Consolidated income statement
For the year ended 31 March 2019

	Notes	Before non-underlying items 2019 £m	Non-underlying items (note 6) 2019 £m	Total 2019 £m	Before non-underlying items 2018 £m	Non-underlying items (note 6) 2018 £m	Total 2018 £m
Revenue	5	**1,478.2**	**–**	**1,478.2**	1,393.0	3.2	1,396.2
Operating costs	7						
Employment costs		**(205.8)**	**(3.0)**	**(208.8)**	(192.9)	–	(192.9)
Raw materials and consumables used		**(109.3)**	**–**	**(109.3)**	(108.7)	–	(108.7)
Other operating expenses		**(616.9)**	**(22.7)**	**(639.6)**	(581.8)	–	(581.8)
Earnings before interest, tax, depreciation and amortisation	5	**546.2**	**(25.7)**	**520.5**	509.6	3.2	512.8
Depreciation and amortisation	7	**(195.2)**	**–**	**(195.2)**	(185.7)	–	(185.7)
Operating profit	5	**351.0**	**(25.7)**	**325.3**	323.9	3.2	327.1
Finance income	8	**23.5**	**–**	**23.5**	24.2	–	24.2
Finance costs	8	**(106.7)**	**5.8**	**(100.9)**	(98.7)	(21.6)	(120.3)
Net finance costs	8	**(83.2)**	**5.8**	**(77.4)**	(74.5)	(21.6)	(96.1)
Share of post-tax profit from joint ventures	20	**12.4**	**–**	**12.4**	9.4	22.5	31.9
Profit before tax	5	**280.2**	**(19.9)**	**260.3**	258.8	4.1	262.9
Taxation (charge)/credit	9	**(42.7)**	**5.0**	**(37.7)**	(44.4)	3.4	(41.0)
Profit for the year		**237.5**	**(14.9)**	**222.6**	214.4	7.5	221.9
Attributable to:							
Ordinary shareholders of the parent		**229.2**	**(14.9)**	**214.3**	193.1	7.5	200.6
Non-controlling interests		**(0.3)**	**–**	**(0.3)**	(0.2)	–	(0.2)
Perpetual capital security holders		**8.6**	**–**	**8.6**	21.5	–	21.5
Earnings per ordinary share (pence per share)	11						
– Basic				**51.1**			48.0
– Diluted				**50.9**			47.8

Consolidated statement of comprehensive income
For the year ended 31 March 2019

	Notes	Before non-underlying items 2019 £m	Non-underlying items (note 6) 2019 £m	Total 2019 £m	Before non-underlying items 2018 £m	Non-underlying items (note 6) 2018 £m	Total 2018 £m
Profit for the year		**237.5**	**(14.9)**	**222.6**	214.4	7.5	221.9
Other comprehensive (loss)/income							
Items that will not be reclassified to profit or loss							
Remeasurement of defined benefit obligations	30	**(17.2)**	**–**	**(17.2)**	24.5	–	24.5
Income tax on items that will not be reclassified	9, 31	**3.2**	**–**	**3.2**	(4.2)	–	(4.2)
Total items that will not be reclassified to profit or loss		**(14.0)**	**–**	**(14.0)**	20.3	–	20.3
Items that may be reclassified subsequently to profit or loss							
Share of other comprehensive income/(loss) from joint ventures	20	**0.5**	**–**	**0.5**	(2.7)	–	(2.7)
Cash flow hedges		**(6.4)**	**–**	**(6.4)**	20.5	–	20.5
Income tax on items that may be reclassified	9, 31	**0.6**	**–**	**0.6**	(3.5)	–	(3.5)
Total items that may be reclassified subsequently to profit or loss		**(5.3)**	**–**	**(5.3)**	14.3	–	14.3
Other comprehensive (loss) /income for the year net of tax	36	**(19.3)**	**–**	**(19.3)**	34.6	–	34.6
Total comprehensive income/(loss) for the year		**218.2**	**(14.9)**	**203.3**	249.0	7.5	256.5
Total comprehensive income attributable to:							
Ordinary shareholders of the parent		**209.9**	**(14.9)**	**195.0**	227.7	7.5	235.2
Non-controlling interests		**(0.3)**	**–**	**(0.3)**	(0.2)	–	(0.2)
Perpetual capital security holders		**8.6**	**–**	**8.6**	21.5	–	21.5

The notes on pages 123 to 173 form part of these financial statements.

Balance sheets
At 31 March 2019

	Notes	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Assets					
Non-current assets					
Goodwill	15	**385.0**	385.0	**–**	–
Other intangible assets	16	**92.1**	72.6	**–**	–
Property, plant and equipment	17	**4,509.4**	4,310.6	**0.3**	0.2
Other non-current assets	19	**256.4**	263.5	**1,044.6**	846.0
Deferred tax assets	31	**–**	–	**1.2**	1.6
Derivative financial instruments	23	**70.5**	70.5	**3.7**	4.2
Investments in subsidiary undertakings	20	**–**	–	**1,980.8**	1,980.8
Investments in joint ventures	20	**51.1**	22.8	**–**	–
		5,364.5	5,125.0	**3,030.6**	2,832.8
Current assets					
Inventories	21	**28.8**	24.6	**–**	–
Trade and other receivables	22	**484.8**	416.0	**21.6**	42.7
Derivative financial instruments	23	**11.8**	12.9	**2.8**	6.4
Cash and cash deposits	25	**569.6**	585.3	**284.8**	303.3
		1,095.0	1,038.8	**309.2**	352.4
Liabilities					
Current liabilities					
Borrowings	28	**(150.4)**	(209.8)	**(335.7)**	(433.2)
Financial liabilities at fair value through profit	24	**(3.8)**	(2.6)	**(0.4)**	(0.4)
Derivative financial instruments	23	**(11.1)**	(9.4)	**(0.2)**	(2.7)
Trade and other payables	26	**(298.0)**	(342.0)	**(15.8)**	(57.1)
Current tax liabilities	27	**(19.1)**	(24.4)	**(3.6)**	(23.9)
Provisions	32	**(28.7)**	(38.0)	**–**	–
		(511.1)	(626.2)	**(355.7)**	(517.3)
Net current assets/(liabilities)		**583.9**	412.6	**(46.5)**	(164.9)
Non-current liabilities					
Borrowings	28	**(3,498.7)**	(3,177.0)	**(989.7)**	(711.7)
Other non-current liabilities	29	**(147.9)**	(140.1)	**(8.6)**	(8.7)
Financial liabilities at fair value through profit	24	**(43.1)**	(46.6)	**(1.4)**	(1.7)
Derivative financial instruments	23	**(9.9)**	(8.2)	**(0.7)**	(0.9)
Retirement benefit obligations	30	**(60.8)**	(49.5)	**(3.4)**	(3.3)
Deferred tax liabilities	31	**(305.1)**	(295.6)	**–**	–
Provisions	32	**(203.1)**	(181.5)	**–**	–
		(4,268.6)	(3,898.5)	**(1,003.8)**	(726.3)
Net assets		**1,679.8**	1,639.1	**1,980.3**	1,941.6
Shareholders' equity					
Share capital	33	**171.1**	170.8	**171.1**	170.8
Share premium account	34	**223.6**	218.8	**223.6**	218.8
Capital redemption reserve	35	**144.2**	144.2	**144.2**	144.2
Retained earnings and other reserves	36	**843.0**	807.1	**1,144.7**	1,111.1
Total shareholders' equity		**1,381.9**	1,340.9	**1,683.6**	1,644.9
Non-controlling interests		**1.2**	1.5	**–**	–
Perpetual capital securities	37	**296.7**	296.7	**296.7**	296.7
Total equity		**1,679.8**	1,639.1	**1,980.3**	1,941.6

The profit for the year attributable to ordinary shareholders' equity dealt within the accounts of the parent Company is £194.8 million (2018 £215.1 million).

The notes on pages 123 to 173 form part of these financial statements.

The financial statements on pages 118 to 173 were approved by the Board of Directors and authorised for issue on 29 May 2019 and were signed on its behalf by:

Chris Loughlin, Chief Executive Officer Pennon Group plc

Registered Office: Peninsula House, Rydon Lane, Exeter, Devon, England EX2 7HR. Registered in England Number 2366640.

Statements of changes in equity
For the year ended 31 March 2019

	Share capital (note 33) £m	Share premium account (note 34) £m	Capital redemption reserve (note 35) £m	Retained earnings and other reserves (note 36) £m	Non-controlling interests £m	Perpetual capital securities (note 37) £m	Total equity £m
Group							
At 1 April 2017	168.4	217.4	144.2	684.4	–	294.8	1,509.2
Profit for the year	–	–	–	200.6	(0.2)	21.5	221.9
Other comprehensive income for the year	–	–	–	34.6	–	–	34.6
Total comprehensive income for the year	–	–	–	235.2	(0.2)	21.5	256.5
Transactions with equity shareholders:							
Dividends paid	–	–	–	(149.5)	–	–	(149.5)
Adjustment for shares issued under the Scrip Dividend Alternative	2.1	(2.1)	–	41.7	–	–	41.7
Adjustment in respect of share-based payments (net of tax)	–	–	–	2.2	–	–	2.2
Issuance of perpetual capital securities	–	–	–	–	–	296.7	296.7
Redemption of perpetual capital securities	–	–	–	(5.2)	–	(294.8)	(300.0)
Distributions to perpetual capital security holders	–	–	–	–	–	(25.3)	(25.3)
Current tax relief on distributions to perpetual capital security holders	–	–	–	–	–	3.8	3.8
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	0.1	0.4	–	(1.7)	–	–	(1.2)
Proceeds from shares issued under the Sharesave Scheme	0.2	3.1	–	–	–	–	3.3
Non-controlling interests	–	–	–	–	1.7	–	1.7
Total transactions with equity shareholders	2.4	1.4	–	(112.5)	1.7	(19.6)	(126.6)
At 31 March 2018	170.8	218.8	144.2	807.1	1.5	296.7	1,639.1
Profit for the year	–	–	–	214.3	(0.3)	8.6	222.6
Other comprehensive loss for the year	–	–	–	(19.3)	–	–	(19.3)
Total comprehensive income for the year	–	–	–	195.0	(0.3)	8.6	203.3
Transactions with equity shareholders:							
Dividends paid	–	–	–	(162.0)	–	–	(162.0)
Adjustment in respect of share-based payments (net of tax)	–	–	–	4.4	–	–	4.4
Distributions to perpetual capital security holders	–	–	–	–	–	(8.6)	(8.6)
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	–	–	–	(1.5)	–	–	(1.5)
Proceeds from shares issued under the Sharesave Scheme	0.3	4.8	–	–	–	–	5.1
Total transactions with equity shareholders	0.3	4.8	–	(159.1)	–	(8.6)	(162.6)
At 31 March 2019	**171.1**	**223.6**	**144.2**	**843.0**	**1.2**	**296.7**	**1,679.8**

The notes on pages 123 to 173 form part of these financial statements.

	Share capital (note 33) £m	Share premium account (note 34) £m	Capital redemption reserve (note 35) £m	Retained earnings and other reserves (note 36) £m	Perpetual capital securities (note 37) £m	Total equity £m
Company						
At 1 April 2017	168.4	217.4	144.2	1,005.4	294.8	1,830.2
Profit for the year (note 10)	–	–	–	215.1	21.5	236.6
Other comprehensive income for the year	–	–	–	3.6	–	3.6
Total comprehensive income for the year	–	–	–	218.7	21.5	240.2
Transactions with equity shareholders:						
Dividends paid	–	–	–	(149.5)	–	(149.5)
Adjustment for shares issued under the Scrip Dividend Alternative	2.1	(2.1)	–	41.7	–	41.7
Issuance of perpetual capital securities	–	–	–	–	296.7	296.7
Redemption of perpetual capital securities	–	–	–	(5.2)	(294.8)	(300.0)
Distributions to perpetual capital security holders	–	–	–	–	(25.3)	(25.3)
Current tax relief on distributions to perpetual capital security holders	–	–	–	–	3.8	3.8
Adjustment in respect of share-based payments (net of tax)	–	–	–	0.8	–	0.8
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	0.1	0.4	–	(0.8)	–	(0.3)
Proceeds from shares issued under the Sharesave Scheme	0.2	3.1	–	–	–	3.3
Total transactions with equity shareholders	2.4	1.4	–	(113.0)	(19.6)	(128.8)
At 31 March 2018	170.8	218.8	144.2	1,111.1	296.7	1,941.6
Profit for the year (note 10)	–	–	–	194.8	8.6	203.4
Other comprehensive income for the year	–	–	–	0.2	–	0.2
Total comprehensive income for the year	–	–	–	195.0	8.6	203.6
Transactions with equity shareholders:						
Dividends paid	–	–	–	(162.0)	–	(162.0)
Distributions to perpetual capital security holders	–	–	–	–	(8.6)	(8.6)
Adjustment in respect of share-based payments (net of tax)	–	–	–	1.5	–	1.5
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	–	–	–	(0.9)	–	(0.9)
Proceeds from shares issued under the Sharesave Scheme	0.3	4.8	–	–	–	5.1
Total transactions with equity shareholders	0.3	4.8	–	(161.4)	(8.6)	(164.9)
At 31 March 2019	**171.1**	**223.6**	**144.2**	**1,144.7**	**296.7**	**1,980.3**

The notes on pages 123 to 173 form part of these financial statements.

Cash flow statements
For the year ended 31 March 2019

		Group		Company	
	Notes	2019 £m	2018 £m	2019 £m	2018 £m
Cash flows from operating activities					
Cash generated/(outflow) from operations	38	**399.8**	443.5	**(223.0)**	249.4
Interest paid	38	**(83.9)**	(69.6)	**(36.8)**	(32.5)
Tax (paid)/received		**(29.2)**	(21.7)	**(22.1)**	17.9
Net cash generated/(outflow) from operating activities		**286.7**	352.2	**(281.9)**	234.8
Cash flows from investing activities					
Interest received		**10.3**	8.3	**44.5**	41.2
Dividends received	44	**5.5**	6.5	**196.7**	202.3
Investments in subsidiary undertakings		**–**	–	**–**	(356.6)
Investment in joint venture		**(54.8)**	–	**–**	–
Loan repayments received from joint ventures		**0.5**	33.3	**–**	–
(Deposit)/return of restricted deposits		**(21.6)**	42.3	**–**	–
Purchase of property, plant and equipment		**(356.0)**	(390.6)	**–**	(0.2)
Purchase of intangible assets		**–**	(1.0)	**–**	–
Acquisition of subsidiary undertakings		**–**	(8.4)	**–**	–
Proceeds from sale of property, plant and equipment		**6.3**	10.6	**–**	–
Net cash (used in)/received from investing activities		**(409.8)**	(299.0)	**241.2**	(113.3)
Cash flows from financing activities					
Proceeds from issuance of ordinary shares		**5.1**	3.9	**5.1**	3.9
Proceeds from the issuance of perpetual capital securities		**–**	296.7	**–**	296.7
Redemption of 2013 perpetual capital securities		**–**	(300.0)	**–**	(300.0)
Purchase of ordinary shares by the Pennon Employee Share Trust		**(1.5)**	(1.8)	**–**	–
Proceeds from new borrowing		**384.5**	106.9	**334.5**	–
Repayment of borrowings		**(181.6)**	(116.0)	**(149.6)**	(63.9)
Finance lease sale and lease back		**74.9**	140.1	**–**	–
Finance lease principal repayments		**(27.8)**	(28.6)	**–**	–
Disposal of non-controlling interest		**–**	1.7	**–**	–
Dividends paid		**(162.0)**	(107.8)	**(162.0)**	(107.8)
Perpetual capital securities periodic return	37	**(5.8)**	(19.6)	**(5.8)**	(19.6)
Net cash received from/(used in) financing activities		**85.8**	(24.5)	**22.2**	(190.7)
Net (decrease)/increase in cash and cash equivalents		**(37.3)**	28.7	**(18.5)**	(69.2)
Cash and cash equivalents at beginning of the year	25	**403.0**	374.3	**303.3**	372.5
Cash and cash equivalents at end of the year	25	**365.7**	403.0	**284.8**	303.3

The notes on pages 123 to 173 form part of these financial statements.

Notes to the financial statements

1. General information

Pennon Group plc is a company registered in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 119. Pennon Group's business is operated through two main subsidiaries. South West Water Limited includes the integrated water businesses of South West Water and Bournemouth Water, providing water and wastewater services in Devon, Cornwall and parts of Dorset and Somerset and water only services in parts of Dorset, Hampshire and Wiltshire. Viridor Limited is a recycling and residual waste processing and transformation business. Pennon Group is also the majority shareholder of Pennon Water Services Limited, a company providing water and wastewater retail services to non-household customer accounts across Great Britain.

2. Principal accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to the years presented.

(a) Basis of preparation

These financial statements have been prepared on the historical cost accounting basis (except for fair value items, principally acquisitions, transfers of assets from customers and certain financial instruments as described in accounting policy notes (b), (w) and (o) respectively) and in accordance with International Financial Reporting Standards (IFRS) and interpretations of the IFRS Interpretations Committee as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. A summary of the principal accounting policies is set out below, together with an explanation where changes have been made to previous policies on the adoption of new accounting standards and interpretations in the year.

The going concern basis has been adopted in preparing these financial statements as stated by the Directors on page 109.

The new standards or interpretations which were mandatory for the first time in the year beginning 1 April 2018 did not have a material impact on the net assets or results of the Group.

Initial adoption of IFRS 15 'Revenue from Contracts with Customers'

The Group adopted the standard with effect from 1 April 2018 using the full retrospective approach to transition. As the impact of the new standard has not had a material effect on the Group's reported revenues, net assets or any specific financial statement line, there has been no restatement of prior year figures.

The revised accounting policy on revenue following implementation of IFRS 15 is set out below in paragraph (c). The disaggregation of revenue information required by IFRS 15 is given below within note 5 (Segmental information) for the current and prior years.

Initial adoption of IFRS 9 'Financial Instruments'

IFRS 9 replaced IAS 39 with effect from 1 April 2018 bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group applied IFRS 9 prospectively from 1 April 2018. The first time application of this standard in the specific areas is detailed below but has not resulted in any adjustment or reclassification of amounts previously reported.

The classification and measurement requirements of IFRS 9 require that financial assets are classified in the statements of financial position according to their nature, the characteristics of their contractual cash flows and the business model adopted for their management. Following assessment of the Group's business model as of the date of initial application, 1 April 2018, these requirements did not have a significant impact on the Group. The Group continued measuring at fair value all financial assets previously held at fair value under IAS 39.

The impairment aspects of IFRS 9 require the Group to evaluate and recognise expected credit losses (ECLs) on financial assets and to ensure changes in credit risk are assessed at regular intervals, and to make suitable adjustments for ECLs where applicable. The disclosure below within note 4 Critical accounting judgements and estimates on provision for doubtful debts has been expanded to clarify the Group's evaluation approach, which now includes the forward-looking assessment of ECLs and changes in credit risk.

The Group has a policy of hedging currency risk and interest rate risks as detailed in note 3 and previously adopted hedge accounting under IAS 39. The Group adopted hedge accounting in accordance with IFRS 9 from 1 April 2018.

IFRS 16 'Leases'

The adoption of IFRS 16 on 1 April 2019 will affect primarily the accounting for those leases currently classified as operating leases. IFRS 16 no longer distinguishes between an on the balance sheet finance lease and an off the balance sheet operating lease.

The Group has made the following elections on adopting IFRS 16 to apply from 1 April 2019:

- Applying the modified retrospective approach: the cumulative effect of initially applying IFRS 16 has been calculated as a reduction to retained profits at 1 April 2019 of £8.1 million. Under this election no restatement of comparative figures will be made
- Electing to apply the standard to contracts that were previously identified as leases when applying IAS 17
- Using the exemptions available in respect of contracts with a lease term ending within 12 months of 1 April 2019 and in respect of the low value of underlying assets. These exemptions allow accounting similar to that for an operating lease under IAS 17.

Carrying amounts for assets and liabilities under leases accounted for as finance leases prior to adoption of IFRS 16 will not be impacted.

At 31 March 2019 the Group had non-cancellable operating lease commitments of £195.7 million. These predominantly relate to leases of properties occupied by the Group in the course of carrying out its businesses. Applying IFRS 16 at 1 April 2019 results in the Group recognising an asset in use of £107.6 million, a deferred tax asset of £1.6 million, an additional lease liability of £121.2 million and the reversal of prepayments and accruals of £0.5 million and £4.4 million respectively. The overall reduction in net assets of £8.1 million is deducted from retained profits at 1 April 2019 in accordance with the modified retrospective approach.

Notes to the financial statements
continued

2. Principal accounting policies continued

Differences between the values of the disclosed operating lease commitment at 31 March 2019 and the additional lease liability recognised at 1 April 2019 under IFRS 16 result from future cash outflows being discounted under IFRS 16 rather than shown gross, the availability of exemptions available on transition and different rules defining the appropriate length of lease to use between the two methods.

