

30 May 2019

**Full Year Results 2018/19
for the year ended 31 March 2019**

Bringing resources to life

Chris Loughlin, Pennon Chief Executive said:

“Pennon has delivered another year of strong performance across the Group, fulfilling our promises to customers and communities in a responsible and sustainable way.

Viridor is delivering sustainable growth in UK recycling and residual waste management. The existing portfolio of Energy Recovery Facilities is performing well, transforming waste into electricity and heat and underpinning Pennon’s earnings growth beyond 2020.

Market dynamics continue to be favourable with the ‘Blue Planet’ effect spurring action, while the Government’s recent Resources & Waste Strategy will encourage positive reform. Today we are announcing the first part of Viridor’s next growth phase with significant investment in a new, state of the art plastics processing facility. The facility will be powered by low carbon energy from our Energy Recovery Facility in Avonmouth, adding much-needed recycling capabilities to the UK market.

South West Water has invested over £7 billion since 1989 with over £650 million invested in this regulatory period alone. This investment enabled South West Water to demonstrate its resilience over the course of this year in extreme weather conditions, recording the lowest ever supply interruptions and again meeting our leakage target. Our focus on delivering sector-leading customer experience has been reflected in our highest ever customer service score, being ranked 2nd out of all water and wastewater companies for the quality of service.

Our ambitious 2020-25 business plan received fast-track status from the regulator for the second consecutive review, the only water company to achieve this. Customer bills will be lower in 2025 than they are both today and fifteen years ago. Two thirds of South West Water employees are also our shareholders and our proposed ‘New Deal’ will give our South West Water customers a financial stake in the business from 2020.”

Financial Highlights

Underlying¹	2018/19	2017/18	Change
Revenue	£1,478.2m	£1,393.0m	+6.1%
EBITDA ²	£546.2m	£509.6m	+7.2%
Adjusted EBITDA ³	£592.7m	£562.3m	+5.4%
Operating profit	£351.0m	£323.9m	+8.4%
Profit before tax (PBT)	£280.2m	£258.8m	+8.3%
Non-underlying items before tax ⁴	(£19.9m)	£4.1m	-
Statutory profit before tax	£260.3m	£262.9m	(1.0%)
Tax	(£37.7m)	(£41.0m)	+8.0%
Statutory profit after tax (PAT)	£222.6m	£221.9m	+0.3%
Underlying earnings per share ⁵	57.8p	50.9p	+13.6%
Statutory earnings per share	51.1p	48.0p	+6.5%
Dividend per share ⁶	41.06p	38.59p	+6.4%

Pennon Group

- Pennon has delivered robust performance in 2018/19, in line with management expectations
- Underlying PBT up +8.3% driven by:
 - EBITDA growth of +19.1% at Viridor supported by the build out and performance of our Energy Recovery Facilities (ERFs)
 - Higher revenues and EBITDA at South West Water reflecting increased customer demand over the summer, net of costs to deliver the resilient service to customers
 - c.£17 million p.a. Group efficiencies secured in line with expectations
- Statutory PBT at £260.3 million, after non-underlying items of £19.9 million, broadly comparable with prior year
- Statutory earnings per share growth of 6.5% to 51.1p, reflecting efficient hybrid financing
- 2018/19 dividend per share up +6.4% to 41.06p
- Cash flow from operations reflecting robust operational performance, whilst significant capital investment for growth continues, including increased holding in Runcorn I ERF joint venture
- Development of our Sustainable Financing Framework, with £600 million of the £830 million debt raised during the year linked to the sustainable nature of the business, reducing our costs and reflecting our environmental and social credentials

¹ Before non-underlying items. Underlying earnings are presented to provide a more useful comparison on business trends and performance.

² Earnings before interest, tax, depreciation and amortisation (EBITDA)

³ Underlying EBITDA plus share of Joint Venture EBITDA and IFRIC 12 interest receivable

⁴ Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of financial performance

⁵ EPS before deferred tax and non-underlying items

⁶ The RPI rate used is 2.4% as at March 2019

Viridor

- Focus on de-risked infrastructure model, backed by index linked long-term contracts
- Excellent track record, successful diversification and growth – capitalising on UK waste strategy
- Successful execution of ERF portfolio – continued outperformance in 2018/19
 - Availability >90% for third consecutive year – top quartile for the industry
 - Operational performance in excess of base case IRR assumption of 8%
 - Increased ERF like for like performance compared with last year – portfolio EBITDA margin c.60%
 - Build out of ERFs supporting strong growth in EBITDA of +19.1%⁷ – three new ERFs delivered, with construction of Avonmouth on track
 - Increased stake in Runcorn I ERF joint venture and investment in additional throughput capacity at Glasgow
- Confidence in long-term market outlook
 - Government Resources & Waste Strategy aligned to Viridor strategy
 - Plastics on fast-track driven by ‘Blue Planet’ effect
 - ERF market fundamentals remain strong
 - Landfill continued feature of UK waste in the medium term
- Future growth opportunities, developing options for new ERFs, Energy Parks and plastics recycling
- Investment in plastics recycling – leveraging our plastics skill set
 - Co-located at Avonmouth ERF using energy and heat off-takes
 - £65 million investment in de-risked infrastructure model backed by index linked contracts
 - Secured three quarters of inputs (third party and Viridor) and half of plastic offtake (third party)
 - 80,000 tonnes per annum capacity representing 8% of current market requirement
 - Handles multi-stream⁸ plastics and will produce pellets directly for manufacturers from 2020/21

⁷ ERF earnings include contractual compensation in the form of liquidated damages of £33.2 million (2017/18 £12.1 million) when construction completed post original contractual completion date

⁸ Three plastics types – PET, HDPE and polypropylene

South West Water

- Strong performance, demonstrating service resilience through extreme weather conditions
 - Lowest ever supply interruptions, and leakage target met again this year
 - Highest ever customer service (SIM) score of 88 achieved in both regions
 - South West Water now ranked 2nd overall in the industry for quality of service
- Sector leading outperformance in K6 (2015-20)
 - Cumulative Return on Regulated Equity (RORE) at 11.8%⁹
 - WaterShare delivering c.£110 million of outperformance for sharing with customers
 - On track to deliver all our business plan commitments by 2020
- ‘New Deal’ Business Plan for K7 (2020-25) awarded ‘fast-track’ status for its quality, the only water company to achieve this for two successive price reviews
 - Highest outperformance potential – confidence in outperformance in all areas
 - Strong platform for ODI performance in K7
 - Fast start to next period already underway

Pennon Water Services

- One of only five associated retailers to have achieved net growth in the new competitive non-household market. Focused on value enhancing contracts and future cost base efficiencies.

Presentation of Results

A presentation for City audiences will be held today, Thursday 30 May 2019, at 09.00am at the ICAEW (The Auditorium), One Moorgate Place, London, EC2R 6EA.

