



THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

IF YOU WISH TO TAKE YOUR DIVIDENDS AS CASH YOU NEED TAKE NO ACTION UNLESS YOU HAVE IN PLACE A STANDING SCRIP DIVIDEND MANDATE.

IF YOU HAVE A STANDING SCRIP DIVIDEND MANDATE IN PLACE WHICH YOU WISH TO CONTINUE, 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 duly authorised under the Financial Services and Markets Act 2000.

If you have sold some or all of your shares prior to 29 January 2015, you should contact your stockbroker or agent without delay for advice as to how to proceed.

Dear Shareholder

16 February 2015

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 9.98p per Ordinary share for the year ending 31 March 2015.

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, as a certificated shareholder, you have previously submitted a Form of Mandate in respect of all future dividends, you need take no action unless you have revoked your mandate in the meantime. All future dividends will be paid to you in the form of new shares provided that a Scrip Dividend has been offered by the Company.

However, if you have not previously completed a Form of Mandate, or you have previously revoked a mandate, and you now wish to elect for the Scrip Dividend Alternative in respect of all of your holding to apply to the interim dividend for the year ending 31 March 2015 **and all future dividends** for which the Scrip Dividend is offered (unless or until your mandate is revoked or cancelled), you should complete the enclosed Form of Mandate. You will then receive all future dividends automatically in the form of new Ordinary shares and any fractional entitlements will be carried forward. Alternatively, you can elect to do this online by going to www.capitashareportal.com

CREST

If your shareholding is held in uncertificated form in CREST, you will not be able to complete a mandate. Instead, if your shareholding is in uncertificated form in CREST, you can only elect for the Scrip Dividend Alternative on each occasion by submitting a 'Dividend Election Input Message' through the CREST system; no other method of election will be permitted.

BASIS OF ENTITLEMENT FOR THIS INTERIM DIVIDEND

876.4p (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 subjected 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:

$$\begin{array}{c} \text{Number of Ordinary shares held at the record date x interim cash dividend*} \\ \div \\ \text{share price} \end{array}$$

* 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 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 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 Asset Services, 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 immediately consult 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 is as follows:

29 January 2015	Ordinary shares quoted ex dividend
30 January 2015	Record date for interim dividend
16 February 2015	Posting of Scrip Dividend Alternative offer
9 March 2015	Final date for receipt of Forms of Mandate and CREST Dividend Election Input Messages
1 April 2015	Posting of dividend cheques and share certificates
2 April 2015	Interim dividend payment date
2 April 2015	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 intend to newly elect for the Scrip Dividend Alternative for the interim dividend you must complete and return your Form of Mandate so as to be received by Capita Asset Services no later than 5.00pm on 9 March 2015. Elections via CREST should be received by CREST no later than 5.00pm on 9 March 2015 in respect of those shares on which you wish to make an election.

If you have previously completed a Form of Mandate and wish to continue to receive a Scrip Dividend instead of cash, you need take no action. Your mandate applies to all future dividends where a Scrip Dividend Alternative is offered by the Company, including this interim dividend.

If you wish to take your dividends in cash you need take no action. However, if you have a standing scrip dividend mandate in place, a notice of revocation must be received by Capita Asset Services no later than 5.00pm on 9 March 2015. Your dividends will then be paid in cash on 2 April 2015.

Yours sincerely



K G Harvey
Chairman