Based on the additional lease liability and associated assets recognised at 1 April 2019 it is estimated that the impact on profit for the year ended 31 March 2020 would be a reduction in profit after tax of £1.0 million, resulting from an increase in EBITDA of £12.7 million, depreciation of £9.9 million, finance costs of £4.0 million and a reduction in corporation tax of £0.2 million.

Other new standards or interpretations in issue but not yet effective are not expected to have a material impact on the Group's net assets or results.

(b) Basis of consolidation

The Group financial statements include the results of Pennon Group plc and its subsidiaries and joint ventures.

The results of subsidiaries and joint ventures are included from the date of acquisition or incorporation, and excluded from the date of disposal. The results of subsidiaries are consolidated where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of joint ventures are accounted for on an equity basis.

Intra-group trading, loan balances and transactions are eliminated on consolidation.

The acquisition method of accounting is used to account for the purchase of subsidiaries. The excess of the value transferred to the seller in return for control of the acquired business, together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets, is recorded as goodwill.

(c) Revenue recognition

Group revenue is recognised following delivery of performance obligations and an assessment of when control over the product or service is transferred to the customer. Revenue is only recognised when collection of consideration is highly probable.

Revenue is recognised either when the performance obligation in the contract has been performed (point in time recognition) or 'over time' as the performance obligations to the customer are satisfied. For each obligation satisfied over time, the Group applies a revenue recognition method that accurately reflects performance in transferring control of the services to the customer.

Where a contract with a customer includes more than one performance obligation, revenue is allocated to each obligation in proportion to a fair value assessment of the total contract sales value split across the services provided.

At the inception of a contract the total transaction price is estimated, being the fair value to which the Group expects to be entitled under the contract, including any variable consideration. Variable consideration is based on the most likely outcome of the performance obligations.

Revenue excludes value added tax, trade discounts and revenue arising from transactions between Group companies. Revenue includes landfill tax.

Water (domestic and non-household retail)

For most of the services provided to domestic customers, contract terms are implied through statute and regulation in the absence of formal, written contracts. South West Water has a duty under legislation to provide domestic customers with services regardless of payment and is not permitted to disconnect domestic customers for non-payment of bills. Charges are set via the periodic review price-setting process, regulated by Ofwat.

In respect of ongoing, continuous services to customers, such as the provision of drinking water and waste water services, revenue is recognised over time in line with customer usage of those services.

Customers with an unmeasured supply are billed at the start of the year for the full amount of the annual charge but typically take advantage of a choice of payment arrangements to pay by regular instalments.

Customers with a metered supply are sent up to four bills per year, based either on actual meter readings or estimated usage. For these customers, revenue includes an estimation of the amount of unbilled usage at the period end. Payment options for domestic customers include an annual Meter Payment Plan where customers agree to pay a fixed amount per month which is adjusted to reflect actual consumption at the end of the year.

A range of regulated services is offered to property developers and owners who require connection to the water and sewerage networks or need the networks to be extended or altered. Typically, these customers pay an estimate of the charges in advance as a deposit, which is treated as a contract liability and are billed or refunded the difference between the estimate and actual costs on completion of the work.

Where the performance obligation relates solely to a connection to the network, revenue is recognised at the point of connection when the customer is deemed to obtain control.

Where assets are constructed or provided by the Group or assets transferred to the Group, it is considered that there is an explicit or implied performance obligation to provide an ongoing water and/or waste water service, with the result that revenue is recognised over a time no longer than the economic life of assets provided by or transferred to the Group.

Pennon Water Services provides specialist retail water and waste water services to business customers. It raises bills and recognises revenue in accordance with its contracts with customers and in line with the limits established for the non-household periodic price-setting process where applicable.

2. Principal accounting policies continued

Energy sales

The Group receives revenue from the sale of electricity from generating assets. These assets include solar, anaerobic digestion, gas from landfill and energy recovery facilities. Revenue from the sale of electricity from the Group's generating assets is measured based upon metered output delivered at rates specified under contract terms or prevailing market rates. Revenue is recognised at a 'point in time', being the point of distribution. Typically, invoices are raised monthly with standard payment terms.

Waste Management Services

In respect of single services with fixed fees, such as the receipt of gate and collection fees, revenue is recognised at the time the service is provided.

The Group also delivers other waste management services for which revenue is recognised 'over time' in accordance with contracts with customers. The nature of contracts and/or performance obligations includes management fees to operate local authority recycling centres and energy recovery facilities, multi service contracts including collections and gate fees.

Revenue from other services can be fixed (i.e. management fees) or variable (i.e. gate fees).

Gate fee revenue, derived from the Group's operational assets, is recognised as customer waste is deposited and is based on tonnage received.

In respect of waste collection services, revenue is recognised at the point of collection from customer premises.

A majority of waste management customers are invoiced monthly for services provided within the monthly billing period. Payments are typically due on an end of month following invoice basis. Alternative billing and/or payment terms are agreed in exceptional circumstances.

The Group transfers control of such waste management services prior to invoicing. Receipt of payment following invoice is based solely on the passage of time. A trade receivable is recognised until payment is made and/or refund issued.

Where the Group has entered into service concession arrangements it accounts for these contracts in accordance with IFRIC12. Consideration is treated as contract assets or other intangible assets, depending upon the right to receive cash from the asset. Consideration is split between construction of assets, operation of the service and provision of finance recognised as interest receivable.

Revenue in respect of construction services is recognised over time and is based on the fair value of work performed, with reference to the total sales value and the stage of completion of those services, as this best reflects the manner in which control passes to the customer. While construction is in progress the consideration is disclosed as a contract asset within non-current financial assets. On entry into operational service, in accordance with IFRIC 12, the contract asset is reclassified as either costs recoverable from construction activities disclosed within other intangible assets when the concession grantor has not provided a contractual guarantee in respect of the recoverable amount regardless of the service use by customers, and/or within other non-current financial assets when the concession grantor contractually guarantees the payment of amounts determined in the contract or the shortfall, if any, between amounts received from users of the public service and amounts specified or determined in the contract. No payments are received during construction.

In respect of operating services, revenue is recognised over time in line with delivery of operational services in accordance with the contract with the local authority.

Once the operational phase commences the Group has a right to receive consideration for the construction and operational services delivered. Invoicing typically occurs monthly and payments are due by the end of the month following date of invoice.

Recyclate

The Group transforms waste into recyclate ready for resale. Revenue is measured at the agreed transaction price per tonne of recyclate under the contract with the customer. Revenue recognition occurs when control over the recyclate assets has been transferred to the customer.

In respect of UK sales, the Group's performance obligation is satisfied at the point of collection by the customer. This is the point in time when an invoice is issued and revenue is recognised. Payment terms are typically end of month following invoice date. Overseas sales are predominantly agreed under a letter of credit. Goods are despatched at the point the letter of credit is accepted by the customer's bank. Payment is released when the customer confirms satisfactory receipt of the recyclate. This is the point legal title (i.e. control) passes to the customer and revenue is recognised.

Contract assets and liabilities

A trade receivable is recognised when the Group has an unconditional right to receive consideration in exchange for performance obligations already fulfilled. A contract asset is recognised when the Group has fulfilled some of its performance obligations but has not yet obtained an unconditional right to receive consideration, such as in the construction phase of a service concession agreement, as described above. The amounts for contract assets are disclosed within note 19 (Other non-current assets) and note 22 (Trade and other receivables) as appropriate. A contract liability is recognised when consideration is received in advance of the Group performing its performance obligations to customers, including, when appropriate, transfers of assets from customers (per paragraph (w) below). The value of contract liabilities is disclosed within note 26 (Trade and other payables) and note 29 (Other non-current liabilities) as appropriate.

(d) Landfill tax

Landfill tax is recognised in both revenue and operating costs at the point waste is disposed of at a licensed landfill site.

(e) Segmental reporting

Each of the Group's business segments provides services which are subject to risks and returns which are different from those of the other business segments. The Group's internal organisation and management structure and its system of internal financial reporting are based primarily on business segments. The water business comprises the regulated water and wastewater services undertaken by South West Water. The waste management business is the recycling and residual waste processing and transformation services provided by Viridor. The non-household retail business comprises the services provided by Pennon Water Services in the non-household water and wastewater retail market which, while regulated, is open to competition. Segmental revenue and results include transactions between businesses. Inter-segmental transactions are eliminated on consolidation.

Notes to the financial statements
continued

2. Principal accounting policies continued

(f) Goodwill

Goodwill arising on consolidation from the acquisition of subsidiary undertakings represents the excess of the purchase consideration over the fair value of net assets acquired, less any subsequent impairment charges.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units or group of cash generating units, that is expected to benefit from the synergies of the combination. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal reporting purposes. Goodwill is allocated and monitored at the reportable operating segment level. Further details are contained in accounting policy (j).

When a subsidiary undertaking is sold, the profit or loss on disposal is determined after including the attributable amount of unamortised goodwill.

(g) Other intangible assets

Other intangible assets are recognised in relation to long-term service concessions contracts to the extent that future amounts to be received are not contracted.

Other intangible assets include assets acquired in a business combination and are capitalised at fair value at the date of acquisition. Following initial recognition, finite life intangible assets are amortised on a straight-line basis over their estimated useful lives, with the expense charged to the income statement through operating costs.

(h) Property, plant and equipment

i) Infrastructure assets (being water mains and sewers, impounding and pumped raw water storage reservoirs, dams, pipelines and sea outfalls)

Infrastructure assets were included at fair value on transition to IFRS, and subsequent additions are recorded at cost less accumulated depreciation and impairment charges. Expenditure to increase capacity or enhance infrastructure assets is capitalised where it can be reliably measured, and it is probable that incremental future economic benefits will flow to the Group. The cost of day-to-day servicing of infrastructure components is recognised in the income statement as it arises.

Infrastructure assets are depreciated evenly over their useful economic lives, and are principally:

Dams and impounding reservoirs	200 years
Water mains	40 – 120 years
Sewers	40 – 120 years

Assets in the course of construction are not depreciated until commissioned.

ii) Landfill sites

Landfill sites are included within land and buildings at cost less accumulated depreciation. Cost includes acquisition and development expenses. The cost of a landfill site is depreciated to its residual value over its estimated operational life taking account of the usage of void space.

iii) Landfill restoration

Where the obligation to restore a landfill site is an integral part of its future economic benefits, a non-current asset within property, plant and equipment is recognised. The asset recognised is depreciated based on the usage of void space.

iv) Other assets (including energy recovery facilities, property, overground plant and equipment)

Other assets are included at cost less accumulated depreciation.

Freehold land is not depreciated. Other assets are depreciated evenly to their residual value over their estimated economic lives, and are principally:

Land and buildings – freehold buildings	30 – 60 years
Land and buildings – leasehold buildings	Over the estimated economic lives or the finance lease period, whichever is the shorter
Operational properties	40 – 80 years
Energy recovery facilities (including major refurbishments)	25 – 40 years
Fixed plant	20 – 40 years
Vehicles, mobile plant and computers	3 – 10 years

Assets in the course of construction are not depreciated until commissioned.

The cost of assets includes directly attributable labour and overhead costs which are incremental to the Group. Borrowing costs directly attributable to the construction of a qualifying asset (an asset necessarily taking a substantial period of time to be prepared for its intended use) are capitalised as part of the asset. Assets transferred from customers are recognised at fair value as set out in accounting policy (w).

The assets' residual values and useful lives are reviewed annually.

Gains and losses on disposal are determined by comparing sale proceeds with carrying amounts. These are included in the income statement.

2. Principal accounting policies continued

(i) Leased assets

Assets held under finance leases are included as property, plant and equipment at the lower of their fair value at commencement or the present value of the minimum lease payments, and are depreciated over their estimated economic lives or the finance lease period, whichever is the shorter. The corresponding liability is recorded as borrowings. The interest element of the rental costs is charged against profits using the actuarial method over the period of the lease. Rental costs arising under operating leases are charged against profits on a straight-line basis over the life of the lease.

The impact of the adoption of IFRS 16 'Leases' on 1 April 2019 is discussed in paragraph (a) above.

(j) Impairment of non-financial assets

Assets with an indefinite useful life are not subject to amortisation and are tested annually for impairment, or whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.

Assets subject to amortisation or depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Value in use represents the present value of projected future cash flows expected to be derived from a cash generating unit, discounted using a pre-tax discount rate which reflects an assessment of the market cost of capital of the cash generating unit. Impairments are charged to the income statement in the year in which they arise.

Non-financial assets other than goodwill that have been impaired are reviewed for possible reversal of the impairment at each reporting date.

Where a previously impaired asset or cash generating unit's recoverable amount is in excess of its carrying amount, previous impairments are reversed to the carrying value that would have expected to be recognised had the original impairment not occurred.

(k) Investment in subsidiary undertakings

Investments in subsidiary undertakings are initially recorded at cost, being the fair value of the consideration paid. Subsequently investments are reviewed for impairment on an individual basis annually or if events or changes in circumstances indicate that the carrying value may not be fully recoverable.

(l) Investment in joint ventures

Joint ventures are entities over which the Group exercises joint control. Investments in joint ventures are accounted for using the equity method of accounting. Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the joint venture at the date of acquisition is recognised as goodwill and is included in the carrying value of the investment in the joint venture.

The carrying value of the Group's investment is adjusted for the Group's share of post-acquisition profits or losses recognised in the income statement and statement of comprehensive income. Losses of a joint venture in excess of the Group's interest are not recognised unless the Group has a legal or constructive obligation to fund those losses.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress includes raw materials and the cost of bringing stocks to their present location and condition. It excludes borrowing costs. Net realisable value is the estimated selling price less cost to sell.

(n) Cash and cash deposits

Cash and cash deposits comprise cash in hand and short-term deposits held at banks. Bank overdrafts are shown within current borrowings.

(o) Financial instruments

Financial instruments are recognised and measured in accordance with IAS 39 until 31 March 2018 and in accordance with IFRS 9 from 1 April 2018. The Group classifies its financial instruments in the following categories:

i) Debt instruments at amortised cost

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Following initial recognition, interest-bearing loans and borrowings are subsequently stated at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when instruments are derecognised or impaired. Premia, discounts and other costs and fees are recognised in the income statement through amortisation.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

ii) Trade receivables

Trade receivables do not carry any interest receivable and are recognised initially at fair value and subsequently at amortised cost using the effective interest method, less provision for expected credit losses (ECLs). In accordance with the terms and conditions of IFRS 9, since 1 April 2018, each Group entity performs an impairment analysis at each reporting date to measure the ECLs. Each entity does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. Each subsidiary has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the economic environment.

iii) Trade payables

Trade payables are not interest-bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

iv) Financial assets arising from service concession arrangements

Where the provision of waste management services is performed through a contract with a public sector entity, which controls a significant residual interest in asset infrastructure at the end of the contract, then consideration is treated as contract receivables, split between profit on the construction of assets, operation of the service and the provision of finance which is recognised in notional interest within finance income.

Notes to the financial statements
continued

2. Principal accounting policies continued

v) Derivative financial instruments and hedging activities

The Group uses derivative financial instruments, principally interest rate swaps, foreign exchange forward contracts and cross-currency interest rate swaps to hedge risks associated with interest rate and exchange rate fluctuations. Derivative instruments are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value for the reported balance sheet.

The Group designates certain hedging derivatives as either:

- A hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge); or
- A hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge).

The gain or loss on remeasurement is recognised in the income statement except for cash flow hedges which meet the conditions for hedge accounting, when the portion of the gain or loss on the hedging instrument which is determined to be an effective hedge is recognised directly in equity, and the ineffective portion in the income statement. The gains or losses deferred in equity in this way are subsequently recognised in the income statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the income statement.

In order to qualify for hedge accounting, the Group is required to document in advance the relationship between the item being hedged and the hedging instrument. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed at the end of each reporting period to ensure that the hedge remains highly effective.

The full fair value of a hedging derivative is apportioned on a straight-line basis between non-current and current assets and liabilities based on the remaining maturity of the hedging derivative.

Derivative financial instruments deemed held for trading, which are not subject to hedge accounting, are classified as a current asset or liability with any change in fair value recognised immediately in the income statement.

The Group uses cross-currency swaps for some of its foreign currency denominated private placement borrowings. The swaps either have the effect of (i) converting variable rate foreign currency borrowings into fixed rate sterling borrowings, (ii) converting fixed rate foreign currency borrowings into fixed rate sterling borrowings, or (iii) converting fixed rate foreign currency borrowings into floating rate sterling borrowings.

vi) Financial instruments at fair value through profit

Financial instruments at fair value through profit reflect the fair value movement of the hedged risk on a hedged item through a fair value hedging relationship. The fair values of these financial instruments are initially recognised on the date the hedging relationship is entered into and thereafter remeasured at each subsequent balance sheet date. The gain or loss on remeasurement for the period is recognised in the income statement.

(p) Taxation including deferred tax

The tax charge for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in the statement of comprehensive income or directly in equity. In this case the tax is also recognised in the statement of comprehensive income or directly in equity as appropriate.

Current tax is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates tax items subject to interpretation and establishes provisions on individual tax items, where in the judgement of management, the position is uncertain.

The Group includes a number of companies, including the parent company, which are part of a tax group for certain aspects of the tax legislation. One of these aspects relates to group relief whereby current tax liabilities can be offset by current tax losses arising in other companies within the same tax group. Payments for group relief are included within the current tax disclosures.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except where they arise from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates enacted or substantively enacted at the balance sheet date, and expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

2. **Principal accounting policies** continued

(q) Provisions

Provisions are made where there is a present legal or constructive obligation as a result of a past event and it is probable that there will be an outflow of economic benefits to settle this obligation and a reliable estimate of this amount can be made. Where the effect of the time value of money is material the current amount of a provision is the present value of the expenditures expected to be required to settle obligations. The unwinding of the discount to present value is included as notional interest within finance costs.

The Group's policies on specific provisions are:

i) Landfill restoration costs

Provisions for the cost of restoring landfill sites are made when the obligation arises. Where the obligation recognised as a provision is an integral part of a landfill site's future economic benefit, an asset in property, plant and equipment is recognised. Provisions are otherwise charged against profits based on the usage of void space.

ii) Environmental control and aftercare costs

Environmental control and aftercare costs are incurred during the operational life of each landfill site and for a considerable period thereafter. Provision for all such costs is made over the operational life of the site and charged to the income statement on the basis of the usage of void space at the site. Further provisions required after the operational life of a site are recognised immediately in the income statement.

iii) Underperforming contracts

Where the unavoidable costs of meeting a contract's obligations exceed the economic benefits derived from that contract, the unavoidable costs, less revenue anticipated under the terms of the contract, are recognised as a provision and charged to the income statement. An impairment loss on any assets dedicated to that contract is also recognised as described in accounting policy (j).

(r) Share capital and treasury shares

Ordinary shares are classified as equity.

Where the Company purchases the Company's equity share capital (treasury shares) the consideration paid, including any directly attributable costs, is deducted from equity until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable transaction costs, is included in equity.

The Group balance sheet includes the shares held by the Pennon Group plc Employee Benefit Trust, relating to employee share-based payments, which have not vested at the balance sheet date. These are shown as a deduction from shareholders' equity until such time as they vest. The Trust, which is registered in the United Kingdom, was formed on 18 December 2018 to supersede the Pennon Employee Share Trust which was registered in Guernsey.

(s) Dividend distributions

Dividend distributions are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid; final dividends when approved by shareholders at the Annual General Meeting.

(t) Employee benefits

i) Retirement benefit obligations

The Group operates defined benefit and defined contribution pension schemes.

Defined benefit pension schemes

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the year less the fair value of plan assets. If the value of a plan's assets exceeds the present value of its obligations, the resulting surplus is only recognised if the Group has an unconditional right to that surplus.

The defined benefit obligation is calculated by independent actuaries who advise on the selection of Directors' best estimates of assumptions, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds, and that have terms to maturity approximating to the terms of the related pension obligation. The increase in liabilities of the Group's defined benefit pension schemes, expected to arise from employee service in the year, is charged against operating profit.

Changes in benefits granted by the employer are recognised immediately as past service cost in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the statement of comprehensive income in the period in which they arise.

Defined contribution scheme

Costs of the defined contribution pension scheme are charged to the income statement in the year in which they arise. The Group has no further payment obligations once the contributions have been paid.

ii) Share-based payment

The Group operates a number of equity-settled, share-based payment plans for employees. The fair value of the employee services required in exchange for the grant is recognised as an expense over the vesting period of the grant.

Fair values are calculated using an appropriate pricing model. Non-market-based vesting conditions are adjusted for assumptions as to the number of shares which are expected to vest.

Notes to the financial statements
continued

2. Principal accounting policies continued

(u) Pre-contract and development costs
Pre-contract and development costs, including bid costs are expensed as incurred, except where it is probable that the contract will be awarded or the development completed, in which case they are recognised as an asset which is amortised to the income statement over the life of the contract. These costs are included within other receivables as shown in note 19.