A live webcast of the presentation can also be accessed using the following link:

<http://www.pennon-group.co.uk/investor-information>

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⁹ See page 29

About Pennon Group

Pennon is one of the largest environmental infrastructure FTSE 250 groups in the UK with assets of around £6.5 billion and a workforce of over 5,000 people. Over 60% of Pennon's shareholders are UK pensions, savings, charities, individuals and employees, with two thirds of South West Water's employees being shareholders.

Pennon's purpose is bringing resources to life. We aim to protect the environment and provide an outstanding service to customers and communities, while creating value for our shareholders. Pennon is investing significantly in its UK water and waste infrastructure and estimates capital expenditure of c.£1.8 billion between 2015 and 2020, with £1.5 billion invested to date. The Group continues to generate robust operating cash flows, and has a strong liquidity and balance sheet position, underpinning a well established sector leading dividend policy.

Viridor is a leading UK recycling and residual waste processing and transformation business providing services to more than 150 local authorities and major corporate clients as well as over 32,000 customers across the UK.

The integrated water company of South West Water and Bournemouth Water provides water and wastewater services to a population of c.1.7 million in Cornwall, Devon and parts of Dorset and Somerset and water only services to c.0.5 million in parts of Dorset, Hampshire and Wiltshire.

Since 1989 South West Water has invested over £7 billion to improve water and wastewater services. This investment means that we supply some of the best quality drinking water in the UK and have achieved record bathing water quality in recent years.

Pennon Water Services provides water and wastewater retail services to over 160,000 non-household customer accounts across Great Britain, and is an 80:20 venture with South Staffordshire Plc.

Dividend policy

Whilst delivering on our promises to customers and communities, for investors Pennon's long established 10 year dividend policy delivers 4% year-on-year growth above RPI inflation to 2020. This policy reflects the Board's confidence in our sustainable growth strategy and is underpinned by the highest potential Return on Regulated Equity in the water sector over K6 (2015-20) and the growth in earnings delivered by Viridor's ERFs.

For 2018/19, the Board has recommended a final dividend of 28.22p, subject to shareholder approval at the Annual General Meeting on 25 July 2019. The final dividend will be paid on 3 September 2019 to shareholders on the register on 26 July 2019. Together with the interim dividend of 12.84p, this will result in a total dividend of 41.06p, an increase of 6.4% from last year.

Pennon offers shareholders the opportunity to invest their dividend in a Dividend Reinvestment Plan (DRIP).

Full year dividend payment information

25 July 2019	Ex-dividend date
26 July 2019	Record date
12 August 2019	Final date for receipt of DRIP applications
03 September 2019	Final dividend payment date

Upcoming Events

25 July 2019	Annual General Meeting
27 September 2019	Trading Statement
26 November 2019	Half Year Results 2019/20
March 2020	Trading Statement
2 June 2020	Full Year Results 2019/20

PENNON BUSINESS REVIEW

Pennon has had another year of strong progress against its strategic objectives of leading in the UK's water and waste infrastructure sectors, investing for sustainable growth and driving value through efficiency. South West Water's K7 (2020-25) business plan received the green light from the water industry regulator Ofwat in January 2019, awarding us fast-track status that allows us to plan and provide early certainty to our customers. Viridor reported an excellent year across its recycling and residual waste processing and transformation operations. Throughout the year, we continued to deliver on our promises to customers and communities and our investment across the Group is driving tangible and positive results for all our stakeholders.

How we do business

Our two core businesses – South West Water and Viridor – each provide essential services to local communities. We have a responsibility to deliver those well and our customers depend on our ability to operate over the long term as a stable and sustainable service provider. Whilst delivering our services forms an essential part of serving our customers, we have a special responsibility to ensure we make a positive difference to our communities. Delivering our services in a way that reflects our Group values – trusted, collaborative, responsible and progressive – emphasises how we want to do that and the contribution we want to make to society. In addition, we focus on strong financial control, sound administration and good governance, ensuring Board alignment with our stakeholders.

Delivering on our promises for customers and communities

Viridor continues to expand the ERF portfolio with three new facilities at Glasgow, Beddington and Dunbar delivered during the year, and construction at Avonmouth remaining on track. We continue to work closely with our key customers and partners across our whole portfolio to deliver service in line with expectations.

We know that delivering a resilient service in South West Water is critical to our customers. Despite the periods of extreme weather during 2018 with the 'freeze and thaw' in March and the hot dry summer giving rise to unprecedented demand, we continued to deliver an excellent service to our customers. This has been reflected in our best ever customer service score with South West Water ranked 2nd out of all water and sewerage companies for our quality of service.

South West Water has delivered further benefits for customers through our innovative WaterShare mechanism with around £110 million of benefits achieved since 2015. Customers will continue to benefit from reinvestment in services and lower bills into the next period.

Delivering strong, sustainable financial performance across the Group

Confidence in our financial resilience is driven by robust operating cash flows, a strong liquidity and balance sheet position, and a diversified mix of low cost and flexible funding which underpins our sector leading dividend policy.

Earnings growth of 7.2% for 2018/19 has been driven by ERF portfolio growth, weather related higher revenue in South West Water (net of costs to deliver a resilient service) and a strong focus on cost savings, benefiting both customers and shareholders.

The build out of the ERF portfolio is supporting growth in Viridor and recycling activities have stabilised in the year with margins improving due to optimising contracts and asset base. Viridor has continued to focus on cost savings with initiatives delivering indirect cost efficiencies of 17% in real terms since 2015/16.

South West Water continues to deliver sector leading Totex outperformance, with £237 million cumulative efficiencies to date over K6 regulatory period and is on track to deliver c.£300 million over the whole period. Together with delivery of net ODI rewards and outperformance in our cost of financing, momentum of delivery has been maintained with a cumulative RORE of 11.8%. South West Water is confident in the continued delivery of outperformance in all areas in the next regulatory period.

Targeted Group wide efficiencies of c.£17 million p.a. from 2019, identified through a detailed overhead review in 2015/16, have been secured in line with expectations.

Pennon continues to seek and identify further growth opportunities within the UK, assessing the long-term viability of the markets in which we operate and achieving an appropriate risk/reward balance, and is confident of delivering sustainable, long-term returns from water and waste, supported by significant headroom for investment.

Leading, responsible and sustainable UK waste operator, delivering growth

Viridor is focused on delivering UK recycling and residual waste processing and transformation. The business has been re-positioned to focus on a de-risked infrastructure model, with investment backed by profitable, long-term contracts. We believe there are continued favourable waste market dynamics in both recycling and residual waste, supporting opportunities for further growth.

The 'Blue Planet' effect continues to encourage action and we were pleased to see the Government's Resources & Waste Strategy aligned to Viridor's strategy, with plastics on a fast track. Whilst the recycling market has been challenging, with changing public perception and Government support for recycling and the UK Plastics Pact outlining a roadmap with targets to 2025, we are confident in the long-term market outlook. The proposed reforms are significant and

positive, though the timeline is conservative. Viridor sees clear opportunities in plastics recycling and reprocessing and has committed to a new £65 million investment in a facility co-located on the Avonmouth ERF site, allowing us to leverage our existing skill sets in this space. This will bring the added benefit of the energy being supplied from the ERF, realising significant operating cost savings, and will create a new Energy Park. Viridor is also assessing two further opportunities in the plastics recycling and reprocessing market with the potential for co-location giving a cost advantage.

