



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 8 August 2012, you should contact your stockbroker or agent without delay for advice as to how to proceed.

Dear Shareholder

24 August 2012

SCRIP DIVIDEND ALTERNATIVE

I am pleased to inform you that the Directors have decided to offer a Scrip Dividend Alternative in respect of the final dividend of 18.30p per Ordinary share for the year ended 31 March 2012.

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 final dividend for the year ended 31 March 2012 **and all future dividends** for which the Scrip Dividend is offered, you should complete the enclosed Form of Election/Mandate. 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 FINAL 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 final dividend only and not all future dividends**, you will need to complete **Step 2 of the Form of Election/Mandate**.

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 740.3p otherwise payable as a cash dividend on the Ordinary shares registered in your name on 10 August 2012; this equates to approximately one new Ordinary share for every 40.46 Ordinary shares held. If you own fewer than 41 Ordinary shares you cannot make a valid election on this occasion.

BASIS OF ENTITLEMENT

740.3p (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 final cash dividend (disregarding any tax credit).

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

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

* 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 a final 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% 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% 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. 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 final dividend is as follows:

8 August 2012	Ordinary shares quoted ex dividend
10 August 2012	Record date for final dividend
24 August 2012	Posting of Scrip Dividend Alternative offer
17 September 2012	Final date for receipt of Forms of Election/Mandate and CREST Dividend Election Input Messages
4 October 2012	Posting of dividend cheques and share certificates
4 October 2012	Final dividend payment date
5 October 2012	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 5 October 2012.

If you intend to elect for the Scrip Dividend Alternative for the final dividend you must complete and return your Form of Election/Mandate so as to be received by Capita Registrars no later than 5.00pm on 17 September 2012.

Yours sincerely



K G Harvey
Chairman