(v) Fair values
The fair value of interest rate swaps is based on the market price to transfer the asset or liability at the balance sheet date in an ordinary transaction between market participants. The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values. In the case of non-current bank loans and other loans, the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

(w) Transfers of assets from customers
Where an item of property, plant and equipment that must be used to connect customers to the network is received from a customer, or where cash is received from a customer for the acquisition or construction of such an item, that asset is recorded and measured on initial recognition at its fair value. The credit created by the recognition of the asset is recognised as contract liabilities on the balance sheet. The contract liability reduces, and revenue is recognised in the income statement, as performance obligations are satisfied. The period over which the credit is recognised depends upon the nature of the service provided, as determined by the agreement with the customer. Where the service provided is solely a connection to the network, the credit is recognised at the point of connection. If the agreement does not specify a period, revenue is recognised over a period no longer than the economic life of the transferred asset used to provide the ongoing service.

The fair value of assets on transfer from customers is determined using a cost valuation approach allowing for depreciation.

(x) Foreign exchange
Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at the closing balance sheet rate. The resulting gain or loss is recognised in the income statement.

(y) Perpetual capital securities
Perpetual capital securities are issued securities that qualify for recognition as equity. Accordingly any periodic returns are accounted for as dividends and recognised directly in equity and as a liability at the time the Company becomes obligated to pay the periodic return. This reflects the nature of the periodic returns and repayment of principal being only made at the Company's discretion. Any associated tax impacts are recognised directly in equity.

(z) Non-underlying items
Non-underlying items are those that in the Directors' view should be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance.

3. Financial risk management

(a) Financial risk factors
The Group's activities expose it to a variety of financial risks: liquidity risk, market risk (interest rate and foreign currency risk) and credit risk.

The Group's treasury function seeks to ensure that sufficient funding is available to meet foreseeable needs and to maintain reasonable headroom for contingencies, and manages inflation and interest rate risk.

The principal financial risks faced by the Group relate to liquidity, interest rate and credit counterparty risk.

These risks and treasury operations are managed by the Chief Financial Officer in accordance with policies established by the Board. Major transactions are individually approved by the Board. Treasury activities are reported to the Board and are subject to review by internal audit.

Financial instruments are used to raise finance, manage risk, optimise the use of surplus funds and manage overall interest rate performance. The Group does not engage in speculative activity.

i) Liquidity risk
The Group actively maintains a mixture of long-term and short-term committed facilities which are designed to ensure the Group has sufficient available funds for operations and planned expansions equivalent to at least one year's forecast requirements at all times. Details of undrawn committed facilities and short-term facilities are provided in note 28.

Refinancing risk is managed under a Group policy that requires that no more than 20% of Group net borrowings should mature in any financial year.

The Group and water business have entered into covenants with lenders. While terms vary, these typically provide for limits on gearing (primarily based on the water business's regulatory capital value and Viridor Limited's EBITDA plus interest receivable on service concession arrangements) and interest cover. Existing covenants are not impacted by subsequent changes to accounting standards.

3. **Financial risk management** continued

Contractual undiscounted cash flows, including interest payments, at the balance sheet date were:

	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Over 5 years £m	Total £m
Group					
31 March 2019					
Non-derivative financial liabilities					
Borrowings excluding finance lease liabilities	**86.8**	**41.1**	**672.8**	**1,288.0**	**2,088.7**
Interest payments on borrowings	**60.5**	**59.4**	**156.4**	**681.0**	**957.3**
Finance lease liabilities including interest	**92.2**	**55.5**	**242.1**	**2,153.9**	**2,543.7**
Trade and other payables	**298.0**	**–**	**–**	**–**	**298.0**
Guarantees	**201.7**	**–**	**–**	**–**	**201.7**
Derivative financial liabilities					
Derivative contracts – net payments/(receipts)	**3.8**	**(3.7)**	**(12.0)**	**(65.1)**	**(77.0)**
31 March 2018					
Non-derivative financial liabilities					
Borrowings excluding finance lease liabilities	181.5	129.1	426.2	1,144.9	1,881.7
Interest payments on borrowings	57.5	53.7	147.9	689.1	948.2
Finance lease liabilities including interest	52.1	87.1	223.7	2,121.7	2,484.6
Trade and other payables	342.0	–	–	–	342.0
Guarantees	185.1	–	–	–	185.1
Derivative financial liabilities					
Derivative contracts – net payments/(receipts)	4.1	2.4	(11.3)	(71.1)	(75.9)
Company					
31 March 2019					
Non-derivative financial liabilities					
Borrowings excluding intercompany borrowings	**51.8**	**6.1**	**551.7**	**431.9**	**1,041.5**
Interest payments on borrowings	**33.6**	**32.8**	**77.9**	**81.5**	**225.8**
Trade and other payables	**15.8**	**–**	**–**	**–**	**15.8**
Guarantees	**763.2**	**–**	**–**	**–**	**763.2**
Derivative financial liabilities					
Derivative contracts – net payments	**0.2**	**0.2**	**0.3**	**–**	**0.7**
31 March 2018					
Non-derivative financial liabilities					
Borrowings excluding intercompany borrowings	149.6	102.1	260.6	349.0	861.3
Interest payments on borrowings	31.4	27.4	69.8	76.8	205.4
Trade and other payables	57.1	–	–	–	57.1
Guarantees	734.7	–	–	–	734.7
Derivative financial liabilities					
Derivative contracts – net payments	0.7	–	–	–	0.7

No liability is expected to arise in respect of the guarantees noted above. Guarantees are analysed in note 42.

ii) Market risk

The Group has a policy of maintaining at least 60% of interest-bearing liabilities at fixed rates in order to manage the risk of fluctuating interest rates impacting the financial performance of the Group. The Group uses a combination of fixed rate and index-linked borrowings and fixed rate interest swaps as cash flow hedges of future variable interest payments to achieve this policy. At the year end 63% (2018 62%) of Group net borrowings were at fixed rates after the impact of financial derivatives. The notional principal amounts of the interest rate swaps are used to determine settlement under those swaps and are not therefore an exposure for the Group. These instruments are analysed in note 23.

18% (2018 20%) of the Group's net borrowings are RPI index-linked. The interest rate for index-linked debt is based upon an RPI measure, which is also used in determining the amount of income from customers in South West Water.

The Group has no significant interest-bearing assets upon which the net return fluctuates from market risk. Deposit interest receivable is expected to fluctuate in line with interest payable on floating rate borrowings. Consequently the Group's income and cash generated from operations (note 38) are independent of changes in market interest rates.

For 2019 if interest rates on variable net borrowings had been on average 0.5% higher/lower with all other variables held constant, post-tax profit for the year and equity would have increased/decreased by £2.4 million (2018 £1.3 million), for the equity sensitivity fair value, with derivative impacts excluded.

For 2019 if RPI on index-linked borrowings had been on average 0.5% higher/lower with all other variables held constant, post-tax profit for the year and equity would have decreased/increased by £2.0 million (2018 £2.0 million).

Foreign currency risk occurs at transactional and translation level from borrowings and transactions in foreign currencies. These risks are managed through forward contracts, which provide certainty over foreign currency risk.

Notes to the financial statements
continued

3. Financial risk management continued

iii) Credit risk

Credit counterparty risk arises from cash and cash deposits, derivative financial instruments and exposure to customers, including outstanding receivables. Further information on the credit risk relating to trade and other receivables is given in notes 19 and 22.

Counterparty risk arises from the investment of surplus funds and from the use of derivative financial instruments. The Board has agreed a policy for managing such risk which is controlled through credit limits, counterparty approvals, and rigorous monitoring procedures.

The Group has no other significant concentration of credit risk. The Group's surplus funds are managed by the Group's treasury function and are usually placed in short-term fixed interest deposits or the overnight money markets. Deposit counterparties must meet board approved minimum criteria based on their short-term credit ratings and therefore of good credit quality.

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimise the cost of capital.

The Group's policy is to have a minimum of 12 months pre-funding of projected capital expenditure. At 31 March 2019 the Group had cash and facilities, including restricted funds, of £1.2 billion, meeting this objective.

In order to maintain or adjust the capital structure, the Group seeks to maintain a balance of returns to shareholders through dividends and an appropriate capital structure of debt and equity for each business segment and the Group.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net borrowings divided by total capital. Net borrowings are analysed in note 39 and calculated as total borrowings less cash and cash deposits. Total capital is calculated as total shareholders' equity plus net borrowings.

The gearing ratios at the balance sheet date were:

	2019 £m	2018 £m
Net borrowings (note 39)	**3,079.5**	2,801.5
Total equity	**1,679.8**	1,639.1
Total capital	**4,759.3**	4,440.6
Gearing ratio	**64.7%**	63.1%

The water segment is also monitored on the basis of the ratio of its net borrowings to regulatory capital value. Ofwat's notional gearing target for the K6 (2015-20) regulatory period is set at 62.5%.

	Water business	
	2019 £m	2018 £m
Regulatory capital value	**3,504.7**	3,431.2
Net borrowings of South West Water Limited	**2,062.6**	2,068.1
Net borrowings/Regulatory capital value	**58.9%**	60.3%

The Group has entered into covenants with lenders and, while terms vary, these typically provide for limits on gearing and interest cover. The Group has been in compliance with its covenants during the year.

(c) Determination of fair values

The Group uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's financial instruments are valued principally using level 2 measures as analysed in note 23.

The fair value of financial instruments not traded in an active market (for example over-the-counter derivatives) is determined by using valuation techniques. A variety of methods and assumptions are used based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The carrying values, less expected credit losses, of trade receivables and payables are assumed to approximate to their fair values.

4. Critical accounting judgements and estimates

The Group's principal accounting policies are set out in note 2. Management is required to exercise significant judgement and make use of estimates and assumptions in the application of these policies. Estimates are based on factors including historical experience and expectations of future events that management believe to be reasonable. However, given the judgemental nature of such estimates, actual results could be different from the assumptions used.

Estimates

Environmental and landfill restoration provisions

Environmental control and aftercare costs are incurred during the operational life of each landfill site and for a considerable period thereafter. The period of aftercare post-closure and the level of costs expected are uncertain and can vary significantly from site to site. Key factors are the type of waste, the speed at which it decomposes, the volume of leachate requiring treatment and regulatory requirements specific to the site. The amounts expected to be incurred are based on landfill site operating lives, taking account of the anticipated decline in landfill activity.

The provisions are based on latest assumptions reflecting recent historic data and future cost estimates.

The aftercare provision is particularly sensitive to the estimated volumes of leachate and their associated cost, together with the discount rate used to establish the provision.

The provisions are recognised in the financial statements at the net present value of the estimated future expenditure required to settle the Group's obligations. A discount rate is applied to recognise the time value of money and is unwound over the life of the provision. This is included in the income statement as a financial item within finance costs.

Viridor assume an aftercare period of 60 years in calculating provision values. This is considered reasonable by management, is comparable to peers in the waste business and is consistent with Environment Agency bond periods.

The impact of a 0.1% change in discount rate is estimated to be in the region of £2.5 million.

As at 31 March 2019 the Group's environmental and landfill restoration provisions were £209.6 million (2018 £191.9 million) (note 32).

Where a restoration provision is an integral part of a landfill site's future economic benefits, an asset is recognised and depreciated in accordance with the Group's depreciation policy. As at 31 March 2019 these assets had a net book value of £30.8 million (2018 £18.4 million) (note 17).

Retirement benefit obligations

The Group operates defined benefit pension schemes for which actuarial valuations are carried out as determined by the trustees at intervals of not more than three years. The last such valuation of the main scheme was as at 31 March 2016. The valuation as at 31 March 2019 is ongoing.

The pension cost and liabilities under IAS 19 are assessed in accordance with Directors' best estimates using the advice of an independent qualified actuary and assumptions in the latest actuarial valuation. The assumptions are based on member data supplied to the actuary and market observations for interest rates and inflation, supplemented by discussions between the actuary and management. The mortality assumption uses a scheme-specific calculation based on CMI 2018 actuarial tables with an allowance for future longevity improvement. The principal assumptions used to measure schemes' liabilities, sensitivities to changes in those assumptions and future funding obligations are set out in note 30.

Taxation

The Group's current tax provision of £19.1 million, reduced from £24.4 million in 2017/18, includes £6.2 million related to prior year tax items.

The Group continues to have a small number of ongoing uncertain tax items primarily relating to the interpretation of tax legislation regarding different tax aspects of its energy recovery facilities. This is part of the normal course of business and the Group has paid in full the tax HMRC interpret as due, and therefore would benefit by a cash refund of up to £26 million (2017/18 £27 million) should these tax items be concluded in the Group's favour. The Group is continuing to work towards resolution of these matters with HMRC.

Service concession arrangements

Consideration from public sector entities for the operation of waste management service concessions is treated as contract receivables or other intangible assets, depending upon the right to receive cash from the asset. At the balance sheet date the Group recognised contract receivables of £188.3 million (2018 £234.1 million) and other intangible assets of £90.6 million (2018 £69.2 million) in relation to its service concession arrangements.

Consideration relating to contract receivables is split between profit on the construction of assets, operation of the service and provision of finance recognised as interest receivable. Management's judgement is used in the allocation between these three elements, this assessment reflects external market conditions according to the type of service provided and project specific cash flow expectations, including the recovery of costs from the original contractor on our Glasgow concession.

Notes to the financial statements
continued

4. Critical accounting judgements and estimates continued

Revenue recognition

The Group recognises revenue as performance obligations are satisfied. Payments received in advance of performance obligations being satisfied are recorded as contract liabilities.

South West Water raises bills and recognises revenue in accordance with its entitlement to receive revenue in line with the limits established by the Periodic Review price-setting process. Pennon Water Services raises bills and recognises revenue in accordance with its contracts with customers and in line with the limits established for the non-household periodic price-setting process where applicable. For water and wastewater customers with water meters, revenue recognised is dependent upon the volume supplied including an estimate of the sales value of units supplied between the date of the last meter reading and the year end. Estimated usage is based on historic data, judgement and assumptions. The accrued income balance in this area at the balance sheet date, which represents the unconditional right to consideration, was £89.8 million (2018 £70.3 million) for South West Water and £29.1 million for Pennon Water Services (2018 £20.2 million). Each year a review of the actual amounts billed in comparison with the metered accrual recognised at the previous year end is undertaken to ensure that the methodology continues to be supported by historic experience.

Viridor estimates income from certain contractual revenue streams based on tonnages, cost and historic data which are dependent on agreement with the customer after the delivery of the service. Revenue is accrued from the sale of electricity from our generating assets based upon metered output delivered at rates specified under contract terms or prevailing market rates as applicable. The total accrued income balance in relation to these areas at the balance sheet date, which represents the unconditional right to consideration, was £54.7 million (2018 £53.4 million).

Provision for doubtful debts

At the balance sheet date the Group applies a simplified approach in calculating expected credit losses (ECLs) for trade receivables and contract assets. Therefore the Group does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. Each subsidiary has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the economic environment.

The actual level of debt collected may differ from the estimated levels of recovery. As at 31 March 2019 the Group's current trade receivables were £360.2 million (2018 £325.0 million), against which £99.0 million (2018 £104.3 million) had been provided for expected credit losses (note 22).

Judgements

Impairment of non-financial assets

In order to determine whether impairments, or reversals of previous impairments, are required for non-financial assets, the Group assesses whether there are any indicators for further impairment or reversal during the year. The assessment includes a review of changes in markets and discount rates over the year, together with a review of CGU business performance against expectations. The 2018/19 review concluded there were no indicators of further impairment or reversal.

Non-underlying items

In establishing which items are disclosed separately as non-underlying, to enable a full understanding of the Group's financial performance, the Directors exercise their judgement in assessing the size, nature or incidence of specific items. See note 6 for further details.

Glasgow Recycling and Renewable Energy Centre (GRREC)

The facility successfully completed commissioning, becoming fully operational during the second half of the financial year.

Total spend on the project since commencement has been £273.0 million, comprising the original target of £155.0 million, a further £21.0 million invested to provide additional throughput capacity and £97.0 million to address remediation and non-conformities. Viridor is contractually entitled to recover the incremental remediation and non-conformities spend, including from the original contractor, Interserve Construction Limited, under certain circumstances. The Group believes these circumstances have been met for a substantial element which is recoverable from Interserve. Whilst dialogue with Interserve is ongoing, the Group is preparing to legally pursue the matter.

The project is accounted for in accordance with IFRIC 12 service concession arrangements and the spend of £273.0 million has contributed £117.0 million to a financial asset, £84.0 million to an intangible asset and a contract receivable from Interserve of £72.0 million, along with a contingent asset of £25.0 million which considers a broader range of counterparties to the project. As reported through 2018/19 and in line with IFRS 9, the Group has made credit related provisions recognising that Interserve's financial condition has been under stress. The Group has considered all relevant available public information concerning Interserve and at 31 March 2019 recognises a provision of £28.7 million, resulting in a net receivable due of £43.3 million (2018 £62.7 million). Due to uncertainty and the level of judgement associated with the provision related to the specific recovery from Interserve, it is possible the final outcome may differ from the net receivable recognised, with the boundaries for the possible outcome being zero and £72.0million.

5. Segmental information

Operating segments are reported in a manner consistent with internal reporting provided to the Chief Operating Decision-Maker, which has been identified as the Pennon Group plc Board. The earnings measures below are used by the Board in making decisions.

The water business comprises the regulated water and wastewater services undertaken by South West Water. The waste management business is the recycling and residual waste processing and transformation services provided by Viridor. The non-household retail business comprises the services provided by Pennon Water Services in the non-household water and wastewater retail market which, while regulated, is open to competition. Segment assets include goodwill and other intangible assets, property, plant and equipment, inventories, trade and other receivables and cash and cash deposits. Segment liabilities comprise operating liabilities and borrowings and exclude taxation. The other segment liabilities include the Company's financing arrangements and Group taxation liabilities. Capital expenditure comprises additions to property, plant and equipment, including additions resulting from acquisitions through business combinations.

	2019 £m	2018 £m
Revenue		
Water	**581.0**	571.3
Waste management	**852.7**	788.9
Non-household retail	**173.7**	165.9
Other	**21.4**	13.8
Less intra-segment trading*	**(150.6)**	(143.7)
	1,478.2	1,396.2
Segment result		
Operating profit before depreciation, amortisation and non-underlying items (EBITDA)		
Water	**367.1**	360.9
Waste management	**178.9**	150.2
Non-household retail	**1.0**	1.0
Other	**(0.8)**	(2.5)
	546.2	509.6
Operating profit before non-underlying items		
Water	**251.1**	247.8
Waste management	**100.9**	78.6
Non-household retail	**0.3**	0.4
Other	**(1.3)**	(2.9)
	351.0	323.9
Profit before tax and non-underlying items		
Water	**180.6**	180.5
Waste management	**88.5**	70.8
Non-household retail	**(1.6)**	(1.1)
Other	**12.7**	8.6
	280.2	258.8
Profit before tax		
Water	**184.6**	178.1
Waste management	**58.9**	77.3
Non-household retail	**(1.6)**	(1.1)
Other	**18.4**	8.6
	260.3	262.9

* Intra-segment transactions between and to different segments is under normal market based commercial terms and conditions. Intra-segment revenue of the other segment is at cost.

	Water £m	Waste management £m	Non-household retail £m	Other £m	Eliminations £m	Group £m
Balance sheet						
31 March 2019						
Assets (excluding investments in joint ventures)	**3,690.2**	**2,464.8**	**64.6**	**1,659.0**	**(1,470.2)**	**6,408.4**
Investments in joint ventures	**–**	**51.1**	**–**	**–**	**–**	**51.1**
Total assets	**3,690.2**	**2,515.9**	**64.6**	**1,659.0**	**(1,470.2)**	**6,459.5**
Liabilities	**(2,762.2)**	**(1,743.2)**	**(58.7)**	**(1,685.8)**	**1,470.2**	**(4,779.7)**
Net assets	**928.0**	**772.7**	**5.9**	**(26.8)**	**–**	**1,679.8**
31 March 2018						
Assets (excluding investments in joint ventures)	3,513.2	2,254.2	66.6	1,506.9	(1,199.3)	6,141.6
Investments in joint ventures	–	22.8	–	–	–	22.8
Total assets	3,513.2	2,277.0	66.6	1,506.9	(1,199.3)	6,164.4
Liabilities	(2,721.9)	(1,512.4)	(59.1)	(1,431.2)	1,199.3	(4,525.3)
Net assets	791.3	764.6	7.5	75.7	–	1,639.1

Segment liabilities of the water and waste management segments comprise of operating liabilities and borrowings. The other segment includes company only assets and liabilities as well as Group taxation liabilities and should be considered in conjunction with the eliminations column.