We continue to expect UK residual waste market dynamics to be favourable with demand for ERFs exceeding capacity into the long term. We anticipate the capacity gap to be around seven million tonnes (mT) to 2035. Household waste arisings remain robust and expenditure on waste services is up c.18%¹⁰ from 2008/09. The operational ERF portfolio achieved availability in excess of 90%¹¹ in 2018/19 with the operational performance of the facilities above management's initial base case expectations which assume a real post tax IRR (internal rate of return) of 8%. We have further consolidated our position through increasing our holding in Viridor's joint venture TPSCo¹², which owns Runcorn I ERF, from 37.5% to 75.0% of the economic interest. We believe our landfill portfolio complements the combustible residual waste strategy, with a requirement for a landfill solution into the medium term.

Viridor's earnings have more doubled in the period from 2014/15 to 2018/19. Given our confidence in the UK recycling and residual waste market and our committed investment in growth projects to 2021/22 we anticipate Viridor's contribution to Group profit to continue to increase. We also continue to consider further expansion and investment, with development of Energy Park opportunities across the landfill and ERF portfolio capitalising on the potential of existing grid connections. Viridor is currently assessing three further ERF options where we see under-capacity in the local market and the opportunity for attractive long-term contracts.

South West Water K7 (2020-25) Draft Determination presenting sector leading opportunities for delivery of promised performance

Ofwat's Draft Determination made minimal changes to our 'New Deal' Business Plan for K7 (2020-25) submitted in September 2018 and subsequently awarded 'fast-track' status to reflect its high quality. The plan signals a new way of doing business for our customers and stakeholders. This approach is focused on empowering our customers by giving them the option of a tangible financial stake and a share in the business and the power to hold us to account, with a say in our business through a Customer AGM. Preparations are already underway for a fast start in K7, with key partnerships already in place, our RSI transformation programme underway and preparation for the Isles of Scilly transfer well advanced.

¹⁰ Source: Tolvik, Defra, SEPA, NRW, MSW and Viridor analysis based on 2017/18 latest local authority data available

¹¹ Average ERF availability is weighted by site capacity, includes 100% of joint venture availability, excludes Bolton

¹² TPSCo – INEOS Runcorn (TPS) Holdings Limited

PENNON FINANCIAL PERFORMANCE

Pennon Group

Underlying¹³	2018/19	2017/18	Change
Revenue	£1,478.2m	£1,393.0m	+6.1%
EBITDA	£546.2m	£509.6m	+7.2%
Adjusted EBITDA ¹⁴	£592.7m	£562.3m	+5.4%
Depreciation and amortisation	(£195.2m)	(£185.7m)	(5.1%)
Operating profit	£351.0m	£323.9m	+8.4%
Net interest	(£83.2m)	(£74.5m)	(11.7%)
Share of JV profit after tax	£12.4m	£9.4m	+31.9%
Profit before tax	£280.2m	£258.8m	+8.3%
Non-underlying items before tax ¹⁵	(£19.9m)	£4.1m	-
Statutory profit before tax	£260.3m	£262.9m	(1.0%)
Tax	(£37.7m)	(£41.0m)	+8.0%
Statutory profit after tax (PAT)	£222.6m	£221.9m	+0.3%
PAT (attributable to holders of hybrid capital)	£8.6m	£21.5m	+60.0%
PAT (attributable to minority interests)	(£0.3m)	(£0.2m)	+50.0%
PAT (attributable to shareholders)	£214.3m	£200.6m	+6.8%
Underlying earnings per share ^{16,17}	57.8p	50.9p	+13.6%
Statutory earnings per share¹⁷	51.1p	48.0p	+6.5%
Dividend per share ¹⁸	41.06p	38.59p	+6.4%
Capital investment ¹⁹	£395.9m	£398.2m	(0.6%)
South West Water	£154.0m	£184.2m	(16.4%)
Viridor ¹⁹	£241.7m	£213.0m	+13.5%
Other	£0.2m	£1.0m	(80.0%)
	31 March 2019	31 March 2018	Change
Net debt ²⁰	£3,079.5m	£2,801.5m	+9.9%

¹³ Before non-underlying items

¹⁴ Underlying EBITDA plus share of Joint Venture EBITDA and IFRIC 12 interest receivable

¹⁵ Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance

¹⁶ EPS before deferred tax and non-underlying items

¹⁷ Weighted average number of shares for 2018/19 of 419.6 million (2017/18 417.9 million)

¹⁸ The RPI rate used is 2.4% as at March 2019

¹⁹ Including construction spend related to service concession arrangements net of amounts subject to legal contractual process

²⁰ Net debt – total borrowings less cash and cash deposits

Non-underlying Items before tax

Non-underlying items for the year total a charge of £19.9 million before tax (2017/18 credit of £4.1 million). The Directors believe excluding non-underlying items provides a more useful comparison on business trends and performance.

The non-underlying charge of £19.9 million is a result of:

- Increased provision in respect of the receivable due for recovery of rectification and completion costs for Glasgow Recycling and Renewable Energy Centre (GRREC). This reflects our assessment of the credit loss (under IFRS 9) and results in a charge of £22.7 million
- Past pension service cost for Guaranteed Minimum Pension equalisation, which applies to all affected UK employers, results in a charge of £3.0 million
- The movement in the fair value of long-dated derivatives associated with South West Water's 2040 bond results in a credit of £5.8 million (2017/18 charge of £2.4 million).

Viridor

Underlying	2018/19	2017/18	Change
Revenue ²¹	£852.7m	£785.7m	+8.5%
EBITDA	£178.9m	£150.2m	+19.1%
<i>ERFs</i>	£154.8m	£123.7m	+25.1%
<i>Landfill</i>	£4.8m	£5.6m	(14.3%)
<i>Landfill gas</i>	£20.6m	£23.3m	(11.6%)
<i>Recycling</i>	£14.9m	£15.0m	(0.7%)
<i>Contracts, Collections & Other</i>	£39.0m	£39.3m	(0.8%)
<i>Indirect costs</i>	(£55.2m)	(£56.7m)	+2.6%
Depreciation and amortisation	(£78.0m)	(£71.6m)	(8.9%)
Share of JV profit after tax	£12.4m	£9.4m	+31.9%
Net interest	(£24.8m)	(£17.2m)	(44.2%)
Profit before tax	£88.5m	£70.8m	+25.0%
<i>Share of JV EBITDA</i>	£31.9m	£38.9m	(18.0%)
<i>IFRIC 12 interest receivable</i>	£14.6m	£13.8m	+5.8%
<i>Adjusted EBITDA²²</i>	£225.4m	£202.9m	+11.1%

