conditions of Pennon's Scrip Dividend Alternative and Mandate, including an outline of the tax implications, are contained within the Scrip Dividend Alternative Booklet which you can view on the Company's website at [www.pennon-group.co.uk](http://www.pennon-group.co.uk). The booklet is located in the "Investor information" section of the website under "Dividends". If you do not have access to the Company's website, a copy may be obtained on request from our registrars, Capita Registrars, by telephoning 0871 664 9234 from within the UK (calls cost 10p per minute plus network extras) or +44 800 141 2951 from outside the UK. Lines are open 8.30am – 5.30pm Monday –Friday.**

**If you are in any doubt as to what action to take or if you are resident or otherwise subject to taxation in a jurisdiction outside the United Kingdom you should consult immediately your stockbroker, bank manager, solicitor, accountant or other independent financial adviser.**

## **TIMETABLE**

The timetable for offering the Scrip Dividend Alternative in respect of the interim dividend will be as follows:

19 January 2011	Ordinary shares quoted ex dividend
21 January 2011	Record date for interim cash dividend
18 February 2011	Posting of Scrip Dividend Alternative offer
11 March 2011	Final date for receipt of Forms of Election/Mandate and CREST Dividend election Input Messages
31 March 2011	Posting of dividend cheques and share certificates
1 April 2011	Interim cash dividend payment date
1 April 2011	First day of dealing in the new Ordinary shares

## **RECOMMENDATION**

**The Directors recommend that you give careful consideration to the Scrip Dividend Alternative and Mandate arrangements and to the taxation implications.**

**If you wish to take your dividends in cash you need take no action. Your dividends will then be paid in cash on 1 April 2011.**

**If you intend to elect for the Scrip Dividend Alternative you must complete and return your Form of Election/Mandate to be received by Capita Registrars no later than 5.00pm on 11 March 2011.**

Yours sincerely



K G Harvey  
Chairman