Notes to the financial statements
continued

5. Segmental information continued

	Notes	Water £m	Waste management £m	Non-household retail £m	Other £m	Group £m
Other information						
31 March 2019						
Amortisation of other intangible assets	7	**0.5**	**4.5**	**0.2**	**–**	**5.2**
Capital expenditure	17	**154.0**	**233.1**	**–**	**0.1**	**387.2**
Depreciation	7	**115.5**	**73.5**	**0.6**	**0.4**	**190.0**
Finance income	8	**2.3**	**20.0**	**–**	**1.2**	**23.5**
Finance costs (before non-underlying items)	8	**72.8**	**15.4**	**1.9**	**16.6**	**106.7**
31 March 2018						
Amortisation of other intangible assets	7	0.5	3.0	0.1	–	3.6
Capital expenditure	17	181.6	203.7	3.5	0.2	389.0
Depreciation	7	112.9	68.6	0.6	0.4	182.5
Finance income	8	1.2	21.8	–	1.2	24.2
Finance costs (before non-underlying items)	8	68.4	14.8	1.5	14.0	98.7

Finance income and costs above reflect the segment in which the amounts arise and exclude inter-company transactions.

The grouping of revenue streams by how they are affected by economic factors, as required by IFRS 15, is as follows:

	Water	Waste management (WM)					Non-household retail	Other	
Year ended 31 March 2019	UK total £m	UK £m	Rest of EU £m	China £m	Rest of world £m	WM total £m	UK total £m	UK total £m	Total £m
Segment revenue	**581.0**	**802.3**	**13.8**	**25.6**	**11.0**	**852.7**	**173.7**	**21.4**	**1,628.8**
Inter-segment revenue	**(124.9)**	**(0.3)**	**–**	**–**	**–**	**(0.3)**	**(4.0)**	**(21.4)**	**(150.6)**
Revenue from external customers	**456.1**	**802.0**	**13.8**	**25.6**	**11.0**	**852.4**	**169.7**	**–**	**1,478.2**
Significant service lines									
Water	**456.1**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**456.1**
Non-household retail	**–**	**–**	**–**	**–**	**–**	**–**	**169.7**	**–**	**169.7**
Waste management services	**–**	**655.8**	**–**	**–**	**–**	**655.8**	**–**	**–**	**655.8**
Energy	**–**	**88.9**	**–**	**–**	**–**	**88.9**	**–**	**–**	**88.9**
Recyclate	**–**	**57.3**	**13.8**	**25.6**	**11.0**	**107.7**	**–**	**–**	**107.7**
	456.1	**802.0**	**13.8**	**25.6**	**11.0**	**852.4**	**169.7**	**–**	**1,478.2**

	Water	Waste management (WM)					Non-household retail	Other	
Year ended 31 March 2018	UK total £m	UK £m	Rest of EU £m	China £m	Rest of world £m	WM total £m	UK total £m	UK total £m	Total £m
Segment revenue	571.3	733.9	12.3	31.0	11.7	788.9	165.9	13.8	1,539.9
Inter-segment revenue	(126.8)	(0.1)	–	–	–	(0.1)	(3.0)	(13.8)	(143.7)
Revenue from external customers	444.5	733.8	12.3	31.0	11.7	788.8	162.9	–	1,396.2
Significant service lines									
Water	444.5	–	–	–	–	–	–	–	444.5
Non-household retail	–		–	–	–	–	162.9	–	162.9
Waste management services	–	586.0	–	–	–	586.0	–	–	586.0
Energy	–	78.4	–	–	–	78.4	–	–	78.4
Recyclate	–	69.4	12.3	31.0	11.7	124.4	–	–	124.4
	444.5	733.8	12.3	31.0	11.7	788.8	162.9	–	1,396.2

The Group's country of domicile is the United Kingdom and is the country in which it generates the majority of its revenue. The Group's non-current assets are all located in the United Kingdom.

6. Non-underlying items

Non-underlying items are those that in the Directors' view should be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance in the year and business trends over time. The presentation of results is consistent with internal performance monitoring.

	Notes	2019 £m	2018 £m
Revenue			
Construction contract settlement[4a]		–	3.2
Operating costs			
Pension past service cost (GMP equalisation impact)[1]		(3.0)	–
Provision for receivable (due from Interserve in respect of Glasgow Recycling Renewable Energy Centre)[2]		(22.7)	–
Earnings before interest, tax, depreciation and amortisation		**(25.7)**	3.2
Remeasurement of fair value movement in derivatives[3]	8	5.8	(2.4)
Write-down of joint venture shareholder loans[4b]		–	(19.2)
Refinancing of joint venture arrangement[4c]		–	22.5
Net tax credit arising on non-underlying items	9	5.0	3.4
Net non-underlying (charge)/credit		**(14.9)**	7.5

(1) On 26 October 2018, the High Court of Justice of England and Wales issued a judgment in a claim regarding the rights of female members of certain pension schemes to equality of treatment in relation to pension benefits (GMP equalisation). The judgment concluded that the claimant is under a duty to amend the schemes in order to equalise benefits for men and women in relation to guaranteed minimum pension benefit. The issues determined by the judgment arise in relation to many other occupational pension schemes.

The Group estimates, with advice from the Group's corporate actuary, that scheme liabilities will increase by an estimated £3.0 million as a result of the judgement. This cost has been recognised as a past service cost in the current year income statement. The charge is considered non-underlying due to its size and non-recurring nature.

(2) The financial statements recognise a gross receivable of £72.0 million from Interserve Construction Limited in relation to rectifications and completion costs for Glasgow Recycling Renewable Energy Centre. Under IFRIC 12 the difference between the gross contractual value and the expected recovery will be taken directly to the income statement. During the year, Interserve Plc (the holding company of Interserve Construction Limited) entered into administration. The operating company, Interserve Construction Limited with whom we contracted, is currently continuing to trade. As a result of the lack of certainty around the future of Interserve's business and in accordance with IFRS 9, we have sought to make an appropriate market-based credit assessment using the latest relevant public information available. Consequently a provision of £22.7 million has been recognised in the year against the receivable resulting in total cumulative provision at 31 March 2019 of £28.7 million. The charge is considered non-underlying due to its size and non-recurring nature. The financial stability of Interserve Construction Limited is judged to be outside the control of Pennon Group.

(3) In the year a credit of £5.8 million was recognised relating to non-cash derivative fair value movements associated with derivatives that are not designated as being party to an accounting hedge relationship. These movements are non-underlying due to the nature of the item being market dependent and potentially can be significant in value.

(4) In the prior year, on reset of the contracts associated with the Greater Manchester Waste Disposal Authority (GMWDA) an overall net credit before tax of £6.5 million was recognised as follows:

(a) A net amount of £3.2 million was recognised in revenue following the settlement of all outstanding claims relating to the construction of assets.

(b) On reset of the contracts associated with GMWDA ownership of Viridor Laing Holdings Limited passed to the GMWDA. On transfer £23.5 million of Viridor's shareholder loans were repaid, resulting in the write down of the remaining financial asset of £19.2 million.

(c) On reset of the contracts associated with GMWDA, repayment of external bank debt in our joint venture, INEOS Runcorn TPSCo Limited, was financed by GMWDA. This change in cash flows resulted in the recognition of income in this joint venture, with an amount deferred relating to a lower ongoing gate fee. The overall share of profit after tax related to the reset was £22.5 million, which contributed to an increase in investments in joint ventures recognised on the balance sheet to £22.8 million.

These items are considered non-underlying due to their size and non-recurring nature.

Notes to the financial statements
continued

7. Operating costs

	Notes	2019 £m	2018 £m
Employment costs before non-underlying items	13	**205.8**	192.9
Raw materials and consumables		**109.3**	108.7
Other operating expenses before non-underlying items include:			
Profit on disposal of property, plant and equipment		**(3.9)**	(2.5)
Operating lease rentals payable:			
– Plant and machinery		**18.2**	17.2
– Property		**9.3**	8.9
Research and development expenditure		**0.2**	0.1
Trade receivables impairment	22	**3.2**	7.5
Depreciation of property, plant and equipment:			
– Owned assets		**143.9**	139.4
– Under finance leases		**46.1**	43.1
Amortisation of other intangible assets	16	**5.2**	3.6

Operating costs include a charge of £25.7 million relating to non-underlying items, as detailed in note 6.

Fees payable to the Company's auditors in the year were:

	2019 £000	2018 £000
Fees payable to the Company's auditors and its associates for the audit of parent Company and consolidated financial statements	**102**	91
Fees payable to the Company's auditors and its associates for other services:		
The audit of Company's subsidiaries	**621**	632
Audit related assurance services	**50**	50
Other non-audit services	**118**	111
Total fees	**891**	884
Fees payable to the Company's auditors in respect of Pennon Group pension schemes:		
Audit	**50**	37

Expenses reimbursed to the auditors in relation to the audit of the Group were £63,000 (2018 £57,000).

A description of the work of the Audit Committee is set out in its report on pages 83 to 86 which includes an explanation of how the auditors' objectivity and independence are safeguarded when non-audit services are provided by the auditors' firm.

8. Net finance costs

	Notes	2019 Finance cost £m	2019 Finance income £m	2019 Total £m	2018 Finance cost £m	2018 Finance income £m	2018 Total £m
Cost of servicing debt							
Bank borrowing and overdrafts		**(52.5)**	**–**	**(52.5)**	(48.6)	–	(48.6)
Interest element of finance lease rentals		**(39.2)**	**–**	**(39.2)**	(34.4)	–	(34.4)
Other finance costs		**(2.5)**	**–**	**(2.5)**	(3.9)	–	(3.9)
Interest receivable		**–**	**3.6**	**3.6**	–	2.5	2.5
Interest receivable on shareholder loans to joint ventures		**–**	**5.3**	**5.3**	–	7.9	7.9
		(94.2)	**8.9**	**(85.3)**	(86.9)	10.4	(76.5)
Notional interest							
Interest receivable on service concession arrangements		**–**	**14.6**	**14.6**	–	13.8	13.8
Retirement benefit obligations	30	**(1.4)**	**–**	**(1.4)**	(1.6)	–	(1.6)
Unwinding of discounts on provisions	32	**(11.1)**	**–**	**(11.1)**	(10.2)	–	(10.2)
		(12.5)	**14.6**	**2.1**	(11.8)	13.8	2.0
Net finance cost before non-underlying items		**(106.7)**	**23.5**	**(83.2)**	(98.7)	24.2	(74.5)
Non-underlying items							
Fair value remeasurement of non-designated derivative financial instruments providing commercial hedges		**5.8**	**–**	**5.8**	(2.4)	–	(2.4)
Write-down of joint venture shareholder loans	6	**–**	**–**	**–**	(19.2)	–	(19.2)
Net finance cost after non-underlying items		**(100.9)**	**23.5**	**(77.4)**	(120.3)	24.2	(96.1)

In addition to the above, finance costs of £15.2 million have been capitalised on qualifying assets included in property, plant and equipment (2018 £17.0 million, £14.7 million property, plant and equipment, £2.3 million other intangible assets).

9. Taxation

	Notes	Before non-underlying items 2019 £m	Non-underlying items (note 6) 2019 £m	Total 2019 £m	Before non-underlying items 2018 £m	Non-underlying items (note 6) 2018 £m	Total 2018 £m
Analysis of charge in year							
Current tax charge		**29.4**	**(5.5)**	**23.9**	26.1	(3.0)	23.1
Deferred tax charge		**13.3**	**0.5**	**13.8**	18.3	(0.4)	17.9
Tax charge for year		**42.7**	**(5.0)**	**37.7**	44.4	(3.4)	41.0

UK corporation tax is calculated at 19% (2018 19%) of the estimated assessable profit for the year.

UK corporation tax is stated after a credit relating to prior year current tax of £3.0 million (2018 credit of £3.6 million) and a prior year deferred tax credit of £9.9 million (2018 credit of £2.4 million).

Notes to the financial statements
continued

9. Taxation continued

The total tax charge for the year differs from the theoretical amount which would arise using the standard rate of corporation tax in the UK of 19% (2018 19%) as follows:

	2019 £m	2018 £m
Reconciliation of total tax charge		
Profit before tax	**260.3**	262.9
Profit before tax multiplied by the standard rate of UK corporation tax of 19% (2018 19%)	**49.5**	49.9
Effects of:		
Expenses not deductible for tax purposes	**1.7**	0.3
Joint ventures profits not taxed	**(2.4)**	(6.1)
Adjustments to tax charge in respect of prior years	**(12.9)**	(6.0)
Depreciation charged on non-qualifying assets	**3.7**	1.5
Other	**(1.9)**	1.4
Tax charge for year	**37.7**	41.0

The adjustment to the tax charge in respect of prior years represents a current tax credit of £3.0 million and a deferred tax credit of £9.9 million. These reflect agreements reached with the tax authorities in respect of open enquiries, the release of historical liabilities and the true-up of the previous year's provision to reflect the tax computations filed with HMRC.

The current tax charge for the year differs from the theoretical amount which would arise using the standard rate of corporation tax in the UK of 19% (2018 19%) as follows:

	2019 £m	2018 £m
Reconciliation of current tax charge		
Profit before tax	**260.3**	262.9
Profit before tax multiplied by the standard rate of UK corporation tax of 19% (2018 19%)	**49.5**	49.9
Relief for capital allowances in place of depreciation	**(54.2)**	(49.5)
Disallowance of depreciation charged in the accounts	**31.0**	31.2
Other timing differences	**0.2**	1.6
Adjustments to tax charge in respect of prior years	**(3.0)**	(3.6)
Joint venture profits not taxed	**(2.4)**	(6.1)
Expenses not deductible for tax purposes	**1.7**	0.3
Depreciation charged on non-qualifying assets	**3.7**	1.5
Relief for capitalised interest and foreign exchange gains/losses	**(2.6)**	(2.2)
Current tax charge for year	**23.9**	23.1

The Group's current tax charge is lower than the UK headline tax rate of 19%, primarily due to the availability of capital allowances. Capital allowances provide tax relief when a business incurs expenditure on qualifying capital items such as plant and machinery used by the business. The rates at which capital allowances are given are set by Government. Such allowances are typically higher than depreciation in the earlier years of investment. Over time however these will be equal to one another. As an infrastructure business, these allowances help the Group to plan major investment and consequentially to maintain lower customers bills, as corporation tax relief is given against the investments made.

As noted in the deferred tax note (note 31) the rate of UK corporation tax will reduce to 17% from April 2020.

Joint venture profits are not subject to any additional tax within the Group as these are included on a post tax basis already, as the joint venture entity is subject to UK tax itself.

In addition to the amounts recognised in the income statement the following tax charges and credits were also recognised:

	2019 £m	2018 £m
Amounts recognised directly in other comprehensive income		
Deferred tax (credit)/charge on defined benefit pension schemes	**(3.2)**	4.2
Deferred tax (credit)/charge on cash flow hedges	**(0.6)**	3.5
Amounts recognised directly in equity		
Deferred tax (credit)/charge on share-based payments	**(0.5)**	0.4
Current tax credit on perpetual capital securities periodic return	**–**	(3.8)

10. Profit of the parent company

	2019 £m	2018 £m
Profit attributable to ordinary shareholders' equity dealt within the accounts of the parent company	**194.8**	215.1

As permitted by Section 408 of the Companies Act 2006 no income statement or statement of comprehensive income is presented for the Company.

11. Earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in the employee share trust (note 36), which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to include all dilutive potential ordinary shares. The Group has two types of dilutive potential ordinary shares – those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year; and the contingently issuable shares under the Group's Performance and Co-investment Plan, the long-term incentive plan and the deferred shares element of the Annual Incentive Bonus Plan, based on performance criteria for the vesting of the awards.

The weighted average number of shares and earnings used in the calculations were:

	2019	2018
Number of shares (millions)		
For basic earnings per share	**419.6**	417.9
Effect of dilutive potential ordinary shares from share options	**1.3**	1.5
For diluted earnings per share	**420.9**	419.4

Basic and diluted earnings per ordinary share

Earnings per ordinary share before non-underlying items and deferred tax are presented as the Directors believe that this measure provides a more useful comparison on business trends and performance, since deferred tax reflects distortive effects of changes in corporation tax rates and the level of long-term capital investment. Perpetual capital returns are proportionately adjusted to allow a more useful comparison in the year as the full return is accrued at 31 March but not payable until May in the following financial year. Earnings per share have been calculated as follows:

	2019			2018		
	Profit after tax £m	**Earnings per share Basic p**	**Diluted p**	Profit after tax £m	Earnings per share Basic p	Diluted p
Statutory earnings	**214.3**	**51.1**	**50.9**	200.6	48.0	47.8
Deferred tax charge before non-underlying items	**13.3**	**3.1**	**3.1**	18.3	4.4	4.4
Non-underlying items (net of tax)	**14.9**	**3.6**	**3.6**	(7.5)	(1.8)	(1.8)
Proportional adjustment on Perpetual capital returns	**–**	**–**	**–**	1.3	0.3	0.3
Adjusted earnings	**242.5**	**57.8**	**57.6**	212.7	50.9	50.7

12. Dividends

	2019 £m	2018 £m
Amounts recognised as distributions to ordinary equity holders in the year		
Interim dividend paid for the year ended 31 March 2018: 11.97p (2017 11.09p) per share	**50.2**	45.9
Final dividend paid for the year ended 31 March 2018: 26.62p (2017 24.87p) per share	**111.8**	103.6
	162.0	149.5
Proposed dividends		
Proposed interim dividend for the year ended 31 March 2019: 12.84p per share	**54.0**	
Proposed final dividend for the year ended 31 March 2019: 28.22p per share	**118.7**	
	172.7	

The proposed interim and final dividends have not been included as liabilities in these financial statements.

The proposed interim dividend for 2019 was paid on 4 April 2019 and the proposed final dividend is subject to approval by shareholders at the Annual General Meeting.

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13. Employment costs

	Notes	2019 £m	2018 £m
Wages and salaries		**184.3**	170.6
Social security costs		**19.1**	17.4
Pension costs – before non-underlying items	30	**21.9**	20.7
Pension costs – non-underlying items	6	**3.0**	–
Share-based payments	33	**3.6**	2.8
Total employment costs		**231.9**	211.5
Charged:			
Employment costs (excluding non-underlying items) – consolidated income statement		**205.8**	192.9
Employment costs (non-underlying items) – consolidated income statement		**3.0**	–
Capital schemes – property, plant and equipment		**23.1**	18.6
Total employment costs		**231.9**	211.5

Details of Directors' emoluments are set out in note 14. There are no personnel, other than Directors, who as key management exercise authority and responsibility for planning, directing and controlling the activities of the Group.

	2019	2018
Employees (average full time equivalent number)		
The average monthly number of employees (including Executive Directors) was:		
Water	**1,616**	1,575
Waste management	**3,426**	3,285
Non-household retail	**104**	81
Other	**93**	73
Group totals	**5,239**	5,014

The total number of employees (full-time equivalent) at 31 March 2019 was 5,382 (2018 5,190).

14. Directors' emoluments

	2019 £000	2018 £000
Executive Directors:		
Salary	**932**	914
Performance-related bonus paid or payable	**425**	398
Share-based payments	**936**	667
Other emoluments, including payments in lieu of pension provision	**307**	298
Non-Executive Directors	**508**	477
	3,108	2,754

The cost of share-based payments represents the amount charged to the income statement, as described in note 33. The aggregate gains on vesting of Directors' share-based awards amounted to a total of £nil (2018 £nil). Total gains made by Directors on the exercise of share options were £nil (2018 £nil).

Total emoluments include £nil (2018 £nil) payable to Directors for services as directors of subsidiary undertakings.

At 31 March 2019 one Director (2018 one) is accruing retirement benefits under defined benefit pension schemes in respect of which the Group contributed £29,000 (2018 £28,000).

At 31 March 2019 no Director (2018 no) is a member of the Group's defined contribution pension scheme in respect of which the Group contributed £nil (2018 £nil).

At 31 March 2019 two Directors received payments in lieu of pension provision (2018 two).

More detailed information concerning Directors' emoluments (including pensions and the highest paid Director) and share interests is shown in the Directors' remuneration report on pages 91 to 105.

15. Goodwill

	£m
Cost:	
At 1 April 2017	385.0
At 31 March 2018	385.0
At 31 March 2019	385.0
Carrying amount:	
At 1 April 2017	385.0
At 31 March 2018	385.0
At 31 March 2019	**385.0**

Goodwill acquired in a business combination is allocated at acquisition to the cash generating unit (CGU) expected to benefit from that business combination. £342.7 million of the goodwill balance is allocated to the waste management business, with the remaining £42.3 million allocated to the water business, representing the lowest levels at which goodwill is monitored and tested.

Impairment testing of goodwill
The Group tests goodwill for impairment annually, or more frequently if there are any indications that impairment may have arisen.

The recoverable amount of the water business segment, for which goodwill was recognised on acquisition of Bournemouth Water in 2015, is assessed using level 2 fair value hierarchy techniques, with reference to the market value of the merged water business, using a market based observable premium to regulated capital value.