South West Water

Underlying	2018/19	2017/18	Change
Revenue ²³	£581.0m	£571.3m	+1.7%
Operating costs	(£213.9m)	(£210.4m)	(1.7%)
EBITDA	£367.1m	£360.9m	+1.7%
Depreciation and amortisation	(£116.0m)	(£113.1m)	(2.6%)
Operating profit	£251.1m	£247.8m	+1.3%
Net interest	(£70.5m)	(£67.3m)	(4.8%)
Profit before tax	£180.6m	£180.5m	+0.1%

Pennon Water Services

	2018/19	2017/18	Change
Revenue	£173.7m	£165.9m	+4.7%
EBITDA	£1.0m	£1.0m	-
Depreciation and amortisation	(£0.7m)	(£0.6m)	(16.7%)
Operating profit	£0.3m	£0.4m	(25.0%)
Net interest	(£1.9m)	(£1.5m)	(26.7%)
Profit before tax	(£1.6m)	(£1.1m)	(45.5%)

²¹ Including landfill tax and construction spend on service concession arrangements

²² EBITDA plus share of joint venture EBITDA and IFRIC 12 interest receivable

²³ Includes wholesale revenue for non-household customers

Strong Group underlying financial performance

Pennon Group has again had a successful year of earnings growth, robust cash flows, strong liquidity and a sound balance sheet position underpinned with low cost, flexible and sustainable funding. These successes form the background to the delivery of our 10 year, sector-leading dividend policy of 4% year-on-year growth above RPI inflation to 2020.

Group revenue increased by 6.1% (£85.2 million) to £1,478.2 million (2017/18 £1,393.0 million).

Viridor revenues increased by 8.5% (£67.0 million) to £852.7 million primarily due to the ERF build out and IFRIC 12 construction revenue. Revenue from South West Water increased by 1.7% (£9.7 million) to £581.0 million due to customer demand increases of 1.4% from the hot and dry weather over the summer, net tariff²⁴ increases of 1.0% and increased infrastructure connections.

Group EBITDA and adjusted EBITDA were ahead of last year by 7.2% at £546.2 million (2017/18 £509.6 million) and 5.4% at £592.7 million (2017/18 £562.3 million) respectively, with both South West Water and Viridor ahead of 2017/18. The gap between EBITDA and adjusted EBITDA narrowed in the period as expected due to the reduced share of joint venture EBITDA following the reset of the Greater Manchester waste contract in 2017/18, net of the increased holding in Runcorn I ERF (TPSCo).

Viridor's EBITDA increased by 19.1% (£28.7 million) compared with 2017/18.

The ERF business has performed strongly during the year, in line with expectations. The EBITDA generated from our portfolio was 25.1% higher at £154.8 million (2017/18 £123.7 million) reflecting financial contributions from three new ERFs²⁵ in the year and increased like for like performance at established facilities.

Whilst landfill volumes are comparable year on year, landfill EBITDA decreased by 14.3% to £4.8 million (2017/18 £5.6 million), reflecting the mix of waste deposited at sites. We continue to see demand for a landfill solution into the medium term, and have sites well positioned to meet these demands, with nine sites operational at the year end. As part of the planned closure profile, two sites were closed in the year and we anticipate operating at a level of six sites in the medium to long term.

In our landfill gas business we are currently progressing our engine replacement strategy, including investing in maintenance and more efficient engines. This is improving reliability and securing generation for the longer term, whilst optimising the generating capacity potential at our sites. EBITDA for the year at £20.6 million, is down 11.6% from the prior year (2017/18 £23.3million)

²⁴ Net tariff increase reflects the net position post Wholesale Revenue Forecasting Incentive Mechanism (WRFIM) pass back of £12 million for 2018/19

²⁵ ERF earnings include contractual compensation in the form of liquidated damages of £33.2 million (2017/18 £12.1 million) arising where construction was completed post the original contractual completion date

reflecting the natural decline in gas volumes produced from sites (although at 5% this is at a lower rate than previous years) and increased maintenance costs. The benefit of higher year on year hedged electricity prices has helped support the overall performance.

Recycling EBITDA at £14.9 million is in line with expectations and prior year guidance (2017/18 £15.0 million). Viridor's focus continues to be on the production of higher quality and value recyclates through our reliability centred maintenance programme 'WorkSmart' to create margin improvement. Whilst recyclate volumes traded have decreased year on year, EBITDA margin has increased by over a £1 per tonne (9%) to £12.40 per tonne (2017/18 £11.10) reflecting recovery in the global recycling markets for high quality recyclate, net of the costs of challenging input quality. We continue to share commodity risks and rewards with our customers, with risk/reward share arrangements in place for over 60% of inputs.

Contracts, Collections and Other EBITDA was broadly comparable with the previous year at £39.0 million (2017/18 £39.3 million). Following last year's contract reset, the Greater Manchester run off operating contract results are in line with our expectations. The Greater Manchester run off contract is due to end on 31 May 2019 and we continue with the orderly transition towards its cessation, while maintaining high levels of service. The financial impact of not continuing with this operational contract is not material to the Group.

Viridor's indirect costs continued to fall with a reduction of £1.5 million to £55.2 million (2017/18 £56.7 million) in 2018/19 and are 17% lower in real terms than 2015/16.

Joint venture EBITDA has reduced to £31.9 million (2017/18 £38.9 million) as a result of the contract reset at Greater Manchester in September 2017, net of the £2.7 million impact of the Group increasing its investment and economic share in Runcorn I ERF joint venture in the year from 37.5% to 75.0%. The contract reset in 2017 saw both the disposal of our Viridor Laing joint venture and the introduction of a lower contractual EBITDA for the Runcorn I ERF joint venture following the repayment of external debt as part of the reset. This reduction in EBITDA was offset by interest savings in the joint venture profit after tax result. Runcorn I ERF continues to deliver strong operational and financial performance.

IFRIC 12 interest receivable at £14.6 million is broadly comparable with 2017/18 of £13.8 million.

South West Water's EBITDA and operating profit increased by 1.7% and 1.3% respectively. Strong cost management and efficiency delivery has resulted in lower than inflation (average inflation 3.1%) cost increases, despite the c.£5 million increased cost challenges posed by the extreme weather and replenishment of water resources in the second half of the year. In addition, South West Water's debt collection performance remains strong resulting in a charge of 0.4% of revenues (2017/18 0.8%) reduced from 1.7% at March 2015. This continues to be driven by efficient cash collections as we work with our customers to manage their debt and strive to support

those customers in vulnerable circumstances with affordability challenges. South West Water has continued to record strong performance against the K6 regulatory contracts, outperforming regulatory assumptions resulting in a cumulative RORE of 11.8%.

Pennon Water Services has continued to generate net customer gains during its second year of trading with revenue increasing by 4.7% to £173.7 million (2017/18 £165.9 million). Overall EBITDA for the year was £1.0 million (2017/18 £1.0 million), with opportunities to improve operating cost efficiencies continuing to be targeted.