The recoverable amount of the waste management segment, to which the majority of goodwill is allocated, is determined based on value-in-use calculations which, under IAS 36 'Impairment of Assets', require the use of base cash flow projections that reflect reasonable and supportable assumptions with specific restrictions on the estimates to be used. These include limitations on reflecting cash flows to take account of future cost restructuring, or improvement or enhancement of asset performance. Uncommitted projects are excluded. Discount rates are required to be derived independently of the Group's capital structure and those used reflect management's estimate of a rate that investors would require if they were to choose a similar investment ranging from 6-12% (2018 7-10%) across the CGUs' business activities.

The base cash flow projections have been derived from the Group's detailed budget and strategic plan projections. These cover a period of seven years and are prepared as part of the annual planning cycle. Long-term growth rates of 3%, based on forecast of growth in waste management markets and the UK economy, are applied to cash flows beyond the seven year period.

These plans are based on detailed market-by-market forecasts of projected volumes, prices and costs for each business activity. These forecasts reflect, on an individual operational site basis, numerous assumptions and estimates. The key assumptions include anticipated changes in market size and volumes; recyclate prices; energy selling prices; gate fees; the level of future landfill tax; and cost inflation. Management has determined the value assigned to each assumption based on historical experience, market surveys, industry analysis and current legislation. For business activities with an indefinite life a terminal growth rate has been used.

The results of tests performed during the year demonstrate significant headroom in both CGUs, and it is judged that no reasonable change in the key assumptions would cause the carrying amount of the CGUs to exceed the recoverable amount.

Notes to the financial statements
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16. Other intangible assets

	Service concession arrangements £m	Customer contracts £m	Patents £m	Other £m	Total £m
Cost:					
At 1 April 2017	61.5	34.3	0.2	2.6	98.6
Additions	8.1	–	–	1.0	9.1
At 31 March 2018	69.6	34.3	0.2	3.6	107.7
Additions	24.7	–	–	–	24.7
At 31 March 2019	94.3	34.3	0.2	3.6	132.4
Accumulated amortisation:					
At 1 April 2017	0.2	29.9	0.2	1.2	31.5
Charge for year	0.2	2.8	–	0.6	3.6
At 31 March 2018	0.4	32.7	0.2	1.8	35.1
Charge for year	3.3	1.2	–	0.7	5.2
At 31 March 2019	3.7	33.9	0.2	2.5	40.3
Carrying amount:					
At 1 April 2017	61.3	4.4	–	1.4	67.1
At 31 March 2018	69.2	1.6	–	1.8	72.6
At 31 March 2019	**90.6**	**0.4**	**–**	**1.1**	**92.1**

Service concession arrangements, once available for use, are amortised over the useful life of each contract. The average remaining life is 21 years (2018 22 years).

Customer contracts are amortised over the useful life of each contract which at acquisition ranged between 2 and 15 years. The weighted average remaining life is 1 year (2018 1 year).

Patents have been amortised in full over their estimated useful lives which at acquisition was 13 years.

Other, including computer software, is amortised over the useful life of the assets which at acquisition was 5 years. The average remaining life is 4 years (2018 5 years).

The carrying values of other intangible assets are reviewed annually or when events or changes in circumstance indicate that the carrying amounts may not be fully recoverable.

During the year borrowing costs of £nil million (2018 £2.3 million at an average borrowing rate of 3.7%) have been capitalised on qualifying assets.

17. Property, plant and equipment

	Land and buildings £m	Infrastructure assets £m	Operational properties £m	Fixed and mobile plant, vehicles and computers £m	Landfill restoration £m	Construction in progress £m	Total £m
Group							
Cost:							
At 1 April 2017	539.4	1,854.8	706.4	2,734.2	71.7	372.3	6,278.8
Additions	12.3	13.2	1.8	45.4	11.1	305.2	389.0
Assets adopted at fair value	–	8.0	–	–	–	–	8.0
Grants and contributions	–	(2.2)	–	–	–	–	(2.2)
Disposals	(0.4)	(1.2)	–	(9.9)	–	–	(11.5)
Transfers/reclassifications	3.7	21.9	11.1	85.4	–	(122.1)	–
At 31 March 2018	555.0	1,894.5	719.3	2,855.1	82.8	555.4	6,662.1
Additions	5.2	16.4	2.2	50.0	22.8	290.6	387.2
Assets adopted at fair value	–	10.0	–	–	–	–	10.0
Grants and contributions	–	(2.2)	–	–	–	–	(2.2)
Disposals	(0.7)	(1.2)	–	(16.4)	–	–	(18.3)
Transfers/reclassifications	1.0	36.1	20.0	409.4	–	(466.5)	–
At 31 March 2019	560.5	1,953.6	741.5	3,298.1	105.6	379.5	7,038.8
Accumulated depreciation:							
At 1 April 2017	384.7	246.8	240.0	1,246.7	57.4	–	2,175.6
Charge for year	17.2	23.0	13.4	125.3	7.0	–	185.9
Disposals	(0.2)	(1.2)	–	(8.6)	–	–	(10.0)
At 31 March 2018	401.7	268.6	253.4	1,363.4	64.4	–	2,351.5
Charge for year	11.1	22.1	13.4	136.6	10.4	–	193.6
Disposals	(0.2)	(1.2)	–	(14.3)	–	–	(15.7)
At 31 March 2019	412.6	289.5	266.8	1,485.7	74.8	–	2,529.4
Net book value:							
At 1 April 2017	154.7	1,608.0	466.4	1,487.5	14.3	372.3	4,103.2
At 31 March 2018	153.3	1,625.9	465.9	1,491.7	18.4	555.4	4,310.6
At 31 March 2019	**147.9**	**1,664.1**	**474.7**	**1,812.4**	**30.8**	**379.5**	**4,509.4**

Of the total depreciation charge of £193.6 million (2018 £185.9 million), £1.6 million (2018 £1.5 million) has been charged to capital projects, £2.0 million (2018 £1.9 million) has been offset by deferred income and £190.0 million (2018 £182.5 million) has been charged against profits. Asset lives and residual values are reviewed annually. During the year borrowing costs of £15.2 million (2018 £14.7 million) have been capitalised on qualifying assets, at an average borrowing rate of 4.0% (2018 3.7%).

Groups of assets forming cash generating units are reviewed for indicators of impairment. No indicators of impairment were identified during the year.

Asset lives are reviewed annually. No significant changes were required in 2018/19.

Notes to the financial statements
continued

17. Property, plant and equipment continued

Assets held under finance leases included above were:

	Land and buildings £m	Infrastructure assets £m	Operational properties £m	Fixed and mobile plant, vehicles and computers £m	Construction in progress £m	Total £m
Group						
Cost:						
At 31 March 2018	–	416.9	463.7	673.7	0.2	1,554.5
At 31 March 2019	3.3	428.4	471.1	672.9	5.2	1,580.9
Accumulated depreciation:						
At 31 March 2018	–	63.3	119.4	305.3	–	488.0
At 31 March 2019	0.1	68.2	126.7	315.2	–	510.2
Net book amount:						
At 31 March 2018	–	353.6	344.3	368.4	0.2	1,066.5
At 31 March 2019	**3.2**	**360.2**	**344.4**	**357.7**	**5.2**	**1,070.7**

	Fixed and mobile plant, vehicles and computers £m
Company	
Cost:	
At 1 April 2017	0.3
Additions	0.1
At 31 March 2018	0.4
Additions	0.1
At 31 March 2019	0.5
Accumulated depreciation:	
At 1 April 2017	0.1
Charge for year	0.1
At 31 March 2018	0.2
Charge for year	–
At 31 March 2019	0.2
Net book value:	
At 1 April 2017	0.2
At 31 March 2018	0.2
At 31 March 2019	**0.3**

Asset lives and residual values are reviewed annually.

18. Financial instruments by category

The accounting policies for financial instruments that have been applied to line items are:

		Fair value			Amortised cost		
	Notes	Derivatives used for fair value hedging £m	Derivatives used for cash flow hedging £m	Derivatives not in a hedge accounting relationship £m	Debt Instruments at amortised Cost £m	Trade receivables and trade payables £m	Total £m
Group							
31 March 2019							
Financial assets							
Trade receivables	22	**–**	**–**	**–**	**–**	**261.2**	**261.2**
Other receivables	19,22	**–**	**–**	**–**	**263.8**	**–**	**263.8**
Derivative financial instruments	23	**3.4**	**3.1**	**75.8**	**–**	**–**	**82.3**
Cash and cash deposits	25	**–**	**–**	**–**	**569.6**	**–**	**569.6**
Total		**3.4**	**3.1**	**75.8**	**833.4**	**261.2**	**1,176.9**
Financial liabilities							
Borrowings	28	**–**	**–**	**–**	**(3,649.1)**	**–**	**(3,649.1)**
Derivative financial instruments	23	**–**	**(20.5)**	**(0.5)**	**–**	**–**	**(21.0)**
Trade payables	26	**–**	**–**	**–**	**–**	**(127.6)**	**(127.6)**
Other payables	26	**–**	**–**	**–**	**–**	**(4.1)**	**(4.1)**
Total		**–**	**(20.5)**	**(0.5)**	**(3,649.1)**	**(131.7)**	**(3,801.8)**
31 March 2018							
Financial assets							
Trade receivables	22	–	–	–	–	220.7	220.7
Other receivables	19,22	–	–	–	266.6	–	266.6
Derivative financial instruments	23	4.1	7.0	72.3	–	–	83.4
Cash and cash deposits	25	–	–	–	585.3	–	585.3
Total		4.1	7.0	72.3	851.9	220.7	1,156.0
Financial liabilities							
Borrowings	28	–	–	–	(3,386.8)	–	(3,386.8)
Derivative financial instruments	23	–	(16.7)	(0.9)	–	–	(17.6)
Trade payables	26	–	–	–	–	(96.9)	(96.9)
Other payables	26,29	–	–	–	–	(48.0)	(48.0)
Total		–	(16.7)	(0.9)	(3,386.8)	(144.9)	(3,549.3)
Company							
31 March 2019							
Financial assets							
Amounts owed by subsidiaries	19,22	**–**	**–**	**–**	**1,064.5**	**–**	**1,064.5**
Other receivables	22	**–**	**–**	**–**	**0.1**	**–**	**0.1**
Derivative financial instruments	23	**3.4**	**3.1**	**–**	**–**	**–**	**6.5**
Cash and cash deposits	25	**–**	**–**	**–**	**284.8**	**–**	**284.8**
Total		**3.4**	**3.1**	**–**	**1,349.4**	**–**	**1,355.9**
Financial liabilities							
Amounts due to subsidiaries	26	**–**	**–**	**–**	**(0.1)**	**–**	**(0.1)**
Borrowings	28	**–**	**–**	**–**	**(1,325.4)**	**–**	**(1,325.4)**
Derivative financial instruments	23	**–**	**(0.9)**	**–**	**–**	**–**	**(0.9)**
Trade payables	26	**–**	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Total		**–**	**(0.9)**	**–**	**(1,325.5)**	**(0.2)**	**(1,326.6)**
31 March 2018							
Financial assets							
Amounts owed by subsidiaries	19,22	–	–	–	886.9	–	886.9
Other receivables	22	–	–	–	0.3	–	0.3
Derivative financial instruments	23	4.1	6.5	–	–	–	10.6
Cash and cash deposits	25	–	–	–	303.3	–	303.3
Total		4.1	6.5	–	1,190.5	–	1,201.1
Financial liabilities							
Amounts due to subsidiaries	26	–	–	–	(5.7)	–	(5.7)
Borrowings	28	–	–	–	(1,144.9)	–	(1,144.9)
Derivative financial instruments	23	–	(3.6)	–	–	–	(3.6)
Trade payables	26	–	–	–	–	(0.1)	(0.1)
Other payables	26	–	–	–	–	(44.3)	(44.3)
Total		–	(3.6)	–	(1,150.6)	(44.4)	(1,198.6)

Notes to the financial statements
continued

19. Other non-current assets
Non-current receivables

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Amounts owed by subsidiary undertakings	**–**	–	**1,044.6**	846.0
Amounts owed by related parties (note 44)	**67.8**	39.4	**–**	–
Service concession arrangements	**188.3**	222.9	**–**	–
Other receivables	**0.3**	1.2	**–**	–
	256.4	263.5	**1,044.6**	846.0

Non-current receivables were due:

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Between 1 and 2 years	**44.0**	12.9	**48.6**	35.5
Over 2 years and less than 5 years	**135.2**	34.9	**148.1**	108.1
Over 5 years	**77.2**	215.7	**847.9**	702.4
	256.4	263.5	**1,044.6**	846.0

The fair values of non-current receivables were:

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Amounts owed by subsidiary undertakings	**–**	–	**1,160.4**	909.5
Amounts owed by related parties	**81.9**	70.6	**–**	–
Service concession arrangements	**188.3**	222.9	**–**	–
Other receivables	**0.3**	1.2	**–**	–
	270.5	294.7	**1,160.4**	909.5

The Group has a number of service concession arrangements with local authority clients in the waste management sector to build and operate recycling assets and energy recovery facilities. The terms of the contracts, including pricing and performance obligations, are established at the outset and the contracts are typically for a duration of 24 years. The assets revert to the local authority at the end of the contract. At 31 March 2019 the average remaining duration of the service concession arrangements was 21 years (2018 22 years). No material expected credit loss provision has been recognised in respect of service concession arrangements.

Service concession arrangements includes £nil (2018: £134.5 million) in respect of contract assets. The contract asset balance at 31 March 2018 related to the Glasgow Recycling and Renewable Energy Centre which was in the course of construction at that time and met the definition of a contract asset. Construction was completed during the year ended 31 March 2019.

The fair value of amounts owed by related parties is based on cash flows using a rate based on the borrowings rate of 2.4% (2018 2.5%). The discount rate is equal to London Interbank Offered Rate plus an allowance to reflect an appropriate credit margin.

The effective interest rate on amounts owed by related parties was 12.6% (2018 12.6%).

Other receivables include site development and pre-contract costs of £nil (2018 £0.7 million).

A significant proportion of the non-current asset balances are due from local government authorities or joint venture companies which principally operate under long-term local government authority contracts.

20. Investments
Subsidiary undertakings

	£m
Company	
At 1 April 2017	1,624.2
Additions	356.7
Disposals	(0.1)
At 31 March 2018	1,980.8
At 31 March 2019	**1,980.8**

The recoverable amount of investments is determined based on value-in-use calculations, which are set out in note 15.

20. Investments continued

Joint ventures

	Shares £m
Group	
At 1 April 2017	0.1
Share of post-tax profit – underlying	9.4
Share of post-tax profit – non-underlying	22.5
Share of other comprehensive charges	(2.7)
Disposals	–
Dividends received	(6.5)
At 31 March 2018	22.8
Additions	20.9
Share of post–tax profit	12.4
Share of other comprehensive income	0.5
Dividends received	(5.5)
At 31 March 2019	**51.1**

In December 2018 John Laing Investments Limited, a joint venture partner with the Group in INEOS Runcorn (TPS) Holdings Limited (Runcorn I ERF) sold its holding. The Group exercised its pre-emption rights and paid a total cash consideration of £54.8 million for the 37.5% economic interest and 20% voting rights. The cash consideration has been allocated £20.9 million to investment in equity shares and £33.9 million to investment in shareholder loans. The acquisition increased the Group's economic interest in Runcorn I ERF from 37.5% to 75%, with the associated voting rights moving from 20% to 40%. With the acquisition the Group now has joint control over Runcorn I ERF and classifies its investment as a joint venture. Previously the Group had classified its investment as an associate because the other joint venture partners could have operated without the Group's agreement. The equity method of accounting is used for both classifications, so the same accounting treatment has been applied continuously.

Details of the Group's principal subsidiary and joint venture undertakings are set out in note 40.

The Group's joint ventures listed below all have share capital consisting solely of ordinary shares which is held directly by the Group.

Name of Entity	Place of business/ country of incorporation	% of ownership	Measurement method
Lakeside Energy from Waste Holdings Limited(1)	England	50	Equity
INEOS Runcorn (TPS) Holdings Limited(2)	England	40	Equity

(1) Lakeside Energy from Waste Holdings Limited provides energy recovery facility services.
(2) INEOS Runcorn (TPS) Holdings Limited provides energy recovery facilities. The Group's economic interest is 75% as set out in note 40.

The Group's joint ventures are all private companies and there are no quoted market prices available for their shares.

Summarised financial information for the Group's joint ventures:

Summarised balance sheet

	2019		2018	
	Lakeside Energy from Waste Holdings Limited £m	**INEOS Runcorn (TPS) Holdings Limited £m**	Lakeside Energy from Waste Holdings Limited £m	INEOS Runcorn (TPS) Holdings Limited £m
Current				
Cash and cash equivalents	**22.5**	**15.9**	16.1	15.5
Other current assets	**8.7**	**11.4**	8.6	10.0
Total current assets	**31.2**	**27.3**	24.7	25.5
Borrowings	**–**	**–**	–	–
Other current liabilities	**(6.2)**	**(0.1)**	(6.5)	(8.6)
Total current liabilities	**(6.2)**	**(0.1)**	(6.5)	(8.6)
Non-current				
Assets	**101.9**	**193.1**	109.8	270.3
Borrowings	**(88.8)**	**(86.7)**	(95.5)	(86.9)
Other liabilities	**(25.8)**	**(73.7)**	(28.4)	(145.1)
Total non-current liabilities	**(114.6)**	**(160.4)**	(123.9)	(232.0)
Net assets	**12.3**	**59.9**	4.1	55.2
Net debt	**(66.3)**	**(70.8)**	(79.4)	(71.4)
Associated shareholder loans	**15.4**	**86.7**	16.3	86.9
Net (debt)/funds (excluding shareholder loans)	**(50.9)**	**15.9**	(63.1)	15.5

Notes to the financial statements
continued

20. Investments continued

Summarised statement of comprehensive income

	2019		2018		
	Lakeside Energy from Waste Holdings Limited £m	INEOS Runcorn (TPS) Holdings Limited £m	Lakeside Energy from Waste Holdings Limited £m	Viridor Laing (Greater Manchester) Holdings Limited £m	INEOS Runcorn (TPS) Holdings Limited £m
Revenue	**52.8**	**43.6**	49.2	85.3	53.7
EBITDA	**37.4**	**24.8**	33.7	3.6	38.7
Depreciation and amortisation	**(7.9)**	**(9.7)**	(7.9)	(0.6)	(12.1)
Non-underlying credit (see note 6)	**–**	**–**	–	–	60.0
Interest receivable on service concessions	**–**	**–**	–	11.3	–
Other net interest charge	**(7.3)**	**(9.5)**	(7.5)	(14.5)	(20.3)
Pre-tax profit/(loss)	**22.2**	**5.6**	18.3	(0.2)	66.3
Income tax (expense)/income	**(4.0)**	**(0.9)**	(3.8)	0.1	(0.3)
Post-tax profit/(loss)	**18.2**	**4.7**	14.5	(0.1)	66.0
Other comprehensive income	**1.0**	**–**	3.9	–	36.7
Total comprehensive income	**19.2**	**4.7**	18.4	(0.1)	102.7
Dividends paid by joint venture	**(11.0)**	**–**	(13.0)	–	–

The information above reflects the amounts presented in the financial statements of the joint ventures adjusted for differences in accounting policies between the Group and the joint ventures. The information reflects 100% of the joint ventures' results and net liabilities. The prior year information for Viridor Laing (Greater Manchester) Holdings Limited covers the period from the start of the year to date of disposal.

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint ventures.

	2019		2018		
	Lakeside Energy from Waste Holdings Limited £m	INEOS Runcorn (TPS) Holdings Limited £m	Lakeside Energy from Waste Holdings Limited £m	Viridor Laing (Greater Manchester) Holdings Limited £m	INEOS Runcorn (TPS) Holdings Limited £m
Opening net assets /(liabilities) 1 April	**4.1**	**55.2**	(1.3)	(34.9)	(47.5)
Profit/(loss) for the year	**18.2**	**4.7**	14.5	–	66.0
Other comprehensive income/(loss)	**1.0**	**–**	3.9	–	36.7
Dividends paid	**(11.0)**	**–**	(13.0)	–	–
Disposal	**–**	**–**	–	34.9	–
Closing net assets	**12.3**	**59.9**	4.1	–	55.2
Carrying value being net interest in share of net assets	**6.2**	**44.9**	2.1	–	20.7

21. Inventories

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
Raw materials and consumables	**28.8**	24.6	**–**	–

22. Trade and other receivables – current

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Trade receivables	**360.2**	325.0	**–**	–
Less: allowance for expected credit losses in respect of trade receivables	**(99.0)**	(104.3)	**–**	–
Net trade receivables	**261.2**	220.7	**–**	–
Amounts owed by related parties (note 44)	**7.7**	4.3	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**19.9**	41.0
Other receivables	**5.9**	4.1	**0.1**	0.3
Prepayments and accrued income	**210.0**	186.9	**1.6**	1.4
	484.8	416.0	**21.6**	42.7

Trade receivables include accrued income relating to customers with water budget payment plans. The increased activity from the three additional Energy Recovery Facilities becoming operational in the Waste Management business during the year coupled with increased demand in water business has resulted in an increase in trade receivables balances.

In the current year prepayments and accrued income include a net receivable of £43.3 million (2018 £62.7 million) relating to gross contractual compensation amounts due totalling £72.0 million (2018 £68.7 million) arising from additional costs incurred in the construction of the Glasgow Recycling and Renewable Energy Centre (GRREC). A full credit risk appraisal has been carried out on this receivable and a provision of £28.7 million (2018 £6.0 million) has been recognised for expected credit losses as detailed in note 4. For other accrued income balances, no material expected credit loss provision has been recognised.

Prepayments and accrued income includes £nil (2018 £6.1 million) in respect of contract assets. The contract asset balance at 31 March 2018 related to the GRREC which was in the course of construction at that time. Construction was completed during the year ended 31 March 2019.

The Directors consider that the carrying amounts of trade and other receivables approximate to their fair value.

There is no concentration of credit risk in trade receivables. The Group has a large number of customers who are dispersed and there is no significant loss on trade receivables expected that has not been provided for.

The Group applies the simplified approach in calculating the expected credit losses for trade receivables allowing a provision matrix to be used which is based on the expected life of trade receivables, default rates for different customer categories within the collection process and forward-looking information.

As at 31 March, an analysis of the ageing of trade receivables is as follows:

	2019 £m	2018 £m
Group		
Not due	**152.2**	80.3
Past due 1 – 30 days	**22.5**	55.6
Past due 31 – 120 days	**25.2**	27.8
More than 120 days	**160.3**	161.3
	360.2	325.0

The aged trade receivables above are taken directly from aged sales ledger records before deduction of credit balances and other adjustments.

The Group's operating businesses specifically review separate categories of debt to identify an appropriate allowance for expected credit losses as outlined in note 2(o). South West Water Limited has a duty under legislation to continue to provide domestic customers with services regardless of payment. The expected credit loss rate applied ranges from 0% (not due) to 100% (>120 days and untraced previous occupier).

No material expected credit loss provision has been recognised in respect of amounts owed by subsidiary undertakings.

The movement in the allowance for expected credit losses in respect of trade receivables was:

	2019 £m	2018 £m
At 1 April	**104.3**	98.1
Associated with acquisition of trade receivables (non-household market)	**–**	3.0
Provision for expected credit losses	**3.2**	7.5
Receivables written off during the year as uncollectable	**(8.5)**	(4.3)
At 31 March	**99.0**	104.3

Notes to the financial statements
continued

23. Derivative financial instruments

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Derivatives used for cash flow hedging				
Non-current assets	**1.0**	3.4	**1.1**	3.4
Current assets	**2.1**	3.6	**2.0**	3.1
Current liabilities	**(10.7)**	(8.9)	**(0.2)**	(2.7)
Non-current liabilities	**(9.8)**	(7.8)	**(0.7)**	(0.9)
Derivatives used for fair value hedging				
Non-current assets	**2.6**	3.3	**2.6**	0.8
Current assets	**0.8**	0.8	**0.8**	3.3
Derivatives not in a hedge accounting relationship				
Non-current assets	**66.9**	63.8	–	–
Current assets	**8.9**	8.5	–	–
Current liabilities	**(0.4)**	(0.5)	–	–
Non-current liabilities	**(0.1)**	(0.4)	–	–

The Group's financial risks and risk management policies are set out in note 3. The fair value of derivatives is split between current and non-current assets or liabilities based on the maturity of the cash flows. The ineffective portion recognised in the income statement arising from hedging relationships was £nil (2018 £nil).

During the year a £6.8 million charge (2018 £15.6 million) was recognised in profit and loss relating to cash flow hedges previously recognised through other comprehensive income and recorded in the hedging reserve. A £6.4 million charge (2018 £20.5 million credit) was recognised as an other comprehensive loss/income for cash flow hedges that may be classified subsequently to profit and loss.

Interest rate swaps, primarily cash flow hedges, and fixed rate borrowings are used to manage the mix of fixed and floating rates to ensure at least 60% of Group net borrowings are at fixed rate. At 31 March 2019 63% of Group net borrowings were at fixed rate (2018 62%).

At 31 March 2019 the Group had interest rate swaps to swap from floating to fixed rate and hedge financial liabilities with a notional value of £1,529 million and a weighted average maturity of 3.2 years (2018 £978 million, with 2.1 years). The weighted average interest rate of the swaps for their nominal amount was 1.7% (2018 2.0%).

The periods for which cash flow hedges are expected to affect future profit or loss are as follows:

	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due over 5 years £m	Total £m
Group					
31 March 2019					
Assets	**2.1**	**0.5**	**0.5**	**–**	**3.1**
Liabilities	**(10.7)**	**(2.1)**	**(5.8)**	**(1.9)**	**(20.5)**
31 March 2018					
Assets	2.8	2.2	1.8	0.2	7.0
Liabilities	(8.9)	(7.8)	–	–	(16.7)
Company					
31 March 2019					
Assets	**2.0**	**0.5**	**0.6**	**–**	**3.1**
Liabilities	**(0.2)**	**(0.2)**	**(0.4)**	**(0.1)**	**(0.9)**
31 March 2018					
Assets	2.2	2.2	1.9	0.2	6.5
Liabilities	(2.0)	(0.8)	(0.8)	–	(3.6)

In addition, the Group has cash flow hedges that are expected to affect future amounts recognised in property, plant and equipment, amounting to assets of £nil million (2018 £3.0 million).

23. Derivative financial instruments continued

Valuation hierarchy

The Group uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments not traded in an active market (level 2, for example over-the-counter derivatives) is determined by using valuation techniques. A variety of methods and assumptions are used based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The Group's financial instruments are valued using level 2 measures:

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Assets				
Derivatives used for cash flow hedging	**3.1**	7.0	**3.1**	6.5
Derivatives used for fair value hedging	**3.4**	4.1	**3.4**	4.1
Derivatives not in a hedge accounting relationship	**75.8**	72.3	**–**	–
Total assets	**82.3**	83.4	**6.5**	10.6
Liabilities				
Derivatives used for cash flow hedging	**20.5**	16.7	**0.9**	3.6
Derivatives not in a hedge accounting relationship	**0.5**	0.9	**–**	–
Total liabilities	**21.0**	17.6	**0.9**	3.6

24. Financial instruments at fair value through profit

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Current liabilities	**3.8**	2.6	**0.4**	0.4
Non-current liabilities	**43.1**	46.6	**1.4**	1.7

Financial instruments at fair value through profit reflect the fair value movement of the hedged risk on a hedged item which had been designated in a fair value hedging relationship.

25. Cash and cash deposits

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Cash at bank and in hand	**110.5**	114.9	**109.7**	15.2
Short-term bank deposits	**45.0**	113.0	**45.0**	113.0
Other deposits	**414.1**	357.4	**130.1**	175.1
Total cash and cash deposits	**569.6**	585.3	**284.8**	303.3

Group short-term deposits have an average maturity of 1 working day.

Group other deposits have an average maturity of 61 days.

Group other deposits include restricted funds of £203.9 million (2018 £182.3 million) to settle long-term lease liabilities (note 28). Restricted funds are available for access, subject to being replaced by an equivalent valued security.

For the purposes of the cash flow statement cash and cash equivalents comprise:

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Cash and cash deposits as above	**569.6**	585.3	**284.8**	303.3
Less: deposits with a maturity of three months or more (restricted funds)	**(203.9)**	(182.3)	**–**	–
	365.7	403.0	**284.8**	303.3

Notes to the financial statements
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26. Trade and other payables – current

	Group		Company	
	2019 £m	2018 (reanalysed) £m	**2019 £m**	2018 (reanalysed) £m
Trade payables	**127.6**	96.9	**0.2**	0.1
Contract liabilities	**10.3**	11.5	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**0.1**	5.7
Amounts owed to joint ventures (note 44)	**4.1**	3.7	**–**	–
Other tax and social security	**32.5**	48.4	**0.8**	0.6
Accruals and other payables	**123.5**	181.5	**14.7**	50.7
	298.0	342.0	**15.8**	57.1

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

At 31 March 2018 accruals and other payables included an amount of £44.3 million due to Nomura Structured Holdings plc on unwind of a synthetic derivative.

Prior year comparatives have been re-analysed to separately recognise contract liabilities in accordance with IFRS 15. Contract liabilities are recognised when consideration is received in advance of the Group performing its obligations to customers. The movement in the contract liabilities was:

Contract liabilities	**2019 £m**	2018 £m
At 1 April	**120.2**	112.3
Revenue recognised in the year	**(12.2)**	(9.5)
Consideration received in advance of completion of performance obligations	**18.4**	17.4
At 31 March	**126.4**	120.2

The analysis of contract liabilities between current and non-current is:

	2019 £m	2018 £m
Current	**10.3**	11.5
Non-current (note 29)	**116.1**	108.7
	126.4	120.2

Performance obligations related to the current contract liabilities balance above are expected to be satisfied, and revenue will be recognised, within the financial year ended 31 March 2020.

27. Current tax liabilities

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Current year creditor	**12.9**	11.8	**1.9**	(1.7)
Prior year tax items	**6.2**	12.6	**1.7**	25.6
	19.1	24.4	**3.6**	23.9

28. Borrowings

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Current				
Short-term loans	**59.8**	149.6	**51.8**	149.6
European Investment Bank	**27.0**	32.0	**–**	–
Amounts owed to subsidiary undertakings (note 44)	**–**	–	**283.9**	283.6
	86.8	181.6	**335.7**	433.2
Obligations under finance leases	**63.6**	28.2	**–**	–
Total current borrowings	**150.4**	209.8	**335.7**	433.2
Non-current				
Bank and other loans	**443.1**	229.0	**370.9**	149.1
Private placements	**616.2**	619.6	**509.3**	562.6
Bond 2040	**134.2**	133.9	**–**	–
RPI index-linked bonds	**434.5**	426.3	**–**	–
European Investment Bank	**373.9**	291.4	**109.5**	–
	2,001.9	1,700.2	**989.7**	711.7
Obligations under finance leases	**1,496.8**	1,476.8	**–**	–
Total non-current borrowings	**3,498.7**	3,177.0	**989.7**	711.7
Total borrowings	**3,649.1**	3,386.8	**1,325.4**	1,144.9

The Group has finance leases for various assets as shown in note 17.

The Company issued a £100 million private placement in July 2007 maturing in 2022. Interest is payable at a fixed rate of 3.3%.

South West Water Finance Plc issued a £200 million RPI index-linked bond in July 2008 maturing in 2057 with a cash coupon of 1.99%. South West Water Finance Plc issued a £150 million bond in July 2010 maturing in 2040 with a cash coupon of 5.875%.

Bournemouth Water Limited issued a £65 million RPI index-linked bond in April 2005 maturing in 2033 with a cash coupon of 3.084%. This instrument was transferred to South West Water Limited in April 2017.

The fair values of non-current borrowings, valued using level 2 measures (as set out in note 23) were:

	2019		2018	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Group				
Bank and other loans	**443.1**	**447.3**	229.0	232.8
Private placements	**616.2**	**657.7**	619.6	652.3
Bond 2040	**134.2**	**197.5**	133.9	197.5
RPI index-linked bond	**434.5**	**526.4**	426.3	495.5
European Investment Bank	**373.9**	**345.2**	291.4	251.5
	2,001.9	**2,174.1**	1,700.2	1,829.6
Obligations under finance leases	**1,496.8**	**1,431.6**	1,476.8	1,350.0
	3,498.7	**3,605.7**	3, 177.0	3,179.6
Company				
Bank and other loans	**370.9**	**484.8**	149.1	152.4
European Investment Bank	**109.5**	**109.5**	–	–
Private placements	**509.3**	**557.7**	562.6	595.4
	989.7	**1,152.0**	711.7	747.8

Where market values are not available, fair values of borrowings have been calculated by discounting expected future cash flows at prevailing interest rates.

The maturity of non-current borrowings was:

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Between 1 and 2 years	**68.3**	190.6	**51.8**	102.0
Over 2 years and less than 5 years	**834.5**	574.3	**557.7**	260.6
Over 5 years	**2,595.9**	2,412.1	**380.2**	349.1
	3,498.7	3,177.0	**989.7**	711.7

The weighted average maturity of non-current borrowings was 18 years (2018 19 years).

Notes to the financial statements
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28. Borrowings continued

Finance lease liabilities – minimum lease payments were:

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Within 1 year	**92.2**	52.1	**–**	–
Over 1 year and less than 5 years	**297.6**	310.8	**–**	–
Over 5 years	**2,153.9**	2,121.7	**–**	–
	2,543.7	2,484.6	**–**	–
Less: future finance charges	**(983.3)**	(979.6)	**–**	–
Present value of finance lease liabilities	**1,560.4**	1,505.0	**–**	–

The maturity of finance lease liabilities was:

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Within 1 year	**63.6**	28.2	**–**	–
Over 1 year and less than 5 years	**188.9**	209.7	**–**	–
Over 5 years	**1,307.9**	1,267.1	**–**	–
	1,560.4	1,505.0	**–**	–

Included above are accrued finance charges arising on obligations under finance leases totalling £163.7 million (2018 £155.7 million), of which £3.7 million (2018 £3.4 million) is repayable within one year.

The period for repayment of certain leases includes an agreement to deposit with the lessor group amounts equal to the difference between the original and revised payments due. The accumulated deposits, £97.5 million at 31 March 2019 (2018 £87.9 million), are currently being held to settle the lease liability, subject to rights to release by negotiation with the lessor. The deposits are subject to a registered charge given as security to the lessor for the balance outstanding.

The period for repayment of certain other existing leases includes an agreement to deposit with the lessor group amounts equal to the difference between the original and revised payments due. The accumulated deposits, £105.1 million at 31 March 2019 (2018 £92.5 million), are currently being held to settle the lease liability, subject to rights to release by negotiation with the lessor. The deposits are subject to a registered charge given as security to the lessor for the outstanding balance.

Undrawn committed borrowing facilities at the balance sheet date were:

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Floating rate:				
Expiring within 1 year	**–**	180.0	**–**	100.0
Expiring after 1 year	**600.0**	405.9	**405.0**	125.0
	600.0	585.9	**405.0**	225.0

In addition at 31 March 2019 the Group had undrawn uncommitted short-term bank facilities of £30.0 million (2018 £30.0 million) available to the Company.

29. Other non-current liabilities

	Group		Company	
	2019 £m	2018 (reanalysed) £m	**2019 £m**	2018 (reanalysed) £m
Amounts owed to subsidiary undertakings	–	–	**8.6**	8.7
Contract liabilities	**116.1**	108.7	**–**	–
Deferred income	**7.5**	9.8	**–**	–
Other payables	**24.3**	21.6	**–**	–
	147.9	140.1	**8.6**	8.7

Non-current Contract liabilities relate to consideration received in advance of the Group performing its performance obligations to customers where performance obligations will not be completed within twelve months of the balance sheet date. The overall movement in total contract liabilities is disclosed in note 26. Contract liabilities reflect the fair value of assets transferred from customers in the water segment.

Included in other payables are amounts provided by the Group in relation to claims received which are considered by the Directors and the management of the Group to be the best estimate of the amounts that might be finally settled. Further disclosures have not been provided in accordance with IAS 37 paragraph 92.

30. Retirement benefit obligations

During the year the Group operated a number of defined benefit pension schemes and also a defined contribution scheme. The principal plan within the Group is the Pennon Group Pension Scheme, which is a funded defined benefit, final salary pension scheme in the UK. The Group's pension schemes are established under trust law and comply with all relevant UK legislation.

The assets of the Group's pension schemes are held in separate trustee administered funds. The trustees of the funds are required to act in the best interest of the funds' beneficiaries. The appointment of schemes' trustees is determined by the schemes' trust documentation. The Group has a policy for the main fund that one-half of all trustees, other than the Chairman, are nominated by members of the schemes, including pensioners.

Defined contribution schemes

Pension costs for defined contribution schemes were £8.8 million (2018 £6.1 million).

Defined benefit schemes

Assumptions

The principal actuarial assumptions at 31 March were:

	2019 %	2018 %	2017 %
Rate of increase in pensionable pay	**3.3**	3.2	3.2
Rate of increase for current and future pensions	**3.2**	3.0	2.0
Rate used to discount schemes' liabilities and expected return on schemes' assets	**2.40**	2.70	2.55
Inflation	**3.3**	3.2	3.2

Mortality

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. The mortality assumption uses a scheme-specific calculation based on CMI 2018 actuarial tables with an allowance for future longevity improvement.

The average life expectancy in years of a member having retired at age 62 on the balance sheet date is projected as:

	2019	2018	2017
Male	**23.9**	24.9	24.8
Female	**26.3**	27.3	27.2

The average life expectancy in years of a future pensioner retiring at age 62, 20 years after the balance sheet date, is projected as:

	2019	2018	2017
Male	**25.0**	26.3	26.2
Female	**28.1**	29.6	29.5

The sensitivities regarding the principal assumptions used to measure the schemes' liabilities are:

	Change in assumption	Impact on schemes' liabilities
Rate of increase in pensionable pay	+/– 0.5%	+/– 0.6%
Rate of increase in current and future pensions	+/– 0.5%	+/– 6.5%
Rate used to discount schemes' liabilities	+/– 0.5%	+/– 9.7%
Inflation	+/– 0.5%	+/– 6.7%
Life expectancy	+/– 1 year	+/– 4.7%

The sensitivity analysis shows the effect of changes in the principal assumptions used for the measurement of the pension liability. The method used to calculate the sensitivities is approximate and has been determined taking into account the duration of the liabilities and the overall profile of each schemes' membership. This is the same approach as has been adopted in previous years.

The amounts recognised in the balance sheet were:

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
Present value of financial obligations	**(974.2)**	(931.2)	**(58.5)**	(56.5)
Fair value of plan assets	**934.0**	898.5	**55.1**	53.2
Deficit of funded plans	**(40.2)**	(32.7)	**(3.4)**	(3.3)
Impact of minimum funding asset ceiling	**(20.6)**	(16.8)	**–**	–
Net liability recognised in the balance sheet	**(60.8)**	(49.5)	**(3.4)**	(3.3)

Notes to the financial statements
continued

30. Retirement benefit obligations continued

The movement in the net defined benefit obligation over the accounting period is as follows:

	2019			2018		
	Present value of obligation £m	**Fair value of plan assets £m**	**Total £m**	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 April	**(948.0)**	**898.5**	**(49.5)**	(971.4)	903.4	(68.0)
Current service cost	**(13.1)**	**–**	**(13.1)**	(13.9)	–	(13.9)
Past service cost and gains and losses on settlements	**(3.0)**	**–**	**(3.0)**	(0.7)	–	(0.7)
Interest (expense)/income	**(25.2)**	**23.8**	**(1.4)**	(24.1)	22.5	(1.6)
	(41.3)	**23.8**	**(17.5)**	(38.7)	22.5	(16.2)
Remeasurements:						
(Loss)/Return on plan assets excluding amounts included in interest expense	**–**	**20.2**	**20.2**	–	(5.7)	(5.7)
Gain from change in demographic assumptions	**41.6**	**–**	**41.6**	1.0	–	1.0
(Loss)/gain from change in financial assumptions	**(75.8)**	**–**	**(75.8)**	30.6	–	30.6
Experience losses	**(3.2)**	**–**	**(3.2)**	(1.4)	–	(1.4)
	(37.4)	**20.2**	**(17.2)**	30.2	(5.7)	24.5
Contributions:						
Employers	**–**	**23.4**	**23.4**	–	10.2	10.2
Plan participants	**(1.0)**	**1.0**	**–**	(1.0)	1.0	–
Payments from plans:						
Benefit payments	**32.9**	**(32.9)**	**–**	32.9	(32.9)	–
	31.9	**(8.5)**	**23.4**	31.9	(21.7)	10.2
At 31 March	**(994.8)**	**934.0**	**(60.8)**	(948.0)	898.5	(49.5)

Past service cost for the current year includes a non-underlying charge of £3.0 million representing an estimate of the increase in liabilities that results from GMP equalisation requirements following a court case in 2018 (see note 6).