Group efficiencies achieved as a result of the Shared Services initiatives have delivered a further £4.0 million of cost savings and synergy benefits during the year, meeting our targeted c.£17 million per annum from 2019.

Net Finance Costs

Underlying net finance costs of £83.2 million are £8.7 million higher than last year (2017/18 £74.5 million). This is attributable to higher net debt from continuing capital investments and lower interest receivable on shareholder loans following the Greater Manchester contract reset.

We have secured funding at a cost that is efficient and effective with the effective interest rate continuing to be amongst the lowest in the sector, reducing to 3.6% (2017/18 3.7%). The effective interest rate for South West Water was consistent with the prior year at 3.5%.

The effective interest rate is calculated after adjusting for capitalised interest of £15.2 million, notional interest items totalling £12.5 million, interest received from shareholder loans to joint ventures of £5.3 million and IFRIC 12 interest receivable of £14.6 million.

During 2018/19 underlying net finance costs (excluding pensions net interest costs of £1.4 million, discount unwind of provisions of £11.1 million and IFRIC 12 notional interest receivable of £14.6 million) were £85.3 million, covered 4.1 times by Group operating profit (2017/18 £76.5 million and 4.2 times).

Profit before tax

Group underlying profit before tax was £280.2 million, an increase of 8.3%, compared with the prior year (2017/18 £258.8 million). Included in profit before tax is our share of joint venture profit after tax of £12.4 million (2017/18 £9.4 million). On a statutory basis, profit before tax was £260.3 million (2017/18 £262.9 million) reflecting a non-underlying charge before tax of £19.9 million (2017/18 credit of £4.1 million).

Taxation

At Pennon, we know the taxes we pay help fund vital public services, investment in people and infrastructure to support future growth. In 2018/19, the Group's taxes borne and collected resulted in a total tax contribution of £281 million²⁶ being paid to the Government.

In December 2018 Pennon became the first water services and waste management utility to secure the Fair Tax Mark, an independent certification scheme which recognises organisations that demonstrate they are paying the right amount of corporation tax at the right time. It also recognises our responsible approach to tax strategy, managing tax efficiently for the benefit of customers and shareholders, demonstrating transparency and best practice across the Group.

On an underlying basis the net tax charge of £42.7 million (2017/18 £44.4 million) consists of:

- Current year current tax charge of £32.4 million, reflecting an effective tax rate of 11.6% (2017/18 £29.7 million, 11.5%). The lower effective rate versus the UK's mainstream corporation tax rate of 19% reflects the accelerated level of capital allowance claims available to the Group compared with the depreciation charge
- Current year deferred tax charge of £23.2 million (2017/18 £20.7 million) primarily reflecting capital allowances across the Group in excess of depreciation charged.

Recognising the resolution of minor outstanding tax items with HMRC, the following prior year credits have been recognised:

- Current tax credit of £3.0 million (2017/18 credit of £3.6 million)
- Deferred tax credit of £9.9 million (2017/18 £2.4 million credit), reflecting finalisation of capital allowance claims.

The 2018/19 non-underlying items result in a £5.0 million net tax credit (2017/18 £3.4 million net credit).

Overall, the total tax charge for the year was £37.7 million (2017/18 £41.0 million).

Earnings per share

Earnings per share on both a statutory and underlying²⁷ basis has been positively impacted by a reduction in hybrid costs²⁸ compared with last year. As a consequence, earnings per share on both a statutory and underlying basis has increased by 6.5% to 51.1p (2017/18 48.0p) and 13.6% to 57.8p (2017/18 50.9p) respectively.

²⁶ Includes landfill tax collected and borne, VAT, business rates, employment taxes, corporation tax, fuel excise duty, carbon reduction commitment, environmental payments and climate change levy

²⁷ Before deferred tax and non-underlying items

²⁸ Perpetual capital securities (hybrid). Cost in 2018/19 was £8.6 million (2017/18 £21.5 million)

Cash inflow from operations, continuing investment in future growth

The Group's operational cash inflows in 2018/19 were £649 million²⁹ (2017/18 £672 million). These funds have been put to use in efficiently financing the Group's capital structure and investing in future growth. This capital investment has resulted in higher Group net debt.

Contributions into the Group's pension schemes for the year were £32 million, and corporation tax payments were £29 million. Included in other movements of £47 million is the 2017 unwind settlement of the Peninsula MB Limited (PMB) derivative. Total tax payments reflecting all operational taxes in 2018/19 were £167 million³⁰ (2017/18 £151 million).

Sustainable funding position underpinning investment

The Group has a strong liquidity and funding position with £1,170 million cash and committed facilities at 31 March 2019. This consists of cash and deposits of £570 million (including £204 million of restricted funds representing deposits with lessors against lease obligations) and undrawn facilities of £600 million. At 31 March 2019 the Group's borrowings totalled £3,650 million. After the £570 million held in cash, this gives a net debt figure of £3,080 million, an increase of £278 million during the year (2017/18 £2,802 million).

Pennon has pioneered a Sustainable Financing Framework to integrate commitments to environmental and social objectives into a variety of funding opportunities across the Group. The framework allows Pennon to access future funding opportunities aligned with the Green Loan principles, Green Bond principles and Social Bond principles. The framework has been certified by DNV GL, a leading sustainability verifier. Pennon is committed to continuous annual improvements in sustainability ratings and KPIs which may lead to improved interest rate margins.

During the year, £830 million of new and renewed facilities have been signed, £665 million in Pennon Group plc and £165 million in South West Water. In total, £600 million of the new facilities signed in the year are linked to the sustainable nature of the business. Included in these facilities is an inaugural Pennon Group loan from the European Investment Bank of £110 million.

Pennon has cash and committed facilities providing funding for Viridor's committed growth projects and South West Water's regulatory capital programme into K7, with c.£725 million headroom for investment.

²⁹ Before construction spend on service concession agreements of £35 million (2017/18 £83 million), pension contributions of £32 million (2017/18 £17 million), £44 million for the 2017 unwind settlement of the PMB derivative and other tax payments of £138 million (2017/18 £129 million)

³⁰ Total tax includes corporation tax, business rates, employers' national insurance, fuel excise duty, carbon reduction commitment, environmental payments, climate change levy and external landfill tax

Efficient long-term financing strategy

The Group has a diversified funding mix of fixed (£1,936 million, 63%), floating (£576 million, 19%) and index-linked borrowings (£568 million³¹, 18%). The Group's debt has a maturity of up to 38 years with a weighted average maturity of c.18 years. Much of the Group's debt is floating rate and derivatives are used to fix the rate on that debt. In line with the Group's updated policy of maintaining at least 60% of interest bearing liabilities at fixed rates, the Group has fixed, or put swaps in place to fix, the interest rate on a substantial portion of the existing water business debt to 2020.

Additionally, following the submission of the South West Water K7 business plan and the resulting draft determination from Ofwat the Group is aligning the hedging for the next regulatory period with the changed regulatory methodology. A proportion of new debt will be hedged in K7 on a rolling ten year basis whilst still maintaining flexibility within the overall portfolio. Embedded debt hedging is aligned with the five year regulatory delivery period. Around 50% of South West Water's embedded floating net debt has been already hedged into K7 during the past six months, taking advantage of falling swap rates.