The movement in the Company's net defined benefit obligation over the accounting period is as follows:

	2019			2018		
	Present value of obligation £m	**Fair value of plan assets £m**	**Total £m**	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 April	**(56.5)**	**53.2**	**(3.3)**	(58.0)	53.9	(4.1)
Current service cost	**(0.3)**	**–**	**(0.3)**	(0.3)	–	(0.3)
Past service cost and gains and losses on settlements	**(0.2)**	**–**	**(0.2)**	–	–	–
Interest (expense)/income	**(1.5)**	**1.4**	**(0.1)**	(1.5)	1.3	(0.2)
	(2.0)	**1.4**	**(0.6)**	(1.8)	1.3	(0.5)
Remeasurements:						
(Loss)/return on plan assets excluding amounts included in interest expense	**–**	**2.1**	**2.1**	–	(0.1)	(0.1)
Gain from change in demographic assumptions	**2.6**	**–**	**2.6**	–	–	–
(Loss)/gain from change in financial assumptions	**(4.5)**	**–**	**(4.5)**	1.8	–	1.8
Experience gains	**(0.2)**	**–**	**(0.2)**	(0.6)	–	(0.6)
	(2.1)	**2.1**	**–**	1.2	(0.1)	1.1
Contributions:						
Employers	**–**	**0.5**	**0.5**	–	0.2	0.2
Payments from plans:						
Benefit payments	**2.1**	**(2.1)**	**–**	2.1	(2.1)	–
	2.1	**(1.6)**	**0.5**	2.1	(1.9)	0.2
At 31 March	**(58.5)**	**55.1**	**(3.4)**	(56.5)	53.2	(3.3)

30. Retirement benefit obligations continued

The Group has one smaller pension scheme which is in surplus and is deemed to have irrecoverable assets in accordance with IFRIC 14 'The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction'.

Changes in the effect of the asset ceiling during the year were:

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Irrecoverable asset at start of the year	**16.8**	15.8	**–**	–
Interest on irrecoverable surplus	**0.5**	0.4	**–**	–
Actuarial gains	**3.3**	1.1	**–**	–

The schemes' assets were:

	2019			2018		
	Quoted prices in active market £m	**Prices not quoted in active market £m**	**Fund %**	Quoted prices in active market £m	Prices not quoted in active market £m	Fund %
Equities	**234.5**	**–**	**25**	208.3	–	23
Government bonds	**134.6**	**–**	**14**	170.2	–	19
Other bonds	**247.1**	**–**	**26**	211.9	–	24
Diversified growth	**154.7**	**13.1**	**18**	182.3	7.9	21
Property	**68.1**	**3.4**	**8**	57.4	9.9	7
Insurance linked security	**55.2**	**–**	**6**	41.8	–	5
Other (including cash funds)	**23.3**	**–**	**3**	8.8	–	1
	917.5	**16.5**	**100**	880.7	17.8	100

Other assets at 31 March 2019 represented principally cash contributions received from the Group towards the year end which were invested during the subsequent financial year.

The Company's share of the schemes' assets at the balance sheet date was:

	2019			2018		
	Quoted prices in active market £m	**Prices not quoted in active market £m**	**Fund %**	Quoted prices in active market £m	Prices not quoted in active market £m	Fund %
Equities	**10.4**	**–**	**19**	10.5	–	20
Government bonds	**9.4**	**–**	**17**	10.7	–	20
Other bonds	**16.6**	**–**	**30**	13.3	–	24
Diversified growth	**8.9**	**–**	**16**	10.4	–	20
Property	**4.8**	**–**	**9**	4.7	–	9
Insurance linked security	**3.7**	**–**	**7**	3.3	–	6
Other	**1.3**	**–**	**2**	0.3	–	1
	55.1	**–**	**100**	53.2	–	100

Through its defined benefit pension plan, the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The schemes hold a significant proportion of growth assets (equities and diversified growth funds) which are expected to outperform corporate bonds in the long-term, but can give rise to volatility and risk in the short-term. The allocation to growth assets is monitored such that it is suitable with the schemes' long-term objectives.
Changes in bond yields	A decrease in corporate bond yields will increase the schemes' liabilities, although this will be partially offset by an increase in the value of the schemes' bond holdings.
Inflation risk	The majority of the schemes' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.
Life expectancy	The majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

In conjunction with its investment advisers, the trustees have structured the schemes' investments with the objective of balancing investment returns and levels of risk. The asset allocation for the main scheme has three principal elements:

- Holding of cash funds and bonds which are expected to be less volatile than most other asset classes and reflects market movements in the schemes' liabilities
- A proportion of equities, with fund managers having freedom in making investment decisions to maximise returns
- Investment of a proportion of the schemes' assets in alternative asset classes which give the potential for diversification (currently property, insurance linked securities and diversified growth).

Notes to the financial statements
continued

30. Retirement benefit obligations continued

The liabilities of the defined benefit schemes are measured by using the projected unit credit method which is an accrued benefits valuation method in which the scheme liabilities make allowance for projected increases in pensionable pay.

The future cash flows arising from the payment of the defined benefits are expected to be settled primarily in the period between 15 and 40 years from the balance sheet date.

The 2016 triennial actuarial valuation of the principal defined benefit scheme has been agreed, with the actuarial valuation deficit and schedule of contributions being in line with the 2013 triennial actuarial valuation, requiring deficit recovery contributions of c.£13 million per annum rising with inflation from 2019 to 2022. During the year, the Group made a deficit recovery contribution to the main scheme of £13 million (2018 £ Nil). The Group monitors funding levels on an annual basis and expects to pay total contributions of around £24 million during the year ended 31 March 2020. The 2019 triennial actuarial valuation is underway.

31. Deferred tax

Deferred tax is provided in full on temporary differences under the liability method using enacted tax rates.

Movements on deferred tax were:

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Liabilities/(assets) at 1 April	**295.6**	269.6	**(1.6)**	(2.3)
Charged/(credited) to the income statement	**13.3**	18.3	**0.2**	(0.2)
(Credited)/charged to equity	**(4.3)**	8.1	**0.2**	0.9
Other non-underlying credits/(charges) in the income statement	**0.5**	(0.4)	**–**	–
Liabilities/(assets) at 31 March	**305.1**	295.6	**(1.2)**	(1.6)

Deferred tax assets have been recognised in respect of all temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

The majority of the Group's deferred tax liability is expected to be recovered over more than one year. The majority of the Company's deferred tax asset is expected to be recovered over more than one year. All deferred tax assets and liabilities within the same jurisdiction are offset.

The movements in deferred tax assets and liabilities were:

Group

Deferred tax liabilities

	Accelerated tax depreciation £m	Fair value adjustments £m	Revenue on service concession arrangements £m	Derivatives £m	Other £m	Total £m
At 1 April 2017	241.8	22.1	41.7	–	0.4	306.0
Charged/(credited) to the income statement	18.1	(1.5)	2.0	–	(0.4)	18.2
Transfer from deferred tax assets	–	–	–	0.7	–	0.7
At 31 March 2018	259.9	20.6	43.7	0.7	–	324.9
Charged/(credited) to the income statement	12.1	(4.1)	4.4	(0.2)	–	12.2
Non-underlying charged to the income statement	–	–	–	1.0	–	1.0
Credited to equity	–	–	–	(0.6)	–	(0.6)
At 31 March 2019	**272.0**	**16.5**	**48.1**	**0.9**	**–**	**337.5**

31. **Deferred tax** continued

Deferred tax assets

	Long term liabilities including provisions £m	Retirement benefit obligations £m	Derivatives £m	Share-based payments £m	Tax losses £m	Fair value adjustment £m	Other £m	Total £m
At 1 April 2017	(6.4)	(11.5)	(2.4)	(1.6)	(1.7)	(10.0)	(2.8)	(36.4)
Charged/(credited) to the income statement	1.0	(1.1)	–	0.4	–	0.1	(0.3)	0.1
Non-underlying (credit) to the income statement	–	–	(0.4)	–	–	–	–	(0.4)
Charged to equity	–	4.2	3.5	0.4	–	–	–	8.1
Transfer to deferred tax liabilities	–	–	(0.7)	–	–	–	–	(0.7)
At 31 March 2018	(5.4)	(8.4)	–	(0.8)	(1.7)	(9.9)	(3.1)	(29.3)
Charged/(credited) to the income statement	0.1	0.5	–	0.1	0.5	1.3	(1.4)	1.1
Non-underlying (credit) to the income statement	–	(0.5)	–	–	–	–	–	(0.5)
Credited to equity	–	(3.2)	–	(0.5)	–	–	–	(3.7)
At 31 March 2019	**(5.3)**	**(11.6)**	**–**	**(1.2)**	**(1.2)**	**(8.6)**	**(4.5)**	**(32.4)**
Net liability:								
At 31 March 2018								295.6
At 31 March 2019								**305.1**

Company

Deferred tax assets

	Retirement benefit obligations £m	Derivatives £m	Share-based payments £m	Other £m	Total £m
At 1 April 2017	(0.7)	(1.1)	(0.4)	(0.1)	(2.3)
(Credited)/charged to the income statement	(0.1)	–	0.1	(0.2)	(0.2)
Charged to equity	0.2	0.6	0.1	–	0.9
At 31 March 2018	(0.6)	(0.5)	(0.2)	(0.3)	(1.6)
(Credited)/charged to the income statement	–	–	–	0.2	0.2
Charged to equity	–	0.2	–	–	0.2
At 31 March 2019	(0.6)	(0.3)	(0.2)	(0.1)	(1.2)

Deferred tax credited/(charged) to equity during the year was:

	Group		**Company**	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Remeasurement of defined benefit obligations	**3.2**	(4.2)	**–**	(0.2)
Cash flow hedges	**0.6**	(3.5)	**0.2**	(0.6)
Deferred tax on other comprehensive loss/(gain)	**3.8**	(7.7)	**0.2**	(0.8)
Share-based payments	**0.5**	(0.4)	**–**	(0.1)
	4.3	(8.1)	**0.2**	(0.9)

Capital allowances are available when a business incurs qualifying expenditure on capital items such as infrastructure assets. Capital allowances provide tax relief on these items in place of accounting depreciation which is not tax deductible. Over the period of ownership of an asset, cumulative depreciation and capital allowances will equalise. Capital allowance rates are set by the UK Government and every business receives the same rate of allowance. Capital allowance rates vary from 8% up to 100% in certain instances, with most items qualifying at either 8% or 18% per annum. The 8% rate reduces to 6% from April 2019.

The different accounting treatment of property, plant and equipment for tax and accounting purposes means that the taxable income of the Group is not the same as the profit reported in the financial statements. The adjustments for this are reflected in the current tax reconciliation (note 9).

Short-term temporary differences arise on items such as environmental provisions, retirement benefit obligations and revenue on service concession arrangements because the treatment of such items is different for tax and accounting purposes. These differences reverse over future years following that in which they arise, as reflected in the deferred tax charge in these financial statements.

Where interest charges or other costs are capitalised in the accounts, tax relief is either given as the charges are incurred or when the costs are taken to the income statement.

Notes to the financial statements
continued

32. Provisions

	Environmental and landfill restoration £m	Restructuring £m	Other provisions £m	Total £m
Group				
At 1 April 2018	191.9	3.4	24.2	219.5
Charged to the income statement	8.2	–	1.4	9.6
Capitalised	22.8	–	–	22.8
Utilised	(13.3)	(2.3)	(4.5)	(20.1)
At 31 March 2019	**209.6**	**1.1**	**21.1**	**231.8**

The amount charged to the income statement includes £11.1 million (2018 £10.2 million) charged to finance costs as the unwinding of discounts in provisions.

The analysis of provisions between current and non-current is:

	2019 £m	2018 £m
Current	**28.7**	38.0
Non-current	**203.1**	181.5
	231.8	219.5

Environmental and landfill restoration provisions are incurred during the operational life of each landfill site and for a considerable period thereafter. The period of aftercare post-closure and the level of costs expected are uncertain and can vary significantly from site to site. Key factors are the type of waste, the speed at which it decomposes, the volume of leachate requiring treatment and regulatory requirements specific to the site. Environmental and landfill restoration provisions are expected to be substantially utilised throughout the operational life of a site and for landfill sites within 60 years of closure. The provisions have been established assuming current waste management technology based upon estimated costs at future prices which have been discounted to present value. The Group has applied a discount rate of 4.825% (2018 4.825%) and an inflation rate of 2.5% (2018 2.5%) to its aftercare provision and a discount rate of 3.8% (2018 3.8%) and an inflation rate of 2.5% (2018 2.5%) to its restoration provision.

The restructuring provision relates principally to severance costs and will be utilised within one year.

Other provisions include underperforming contracts of £7.1 million (2018 £11.0 million), which are provided for at the net present value of the operating losses of the underperforming contracts and are to be utilised over the remaining period of the contract to which they relate. The weighted average contract life of underperforming contracts is five years (2018 six years).

33. Share capital

Allotted, called-up and fully paid

	Number of shares		
	Treasury shares	Ordinary shares	£m
Group and Company			
At 1 April 2017 ordinary shares of 40.7p each	8,443	413,893,293	168.4
Shares issued under the Scrip Dividend Alternative	–	5,223,293	2.1
For consideration of £0.5 million, shares issued to the Pennon Employee Share Trust	–	46,205	0.1
For consideration of £3.4 million, shares issued under the Company's Sharesave Scheme	–	580,392	0.2
At 31 March 2018 ordinary shares of 40.7p each	8,443	419,743,183	170.8
For consideration of £5.1 million, shares issued under the Company's Sharesave Scheme	–	777,415	0.3
At 31 March 2019 ordinary shares of 40.7p each	**8,443**	**420,520,598**	**171.1**

Shares held as treasury shares may be sold or reissued for any of the Company's share schemes, or cancelled.

Employee share schemes

The Group operates a number of equity-settled share plans for the benefit of employees. Details of each plan are:

i) Sharesave Scheme

An all-employee savings-related plan is operated that enables employees, including Executive Directors, to invest up to a maximum of £500 per month for three or five years. These savings can then be used to buy ordinary shares, at a price set at a 17% discount to the market value at the start of the savings period, at the third or fifth year anniversary of the option being granted. Options expire six months following the exercise date and, except for certain specific circumstances such as redundancy, lapse if the employee leaves the Group before the option exercise period commences.

33. Share capital continued

Outstanding options to subscribe for ordinary shares of 40.7p each under the Company's share option schemes are:

	Date granted and subscription price fully paid	Period when options normally exercisable	Thousands of shares in respect of which options outstanding at 31 March 2019	2018
29 June 2011	536p	2014 – 2017	–	26
29 June 2012	588p	2015 – 2017	–	2
3 July 2013	538p	2016 – 2017	–	94
14 July 2014	611p	2017 – 2018	**142**	159
24 June 2015	683p	2017 – 2020	**194**	933
29 June 2016	709p	2019 – 2021	**478**	605
28 June 2017	767p	2020 – 2022	**462**	671
3 July 2018	635p	2021 – 2023	**1,367**	–
			2,643	2,490

The number and weighted average exercise price of Sharesave options are:

	2019		2018	
	Number of ordinary shares (thousands)	**Weighted average exercise price per share (p)**	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)
At 1 April	**2,490**	**700**	2,753	660
Granted	**1,456**	**635**	775	767
Forfeited	**(437)**	**717**	(411)	707
Exercised	**(777)**	**661**	(570)	597
Expired	**(89)**	**661**	(57)	667
At 31 March	**2,643**	**674**	2,490	700

The weighted average price of the Company's shares at the date of exercise of Sharesave options during the year was 750p (2018 798p). The options outstanding at 31 March 2019 had a weighted average exercise price of 674p (2018 700p) and a weighted average remaining contractual life of 2.0 years (2018 1.6 years). The number of exercisable Sharesave options at 31 March 2019 was 1,000 (2018 28,000) and the weighted average exercise price of exercisable Sharesave options was 683p (2018 540p).

The aggregate fair value of Sharesave options granted during the year was £0.8 million (2018 £0.9 million), determined using the Black-Scholes valuation model. The significant inputs into the valuation model at the date of issue of the options were:

	2019	2018
Weighted average share price	**801**	848
Weighted average exercise price	**635**	767
Expected volatility	**20.0%**	19.0%
Expected life	**3.3 years**	3.4 years
Risk-free rate	**0.5%**	0.3%
Expected dividend yield	**5.2%**	4.5%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years.

ii) Performance and Co-investment Plan

Executive Directors and senior management receive a conditional award of ordinary shares in the Company and are also required to hold a substantial personal shareholding in the Company. The eventual number of shares, if any, which vest is dependent upon the achievement of conditions of the plan over the restricted period, being not less than three years. From 2017/18, no further awards are made under this Plan as it has been superseded by a Long-term Incentive Plan (see iii below).

The number and price of shares in the Performance and Co-investment Plan are:

	2019		2018	
	Number of ordinary shares (thousands)	**Weighted average exercise price per share (p)**	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)
At 1 April	**571**	**865**	1,021	850
Vested	**–**	**–**	(50)	799
Lapsed	**(315)**	**820**	(400)	852
At 31 March	**256**	**920**	571	865

The awards outstanding at 31 March 2019 had a weighted exercise price of 920p (2018 865p) and a weighted average remaining contractual life of 0.3 years (2018 0.7 years).

Notes to the financial statements
continued

33. Share capital continued

iii) Long-term Incentive Plan (LTIP)

Executive Directors and senior management receive an annual grant of conditional shares. Share awards vest subject to the achievement of specific performance conditions measured over a performance period of not less than three years.

The number and price of shares in the LTIP are:

	2019		2018	
	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)
At 1 April	510	803	–	–
Granted	526	790	537	803
Vested	–	–	–	–
Lapsed	(74)	798	(27)	803
At 31 March	962	796	510	803

The awards outstanding at 31 March 2019 had a weighted exercise price of 796p (2018 803p) and a weighted average remaining contractual life of 1.9 years (2018 2.4 years).

The aggregate fair value of awards granted during the year was £1.7 million (2018 £1.0 million), determined from market value. No option pricing methodology is applied since the vesting of the shares depend on non-market performance vesting conditions.

iv) Annual Incentive Bonus Plan – deferred shares

Awards under the plan to Executive Directors and senior management involve the release of ordinary shares in the Company to participants. There is no performance condition since vesting is conditional upon continuous service with the Group for a period of three years from the award. The number and weighted average price of shares in the Annual Incentive Bonus Plan are:

	2019		2018	
	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)
At 1 April	405	843	325	848
Granted	191	761	172	809
Vested	(117)	791	(51)	821
Lapsed	(29)	790	(41)	815
At 31 March	450	825	405	843

The awards outstanding at 31 March 2019 had a weighted average exercise price of 825p (2018 843p) and a weighted average remaining contractual life of 1.5 years (2018 1.5 years). The Company's share price at the date of the awards ranged from 761p to 950p.

The aggregate fair value of awards granted during the year was £1.1 million (2018 £0.9 million), determined from market value. No option pricing methodology is applied since dividends paid on the shares are receivable by the participants in the scheme.

Further details of the plans and options granted to Directors, included above, are shown in the Directors' remuneration report.

34. Share premium account

	£m
Group and Company	
At 1 April 2017	217.4
Adjustment for shares issued under the Scrip Dividend Alternative	(2.1)
Shares issued under the Sharesave Scheme	3.1
Shares issued to the Pennon Employee Share Trust	0.4
At 31 March 2018	218.8
Shares issued under the Sharesave Scheme	4.8
At 31 March 2019	**223.6**

35. Capital redemption reserve

The capital redemption reserve represents the redemption of B shares and cancellation of deferred shares arising from a capital return to shareholders undertaken during 2006.

	£m
Group and Company	
At 1 April 2017	144.2
At 31 March 2018	144.2
At 31 March 2019	**144.2**

36. Retained earnings and other reserves

	Own shares £m	Hedging reserve £m	Retained earnings £m	Total £m
Group				
At 1 April 2017	(2.6)	(28.2)	715.2	684.4
Profit for the year	–	–	200.6	200.6
Other comprehensive income for the year	–	17.1	17.5	34.6
Redemption of perpetual capital securities	–	–	(5.2)	(5.2)
Dividends paid relating to 2017	–	–	(149.5)	(149.5)
Adjustment for shares issued under the Scrip Dividend Alternative	–	–	41.7	41.7
Credit to equity in respect of share-based payments (net of tax)	–	–	2.2	2.2
Charge in respect of share options vesting	0.8	–	(0.8)	–
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	(1.7)	–	–	(1.7)
At 31 March 2018	(3.5)	(11.1)	821.7	807.1
Profit for the year	–	–	214.3	214.3
Other comprehensive loss for the year	–	(5.8)	(13.5)	(19.3)
Dividends paid relating to 2018	–	–	(162.0)	(162.0)
Credit to equity in respect of share-based payments (net of tax)	–	–	4.4	4.4
Charge in respect of share options vesting	1.0	–	(1.0)	–
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	(1.5)	–	–	(1.5)
At 31 March 2019	**(4.0)**	**(16.9)**	**863.9**	**843.0**

The own shares reserve represents the cost of ordinary shares in Pennon Group plc issued to or purchased in the market and held by the Pennon Group plc Employee Benefit Trust to satisfy awards under the Group's Annual Incentive Bonus Plan.

The market value of the 520,000 ordinary shares (2018 440,000 ordinary shares) held by the Trust at 31 March 2019 was £3.8 million (2018 £2.8 million).