South West Water's cost of finance is amongst the lowest in the industry. Around two thirds of South West Water's net debt is from finance leases which provide a long maturity profile. Interest payable benefits from the fixed credit margins which are secured at the inception of each lease. £517 million (c.25%) of South West Water's net debt is index-linked. This is below Ofwat's notional assumption of 33%, giving an advantageous position as there remains uncertainty over how transitioning from RPI to CPIH may be translated into future funding rates.

Net debt position

The Group's net debt has increased by £278 million to £3,080 million. Cash inflow from operations was £649 million. Cash outflows relating to the capital programme totalled £385 million³² (2017/18 £464 million). The gearing ratio at 31 March 2019, being the ratio of net debt to (equity plus net debt) was 64.7% (31 March 2018 63.1%).

The combined South West Water and Bournemouth Water debt to RCV ratio is 58.9%³³ (31 March 2018 60.3%) which is lower than Ofwat's K6 target for efficient gearing of 62.5% but aligns with the new K7 notional assumptions of 60%.

Group net debt includes £2,057 million for South West Water with the remaining £1,023 million supporting investment in Viridor growth and expansion including the amount invested in joint ventures, through shareholder loans of £73 million for Runcorn I and Lakeside ERFs.

³¹ Includes £133 million of index-linked finance leasing

³² Includes spend on service concession agreements (before amounts subject to legal contractual process)

³³ Based on RCV at 31 March 2019

Capital investment focused on regulatory expenditure and ERF build out

Group capital investment was £395.9 million³⁴ in 2018/19 compared with £398.2 million in 2017/18.

Viridor

Viridor's capital spend in the year was £241.7 million (2017/18 £213.0 million), an increase of £28.7 million over 2017/18.

The majority of capital investment continues to relate to growth projects driving increased earnings now and into the future, with £207.7 million of total spend relating to the ERF portfolio. As well as reflecting the move into operation of three ERFs and continuing construction at Avonmouth, the expenditure in the year included additional investment at Glasgow ERF of c.£21 million securing incremental throughput capacity. Also included are lifecycle capital expenditure on our operational ERFs and development of our Clyde Valley ERF fuel supply facility.

On-going restoration and remediation programmes continue for our landfill assets, ensuring we meet or exceed our environmental duties and responsibilities.

South West Water

South West Water's capital expenditure in the year was £154.0 million, compared with £184.2 million in 2017/18 with the profile aligned with the K6 capital plan, reflecting the completion of specific large investment programmes at Mayflower water treatment works and the bathing and shellfish water improvements.

Key areas of drinking water investment³⁵ and activity during 2018/19 included:

- Completion of the new state-of-the-art Mayflower water treatment works which has entered commissioning
- Investment in the resilience of our infrastructure to reduce the number of bursts and leakage, impacted by the 'freeze and thaw' in March 2018 and costs associated with the hot dry summer.

Key areas of wastewater investment³⁵ and activity during 2018/19 included:

- Finalisation and completion of the Plymouth bathing water scheme
- Continued improvements at wastewater treatment works including flood resilience
- Investment for growth to meet increases in supply and demand.

³⁴ Including construction spend relating to service concession arrangements, capitalised interest (£15.2 million in 2018/19), ERF maintenance expenditure, net of amounts subject to legal contractual process. Total Glasgow construction spend £34.8 million for 2018/19

³⁵ Infrastructure spend (IRE) during the year was £21 million capital and £16 million operating expenditure

Pensions

The Group operates defined benefit pension schemes for certain employees of Pennon Group. The main schemes were closed to new entrants on or before 1 April 2008.

At 31 March 2019 the Group's pension schemes showed an aggregate deficit (before deferred tax) of £60.8 million (March 2018 £49.5 million), an increase of £11.3 million as a result of:

- Increase in liabilities of £76 million due to lower corporate bond yields
- Reduction in liabilities as a result of latest CMI mortality assumptions of £42 million
- Increase in liabilities from other factors, including service cost, of £13 million
- Increase in asset values of £36 million, reflecting good asset returns and deficit contributions of £13 million.

For the Group's principal pension scheme, of which South West Water accounts for around 80%, the last actuarial valuation was at 2016. Contributions, including the recovery plan of annual deficit contributions up to 2022, remain in line with 2014 Final Determination allowances.

The net aggregate liabilities of £50.5 million (after deferred tax) represented around 2% of the Group's market capitalisation at 31 March 2019.

Impact of low yields at 31 March 2019

At 31 March 2019 forward interest rates and yields fell significantly, to some extent reflecting Brexit uncertainty. This resulted in a number of impacts for the Group:

- Low corporate bond yield used to value pension scheme liabilities increased our present value of pension obligations by £76 million compared with March 2018 (as noted above)
- Fair value of our borrowings increased by c.£100 million or c.3% of gross debt
- The valuation of our derivative contracts, put in place manage to interest risk, increased compared to 2018, albeit to a lesser extent.

The impacts noted above have partly reversed since 31 March 2019, as forward interest rates and yields have increased, however as yields were falling in the period leading up to 31 March 2019, the Group advantageously entered forward starting interest rate hedges for the K7 (2020-25 period), in line with the Group's interest rate management policy. Through this period around 50% of South West Water's floating rate net debt has been hedged for K7.

Energy hedging

Pennon has adopted a Group portfolio management approach to energy hedging, and has the ability to hedge its market position for periods up to five years ahead, further helping to protect revenues.

Forward hedges have been put in place in the liquid market with the Group hedged c.95% for 2019/20, c.55% for 2020/21 and c.20% for 2021/22 for its energy (generation net of internal usage of electricity). In addition, the Group has a natural hedging opportunity which represents one third of Viridor's energy generation, as South West Water is a net user of electricity.

The energy portfolio management team continues to actively manage the Group net energy generation position in liquid markets.

VIRIDOR

Confident outlook for Viridor in the waste sector

Viridor is focused on UK recycling and residual waste processing and transformation and has been re-positioned to focus on a de-risked infrastructure model, with investment backed by profitable, long-term contracts.

Residual waste activities (ERFs and Landfill)

The market fundamentals for ERFs remain strong, with the gap between combustible residual waste arisings and ERF capacity forecast to remain at around 7 million tonnes (mT) per annum to 2035.

The Viridor portfolio processes around a fifth of the UK ERF combustible waste tonnage processed in an ERF and we continue to optimise our assets through capacity expansions, heat transfer and offtake opportunities, targeting 3-5% capacity improvements across the portfolio. We see localised opportunities for further ERF investment and are developing options for three new ERFs which will be determined by the availability of long-term contracts.

We continue to foresee a requirement for a landfill solution into the medium term. As landfill sites close over the coming years, parts of the country will experience a shortage of capacity and opportunities are being assessed at other mothballed sites. Viridor recognises that the landfill portfolio is a core part of its residual waste strategy, and our landfill sites are well positioned to support future market requirements. Available void capacity at operating sites is c.27 million cubic metres, with six sites having capacity for the medium / long term.

Recycling

The Government's Resource & Waste Strategy has confirmed the fundamentals of the waste market and provides a foundation for stimulus to recycling. A tax on plastic packaging containing less than 30% recycled content is being introduced. In addition, responsibility for 100% of recycling costs are being transferred to producers through EPR & PRN³⁶ reform.

Viridor, along with 80% of the plastic packaging supply chain, has signed up to the UK Plastics Pact which has targets including 100% of plastic packaging to be reusable or recyclable. In addition European targets are for 75% of the UK's plastic packaging to be effectively recycled. Only 46% is currently recycled.

Viridor's 2018 Recycling Index Report shows that over 80% of the public is worried about plastics in the oceans, with over 60% of consumers more likely to buy products with packaging made from

³⁶ EPR – Extended Producer Responsibility; PRN – Packaging Recovery Note

recycled materials. Brand leaders are also driving momentum in recycling with many having issued public declarations on recycling content.

One million tonnes of recyclable plastic is currently collected in the UK, two thirds of which is currently exported, supporting potential investment in new capacity in the UK, with opportunities emerging for contract backed index linked investments akin to the ERF model.

Strong performance underpinned by cost base efficiency

	2018/19	2017/18
Total Waste Inputs (mT)	6.8	7.0
ERFs	2.3	2.2
Landfill	1.5	1.5
Recycling and Other	3.0	3.3
Recycling volumes traded	1.2	1.4
ERF availability	91%	92%

ERFs delivering strong operational and financial performance

The operational ERF fleet has expanded successfully during the year. Beddington and Dunbar became operational and have both performed well, with good initial availability. Additionally, we have achieved contractual service commencement at Glasgow, and have invested £21 million in the asset to provide capability to process up to an additional 50,000 tonnes p.a. All three sites are now in operational ramp up to achieve plant optimisation. In addition, a 15% increase in permitted capacity has been approved at Runcorn I and II ERFs.

We have seen another year of strong operational performance across the existing portfolio (including joint ventures), with plant availability remaining above 90% for a third consecutive year. This consistent level of availability across our portfolio puts Viridor in the top quartile of UK operators.

The Glasgow development consists of advanced facilities for recycling, anaerobic digestion and energy recovery. In total we have spent £273 million in completing the facility, rectifying the non-conformances of the previous Engineering, Procurement and Construction (EPC) contractor and increasing the capacity. Viridor is contractually entitled to recover incremental costs associated with remediation work and is looking to recover up to £97 million of this additional expenditure (contractual receivable from Interserve Construction Limited £72 million; other, including all contractors and advisors £25 million).

Construction work at Avonmouth ERF has progressed successfully and at pace, with all major processing equipment now in place and the steelwork for the external building being erected. The build remains on track for takeover in line with the planned costs and timetable. Commissioning is

anticipated to commence later this year with EBITDA contribution expected from 2020/21. Viridor has secured an additional 120,000 tonnes p.a. of waste from the West of England Partnership resulting in 85% of Avonmouth inputs now being contracted.

The ERF build-out plan has accounted for the majority of capital expenditure once more, with £1.5 billion spent to date on the portfolio.

Viridor's ERF fleet offers the potential for establishing integrated Energy Parks, providing heat and power direct to Group companies and third parties, and so creating further value from these assets. We already have existing Energy Park activities or immediate development opportunities at six ERFs and four landfill sites, with further opportunities under development.

Landfill demand remains strong with a long-term shortfall in capacity within the UK

This year we have invested over £5 million in our landfill sites, including expenditure on new cells and leachate treatment equipment. We have maintained the application of our site-specific strategy with some sites being kept open longer, with new cells being created where there is demand. Preparatory work is underway to reopen our Heathfield site during 2019/20.

Overall landfill volumes have remained consistent but with a change in the mix of waste deposited at sites. Both Beddington and Rigmuir (Dunbar) closed to active waste during the year following go live of the new ERFs and two further closures are planned next year. Closure has led to increasing the level of topsoil inputs as part of our strategy to maintain well managed sites. This strategy will help ensure that these sites can be restored and repurposed for alternative uses in the future. Since the year end an agreement has been reached to sell a closed landfill site for alternative use, mitigating a long-term liability.

Landfill Gas securing reliable generation

The natural decline in underlying landfill gas volumes has continued, but the rate of decline in electricity volumes generated is lower than in recent years at c.5%. This is a result of our planned preventative maintenance programme, and investment of over £5 million in our Engine Optimisation Strategy. Together these have improved engine availability, the gas collection process and matched engine capacity to the gas yields. We will continue to invest in landfill gas to provide reliable generation and improve the longer-term yields.

The overall reduction in landfill energy generation has also led to surplus grid capacity and this presents other growth opportunities in the future.

Energy Parks

We are exploring opportunities for integrated energy parks at our ERF and landfill sites which will enhance profitability by c.5-10% at these assets. Energy parks would provide competitively priced heat and power as an alternative to the national grid potentially involving provision of wind and solar power. We already have several such connections, including our Runcorn ERF that has a heat and power offtake to Inovyn, Peterborough ERF where we provide a heat connection to a council depot, and our landfill gas engines and ERF at Beddington, which provide heat offtake into a community heating network. We believe there is significant potential to do more with energy parks supporting Viridor's own activities, other Pennon Group operations such as South West Water's treatment plants, or third-party energy intensive facilities.

Recycling assets well placed to benefit from Government's new strategy

The impact of escalating volumes of plastic pollution has become of increasing concern to the public consciousness - the "Blue Planet effect". This has created a ground-swell of opinion for the use of higher levels of recycled plastics, achieved by extending the producers' responsibilities, which in turn has provided a backdrop for investment in new recycling infrastructure. Recently the Government published its Draft Resources & Waste Strategy, which aligns closely with Viridor's own strategy and key priorities. The cornerstones of this policy include increasing the amount of packaging that must be recycled and standardised collections to improve the quality of feedstock. As a consequence, we continue to see a positive outlook for the recycling sector.

New industry leading plastics recycling facility

Viridor has committed to a new £65 million plastics recycling facility, with the investment reflecting a de-risked infrastructure model backed by index linked contracts. The 80,000 tonne capacity facility represents around 8% of current market requirement and will be co-located with the Avonmouth ERF that is currently under construction. This is consistent with our Energy Park concept and provides significant cost advantages from direct electricity and heat offtakes. The new facility will handle multi stream plastics (including PET, HDPE and polypropylene), and produces pellets directly for manufacture. Building on our existing commercial relationships, we have already secured three quarters of inputs (third party and Viridor) and half of plastic offtake (third party) of the plant. The investment has been assessed based on a hurdle rate IRR of 15% real, post tax and has a payback of under 4 years.