	Hedging reserve £m	Retained earnings £m	Total £m
Company			
At 1 April 2017	(4.7)	1,010.1	1,005.4
Profit for the year	–	215.1	215.1
Other comprehensive income for the year	2.7	0.9	3.6
Dividends paid relating to 2017	–	(149.5)	(149.5)
Adjustment for shares issued under the Scrip Dividend Alternative	–	41.7	41.7
Redemption of perpetual capital securities	–	(5.2)	(5.2)
Credit to equity in respect of share-based payments (net of tax)	–	0.8	0.8
Charge in respect of share options vesting	–	(0.8)	(0.8)
At 31 March 2018	(2.0)	1,113.1	1,111.1
Profit for the year	–	194.8	194.8
Other comprehensive income for the year	0.2	–	0.2
Dividends paid relating to 2018	–	(162.0)	(162.0)
Credit to equity in respect of share-based payments (net of tax)	–	1.5	1.5
Charge in respect of share options vesting	–	(0.9)	(0.9)
At 31 March 2019	**(1.8)**	**1,146.5**	**1,144.7**

In making decisions about the level of dividends to be proposed the Directors take steps to check that retained earnings reflect realised profits and are therefore distributable within the requirements of the Companies Act 2006.

Notes to the financial statements
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37. Perpetual capital securities

	£m
Group and Company	
At 1 April 2017	294.8
Issuance of perpetual capital securities	296.7
Redemption of perpetual capital securities	(294.8)
Distributions to perpetual capital security holders	(25.3)
Current tax relief on distributions to perpetual capital security holders	3.8
Profit for the year attributable to perpetual capital security holders	21.5
At 31 March 2018	296.7
Distributions due to perpetual capital security holders	(8.6)
Profit for the year attributable to perpetual capital security holders	8.6
At 31 March 2019	**296.7**

On 22 September 2017 the Company issued £300 million 2.875% perpetual capital securities. Costs directly associated with the issue of £3.3 million were set off against the value of the issuance. They have no fixed redemption date but the Company can at its sole discretion redeem all, but not part, of these securities at their principal amount on 22 May 2020 or any subsequent periodic return payment date after this.

The Company has the option to defer periodic returns on any relevant payment date, as long as a dividend on the ordinary shares has not been paid or declared in the previous 12 months. Deferred periodic returns shall be satisfied only on redemption or payment of dividend on ordinary shares, all of which only occur at the sole discretion of the Company.

As the Company paid a dividend in the 12 months prior to the periodic return date of 22 May 2019, a periodic return of £8.6 million (2018 £5.8 million) has been recognised as a financial liability at the year end.

38. Analysis of cash flows given in the statement of cash flows

Reconciliation of profit for the year to cash generated from operations:

Cash generated from operations

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Continuing operations				
Profit for the year	**222.6**	221.9	**203.4**	236.6
Adjustments for:				
Share-based payments	**3.6**	2.5	**1.5**	0.9
Profit on disposal of property, plant and equipment	**(3.9)**	(2.5)	**–**	–
Depreciation charge	**190.0**	182.5	**–**	0.1
Amortisation of intangible assets	**5.2**	3.6	**–**	–
Non-underlying joint venture loan write off and credit	**–**	(6.5)	**–**	–
Non-underlying remeasurement of fair value movement in derivatives	**(5.8)**	2.4	**–**	–
Share of post-tax profit from joint ventures	**(12.4)**	(9.4)	**–**	–
Finance income	**(23.5)**	(24.2)	**(45.9)**	(42.5)
Finance costs (before non-underlying items)	**106.7**	98.7	**35.5**	34.6
Dividends receivable	**–**	–	**(196.7)**	(202.3)
Taxation charge/(credit)	**37.7**	41.0	**3.7**	(28.4)
Changes in working capital:				
Increase in inventories	**(4.2)**	(5.2)	**–**	–
(Increase)/Decrease in trade and other receivables	**(46.4)**	(36.9)	**(178.8)**	250.6
Decrease/(Increase) in service concession arrangements receivable	**6.8**	(15.2)	**–**	–
(Decrease)/Increase in trade and other payables	**(47.7)**	2.2	**(45.6)**	0.1
(Decrease)/increase in retirement benefit obligations from contributions	**(7.3)**	4.5	**(0.1)**	(0.3)
Decrease in provisions	**(21.6)**	(15.9)	**–**	–
Cash generated/(outflow) from operations	**399.8**	443.5	**(223.0)**	249.4

Reconciliation of total interest paid:

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Interest paid in operating activities	**83.9**	69.6	**36.8**	32.5
Interest paid in investing activities	**15.2**	17.0	**–**	–
Total interest paid	**99.1**	86.6	**36.8**	32.5

39. Net borrowings

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Cash and cash deposits	**569.6**	585.3	**284.8**	303.3
Borrowings – current				
Bank and other loans	**(59.8)**	(149.6)	**(51.8)**	(149.6)
Other current borrowings	**(27.0)**	(32.0)	**–**	–
Finance lease obligations	**(63.6)**	(28.2)	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**(283.9)**	(283.6)
Total current borrowings	**(150.4)**	(209.8)	**(335.7)**	(433.2)
Borrowings – non-current				
Bank and other loans	**(1,628.0)**	(1,408.8)	**(880.2)**	(711.7)
Other non-current borrowings	**(373.9)**	(291.4)	**(109.5)**	–
Finance lease obligations	**(1,496.8)**	(1,476.8)	**–**	–
Total non-current borrowings	**(3,498.7)**	(3,177.0)	**(989.7)**	(711.7)
Total net borrowings	**(3,079.5)**	(2,801.5)	**(1,040.6)**	(841.6)

The movements in net borrowings during the periods presented were as follows:

Group	Net borrowings at 1 April 2017 £m	Cash flows – other £m	Foreign exchange adjustments £m	Other non-cash movements £m	Net borrowings at 31 March 2018 £m
Cash and cash deposits	598.1	(12.8)	–	–	585.3
Bank and other loans due within one year	(74.9)	74.9	–	(149.6)	(149.6)
Other current borrowings	(41.1)	41.1	–	(32.0)	(32.0)
Finance leases due within one year	(30.5)	30.5	–	(28.2)	(28.2)
Bank and other loans due after one year	(1,439.3)	(106.9)	(2.3)	139.7	(1,408.8)
Other non-current borrowings	(323.4)	–	–	32.0	(291.4)
Finance leases due after one year	(1,353.8)	(117.1)	–	(5.9)	(1,476.8)
	(2,664.9)	(90.3)	(2.3)	(44.0)	(2,801.5)

	Net borrowings at 1 April 2018 £m	**Cash flows – other £m**	**Foreign exchange adjustments £m**	**Other non-cash movements £m**	**Net borrowings at 31 March 2019 £m**
Cash and cash deposits	**585.3**	**(15.7)**	**–**	**–**	**569.6**
Bank and other loans due within one year	**(149.6)**	**149.6**	**–**	**(59.8)**	**(59.8)**
Other current borrowings	**(32.0)**	**32.0**	**–**	**(27.0)**	**(27.0)**
Finance leases due within one year	**(28.2)**	**28.2**	**–**	**(63.6)**	**(63.6)**
Bank and other loans due after one year	**(1,408.8)**	**(275.0)**	**1.6**	**54.2**	**(1,628.0)**
Other non-current borrowings	**(291.4)**	**(109.5)**	**–**	**27.0**	**(373.9)**
Finance leases due after one year	**(1,476.8)**	**(75.3)**	**–**	**55.3**	**(1,496.8)**
	(2,801.5)	**(265.7)**	**1.6**	**(13.9)**	**(3,079.5)**

Company	Net borrowings at 1 April 2017 £m	Cash flows – other £m	Foreign exchange adjustments £m	Other non-cash movements £m	Net borrowings at 31 March 2018 £m
Cash and cash deposits	372.5	(69.2)	–	–	303.3
Bank and other loans due within one year	(74.9)	25.0	–	(99.7)	(149.6)
Amounts due to subsidiary undertakings	(282.9)	(0.7)	–	–	(283.6)
Bank and other loans due after one year	(848.2)	–	–	136.5	(711.7)
	(833.5)	(44.9)	–	36.8	(841.6)

	Net borrowings at 1 April 2018 £m	**Cash flows – other £m**	**Foreign exchange adjustments £m**	**Other non-cash movements £m**	**Net borrowings at 31 March 2019 £m**
Cash and cash deposits	**303.3**	**(18.5)**	**–**	**–**	**284.8**
Bank and other loans due within one year	**(149.6)**	**149.6**	**–**	**(51.8)**	**(51.8)**
Amounts due to subsidiary undertakings	**(283.6)**	**(0.3)**	**–**	**–**	**(283.9)**
Bank and other loans due after one year	**(711.7)**	**(225.0)**	**–**	**56.5**	**(880.2)**
Other non-current borrowings	**–**	**(109.5)**	**–**	**–**	**(109.5)**
	(841.6)	**(203.7)**	**–**	**4.7**	**(1,040.6)**

The increase in the value of Financial liabilities at fair value through profit in the year of £0.3 million for the Group and £0.3 million for the Company is attributable to other non-cash movements.

Notes to the financial statements
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40. Subsidiary and joint venture undertakings at 31 March 2019

Principal subsidiary companies	Registered office address	Country of incorporation, registration and principal operations
Water		
South West Water Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
South West Water Finance Plc	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Source Contact Management Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Waste management		
Viridor Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste Exeter Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste Suffolk Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste (West Sussex) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste Management Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor EnviroScot Limited	1 Exchange Crescent, Conference Square, Edinburgh, EH3 8UL	Scotland
Viridor Resource Management Limited	First Floor Offices, Riverside House, Sir Thomas Longley Road, Medway City, Rochester, ME2 4FN	England
Viridor Waste Kent Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Oxfordshire Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor EfW (Runcorn) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste (Landfill Restoration) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste (Somerset) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste (Thames) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste (Greater Manchester) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Polymer Recycling Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Trident Park Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor (Glasgow) Limited	1 Exchange Crescent, Conference Square, Edinburgh, EH3 8UL	Scotland
Viridor (Lancashire) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Peterborough Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor South London Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Clyde Valley Limited	1 Exchange Crescent, Conference Square, Edinburgh, EH3 8UL	Scotland
Non-household retail		
Pennon Water Services Limited*(1)	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Other		
Peninsula Insurance Limited*(2)	Level 5, Mill Court, La Charroterie, St Peter Port, GY1 1EJ	Guernsey

(1) 80% of share capital owned by Pennon Group plc. All shares in issue are ordinary shares.
(2) Captive insurance company established with the specific objective of financing risks emanating from within the Group.

Other trading companies	Registered office address	Country of incorporation
Dragon Waste Limited (81%)	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Peninsula Leasing Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Peninsula Properties (Exeter) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Peninsula Trustees Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon Defined Contribution Pension Trustee Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon Pension Trustees Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon Share Plans (Guernsey) Limited*(3)	Albert House, South Esplanade, St Peter Port, GY1 1AW	Guernsey
Pennon Trustee Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Raikes Lane Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Source for Business Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
SSWB Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England

(3) The company ceased operations during the year.

40. Subsidiary and joint venture undertakings at 31 March 2019 continued

Other dormant companies	Registered office address	Country of incorporation
A.A. Best & Sons Limited	1 Exchange Crescent, Conference Square, Edinburgh, EH3 8UL	Scotland
Acetip	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Albion Water (Shotton) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Alderney Water Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Analaq Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Aquacare (BWH) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Astley Minerals Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Avon Valley Water Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Basecall Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Bournemouth Water Investments Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Bournemouth Water Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
BWH Enterprises Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Cambridge Water Business Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Centre for Environmental Research Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
City Reclamation Services Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Corby Skip Hire Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
DMP (Holdings) Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
ELE Datasystems	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Exe Continental	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Greater Manchester Sites Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Greenhill Environmental Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Handside Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Haul Waste Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Hodgejoy Recycling Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Industrial Waste Disposals (Sheffield) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Lavelle & Sons Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Mac-Glass Recycling Limited	1 Exchange Crescent, Conference Square, Edinburgh, EH3 8UL	Scotland
Oakley Recycling Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Oakley Skip Hire Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Parkwood Environmental Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Parkwood Group Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Parkwood Recycling Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pearsons Group Holdings Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Peninsula	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Peninsula Water Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon Power Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon South West Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pennon Waste Management Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
pHOX Systems Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pilsworth Forest (1996) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Pilsworth Forest Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Roseland Plant Co. Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Rydon Properties Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Seal Security Systems Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Sheffield Waste Disposal Company Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Shore Recycling (Ozone) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
South Staffordshire Water Business Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
SWW Pension Trustees Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Thames Incineration and Recycling Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HT	England
Thames Incineration Services Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Thames Tankering Services Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Thames Waste Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England

Notes to the financial statements
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40. Subsidiary and joint venture undertakings at 31 March 2019 continued

Other dormant companies	Registered office address	Country of incorporation
The Metropolitan Water Company Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Tokenmarch Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor (Cheshire) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor (Community Recycling MK) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor (Community Recycling MKH) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor (Erith) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor (Martock) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor (Winsford) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Contracting Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Electrical Recycling (Holdings) Limited	1 Exchange Crescent, Conference Square, Edinburgh, EH3 8UL	Scotland
Viridor Electrical Recycling Limited	1 Exchange Crescent, Conference Square, Edinburgh, EH3 8UL	Scotland
Viridor Enterprises Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Glass Recycling Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor London Recycling Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor New England (EfW) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Resource (Peterborough) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Resource Transport Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor South Lanarkshire Limited	1 Exchange Crescent, Conference Square, Edinburgh, EH3 8UL	Scotland
Viridor South West Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste (Adapt) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste (Allwaste Disposal) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste (Atherton) Holdings Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste (Atherton) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste (Bristol Holdings) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste (Bristol) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste (Bury) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste (Corby) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste (Earls Barton) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste (East Anglia) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste (Medway Holdings) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste (Medway) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste (Sheffield) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste (Thetford) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste (Wastenot Recycling) Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste 2 Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste Disposal Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste Hampshire Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Viridor Waste Wootton Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
VWM (Scotland) Limited	1 Exchange Crescent, Conference Square, Edinburgh, EH3 8UL	Scotland
Waste Treatment Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
Water West Limited*	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England
West Hampshire Water Limited	Peninsula House, Rydon Lane, Exeter, EX2 7HR	England

* Indicates the shares are held directly by Pennon Group plc, the Company.

The subsidiary undertakings are wholly owned unless stated otherwise and all shares in issue are ordinary shares. All companies above are consolidated in the Group financial statements.

40. Subsidiary and joint venture undertakings at 31 March 2019 continued

Joint ventures

All joint ventures and the subsidiary undertakings of Lakeside Energy from Waste Holdings Limited, INEOS Runcorn (TPS) Holdings Limited and Shelford Composting Limited are incorporated and registered in England which is also their country of operation. The registered office of Lakeside Energy from Waste Holdings Limited and Lakeside Energy from Waste Limited is Thames House, Oxford Road, Wallingford OX10 6LX. The registered office of Shelford Composting Limited is 900 Pavilion Drive, Northampton NN4 7RG. The registered office of INEOS Runcorn (TPS) Holdings Limited and INEOS Runcorn (TPS) Limited is PO Box 9, Runcorn Site Headquarters, South Parade, Runcorn, Cheshire WA7 4JE.

	Share capital in issue	Percentage held	Principal activity
Joint ventures			
Lakeside Energy from Waste Holdings Limited	1,000,000 A ordinary shares	–	
	1,000,000 B ordinary shares	100%	
Lakeside Energy from Waste Limited			Waste management
Shares in Lakeside Energy from Waste Holdings Limited are held by Viridor Waste Management Limited			
Shelford Composting Limited	50 A ordinary shares	–	
	50 B ordinary shares	100%	Waste management
INEOS Runcorn (TPS) Holdings Limited	1,000 A ordinary shares	40%	
	186,750 B1 ordinary shares	100%	
	62,250 B2 ordinary shares	–	
INEOS Runcorn (TPS) Limited			Waste management

Shares in INEOS Runcorn (TPS) Holdings Limited are held by Viridor Waste Management Limited.

The Group's economic interest in INEOS Runcorn (TPS) Holdings Limited is 75%, as returns from the investment are based on holdings of B1 and B2 ordinary shares.

41. Operating lease commitments

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
The future aggregate minimum lease payments under non-cancellable operating leases are:				
Within 1 year	**12.5**	10.8	**–**	–
Over 1 year and less than 5 years	**37.7**	29.1	**–**	–
Over 5 years	**145.5**	123.0	**–**	–
	195.7	162.9	**–**	–

The Group leases various offices, depots and workshops under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. Property leases are negotiated for an average term of 33 years and rentals are reviewed on average at five-yearly intervals.

The Group also leases plant and machinery under non-cancellable operating lease agreements.

Notes to the financial statements
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42. Contingencies
Contingent liabilities

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Guarantees:				
Borrowing facilities of subsidiary undertakings	**–**	–	**561.5**	549.6
Performance bonds	**201.7**	185.1	**201.7**	185.1
	201.7	185.1	**763.2**	734.7

Guarantees in respect of performance bonds are entered into in the normal course of business. No liability is expected to arise in respect of the guarantees.

In connection with the application of the audit exemption under Section 479A of the Companies Act 2006 the Company has guaranteed all the outstanding liabilities as at 31 March 2019 of Viridor Waste 2 Limited since this company qualifies for the exemption.

Other contractual and litigation uncertainties
The Group establishes provisions in connection with contracts and litigation where it has a present legal or constructive obligation as a result of past events and where it is more likely than not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Matters where it is uncertain that these conditions are met include a potential prosecution by the Health and Safety Executive.

Contingent assets
In addition to contractual receivables related to our construction contracts in respect of Glasgow Recycling and Renewable Energy Centre that are reflected in the financial statements, there are further possible recoveries that are contingent on events in the future that are not wholly within the Group's control. These contingent assets of £25 million, as disclosed in note 4, have not been recognised as at 31 March 2019.

43. Capital commitments

	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Contracted but not provided	**201.0**	287.7	**–**	–

44. Related party transactions
During the year Group companies entered into the following transactions with joint ventures who are not members of the Group:

	2019 £m	2018 £m
Sales of goods and services		
Viridor Laing (Greater Manchester) Limited	**–**	38.4
INEOS Runcorn (TPS) Limited	**16.6**	15.9
Purchase of goods and services		
Lakeside Energy from Waste Limited	**12.4**	12.0
INEOS Runcorn (TPS) Limited	**7.1**	6.0
Dividends received		
Lakeside Energy from Waste Holdings Limited	**5.5**	6.5

44. Related party transactions continued

Year-end balances

	2019 £m	2018 £m
Receivables due from related parties		
Lakeside Energy from Waste Limited (loan balance)	7.7	8.2
INEOS Runcorn (TPS) Limited (loan balance)	65.0	32.5
	72.7	40.7
Lakeside Energy from Waste Limited (trading balance)	1.0	1.0
INEOS Runcorn (TPS) Limited (trading balance)	1.8	2.0
	2.8	3.0
Payables due to related parties		
Lakeside Energy from Waste Limited (trading balance)	0.9	1.2
INEOS Runcorn (TPS) Limited (trading balance)	3.2	2.5
	4.1	3.7

The £72.7 million (2018 £40.7 million) receivable relates to loans to related parties included within receivables and due for repayment in instalments between 2018 and 2033. Interest is charged at an average of 13.0% (2018 13.0%).

Company

The following transactions with subsidiary undertakings occurred in the year:

	2019 £m	2018 £m
Sales of goods and services (management fees)	19.7	12.2
Purchase of goods and services (support services)	2.0	1.5
Interest receivable	43.3	39.9
Interest payable	0.1	0.1
Dividends received	196.7	202.3

Sales of goods and services to subsidiary undertakings are at cost. Purchases of goods and services from subsidiary undertakings are under normal commercial terms and conditions which would also be available to unrelated third parties.

Year-end balances

	2019 £m	2018 £m
Receivables due from subsidiary undertakings		
Loans	1,044.6	870.8
Trading balances	19.9	16.2

Interest on £499.8 million (2018 £425.3 million) of the loans has been charged at a fixed rate of 5.0%, and on £18.1 million (2018 £20.3 million) at a fixed rate of 6.0%. Interest on £499.8 million of the loans is charged at 12 month LIBOR +2.2% (2018 £411.8 million charged at 12 month LIBOR + 1.0% and £13.4 million charged at 12 month LIBOR + 3.0%). These loans are due for repayment in instalments over the period 2020 to 2056. Interest on £13.5 million of the loans has been charged at a fixed rate of 5.0%. Interest on £13.4 million of the loans is charged at 12 month LIBOR + 3.0%. These loans are due for repayment in instalments over a five-year period following receipt of a request to repay.

No material expected credit loss provision has been recognised in respect of loans to subsidiaries (2018 £nil).

	2019 £m	2018 £m
Payables due to subsidiary undertakings		
Loans	283.9	283.6
Trading balances	14.3	14.4

The loans from subsidiary undertakings are unsecured and interest-free without any terms for repayment.