Recycling performing in line with our expectations

There was a partial recovery of global recycling markets in 2018/19 following import restrictions by China in the prior year, and we see ongoing value in high quality recyclate. We focused throughout the year on producing higher quality recyclates, including investing over £9 million in recycling assets seeking to improve output quality and support the introduction of our reliability centred

maintenance programme 'WorkSmart'. In the UK, input quality has remained poor, largely as a result of councils reducing their collection schemes due to austerity cost pressures.

The recycling business has performed in line with our expectations this year. Our emphasis on producing high quality outputs contributed to an increase in revenue per tonne since last year. We have incurred higher costs in producing the right quality recyclate, but recycling margins have improved year on year.

To help mitigate our exposure to recyclate price volatility, we continue to share commodity risks and rewards with our customers. Over 60% of our ongoing contracted input volumes continue to share commodity risk.

We have also committed to a £15 million investment at Masons Material Recycling Facility (MRF), backed by a 10-year contract with Suffolk County Council. Based on our confidence in the market outlook, as previously announced, we are also developing two further options for plastics recycling plants.

Contracts, Collections and other

We continue to work with our customers to identify mutually beneficial enhancements to our contracts and strive to demonstrate our commitment to partnership, working towards a common goal. This collaborative approach has led to the £80 million extension of the Somerset Waste Partnership contract for an additional nine years to 2031, and the award of the Hinckley Point C 'Zero to landfill' total waste management contract.

The Greater Manchester run off contract is due to end on 31 May 2019 and we continue with the orderly transition towards its cessation, while maintaining high levels of service.

Our collections business continues to provide a valuable service to all our customers.

Joint Ventures investments create a solid return from strong operational performance

The joint venture at Lakeside ERF (a 50:50 joint venture with Grundon Waste Management) continues to outperform its original targets for both waste processing and power generation. Availability has again been in excess of 90% and we received a dividend of £5.5 million during the year.

The TPSCo joint venture (between Viridor and Inovyn) which operates Runcorn I ERF has also performed strongly during the year with availability again in excess of 90%.

In December 2018, Viridor exercised its pre-emption rights and for a total cash consideration of £54.8 million acquired John Laing Investments Limited's 37.5% economic interest and 20% voting rights in the Runcorn I ERF. The acquisition consolidates further Viridor's position as a market leader in UK Energy Recovery and results in an increase to economic interest in INEOS Runcorn (TPS) Holdings Limited from 37.5% to 75.0%, with the associated voting rights moving from 20% to 40%.

SOUTH WEST WATER

Delivering a resilient service for customers through extreme weather events

2018 has been a year of extreme weather events from the 'Beast from the East' exceptional cold weather³⁷ in March, with the first red weather warning for snow in the South West, followed by the hottest summer on record. Despite these challenges South West Water continued to deliver a resilient service to its customers.

Our proactive planning and management ensured we were able to manage the impacts of the 'freeze and thaw' effectively and South West Water were commended in a number of areas during the subsequent Ofwat review.

South West Water maintained supplies to customers despite the unprecedented demand over the hottest summer on record, with supply interruptions at their lowest ever level. 2018 has been our 22nd year without water restrictions and during the second half of the year we have focused on replenishing our reservoirs to ensure we maintain resilient water resources for future years. Despite these challenges South West Water again met its leakage target which has been achieved every year since targets were set.

Sector leading customer service

Improving customer service is at the heart of our delivery plans. South West Water achieved its highest ever customer satisfaction level and also its best ever customer service score (SIM) at 88 points, across both regions. Overall we were ranked 2nd for quality of service out of all water and sewerage companies in England and Wales.

The improvement in service has also been delivered alongside improvements in debt collection and extending our support for customers in vulnerable circumstances. Our innovative approach to enhancing 'customer journeys' as well as improving the channels with which customers can contact us, such as online and social media, has been a success.

South West Water has an industry leading approach to supporting customers who find themselves in vulnerable circumstances or who struggle to pay their bills. We have continued to focus on this and are targeting to eliminate water poverty in our K7 (2020-25) business plan which was praised by Ofwat for its high quality customer engagement and affordability. Preparation for these additional activities is already underway and those currently receiving support through reduced tariffs has increased to c.23,000 customers, with around 57,000 customers supported through this and other programmes. Supporting this activity is our work providing specialist training to c.1,600 people across 80 partner organisations and securing c.£2.1 million of additional benefits income realised through our leading WaterCare+ programme, since 2015.

³⁷ Reflecting a 1 in 60 year event

Since the opening of the non-household retail market in April 2017, South West Water has operated successfully with 21 different retailers and our wholesale service desk has been operating effectively.

Continued sector leading outperformance

South West Water has performed well in 2018/19 and continues to outperform in all areas, giving a very strong foundation for the next regulatory period. Strong operational and financial performance underpins our sector leading RORE³⁸, which remains 11.8% cumulatively since the start of K6. Cumulatively the WaterShare RORE outperformance is broadly consistent with the approach adopted by Ofwat.

	2018/19	K6 to date
Base return	6.0%	6.0%
Totex outperformance	2.4%	2.6%
ODI outperformance	0.4%	0.3%
Financing Outperformance	2.8%	2.9%
WaterShare RORE³⁹	11.6%	11.8%
<i>Ofwat RORE⁴⁰</i>	<i>12.0%</i>	<i>11.7%</i>

Totex efficiency reducing customer bills

South West Water is striving for ever greater efficiency. Totex outperformance has already achieved cumulative savings of £237 million⁴¹ to 2018/19 and we are on track to deliver c.£300 million of Totex savings by 2020, which are embedded into our K7 business plan.

These savings are being driven by:

- Managing upward cost pressures, with actual net price rises being below annual average inflation rates despite the c.£5m atypical costs associated with the extreme weather
- Continuing advantages from our strategic alliances and driving efficiency from our procurement processes

³⁸ RORE reflects base plus outperformance. It is calculated using actual results before non-underlying items (deflated into 2012/13 prices) and compared against the Final Determination allowances and based on notional gearing, annual average RCV and reflecting the value of tax impacts at the actual annual effective tax rate for the year

³⁹ WaterShare RORE financing outperformance is based on the outturn effective interest rate on net debt, translated into an effective real interest rate using cumulative K6 forecast RPI of 2.8%.

⁴⁰ Ofwat's definition of financing outperformance is calculated based on average RPI of 1.1% for 2015/16, 2.1% for 2016/17, 3.7% for 2017/18 and 3.1% for 2018/19

⁴¹ Delivered around two thirds from capital expenditure and one third from operating cost savings

- Reducing customer debt through enhanced collections activities and increasing our affordability schemes (such as social tariffs), with the cost of bad debt now below the level assumed within the 2014 Final Determination
- Efficiencies from the Bournemouth Water integration, including delivery of key capital schemes in the region, with the c.£27m of net synergies required by 2020 secured

This focus on cost efficiency is reducing bills for customers, and our K7 business plan was identified as one of the most efficient and a key aspect of achieving our fast-track status.

ODIs continue to deliver net reward for K6

Operational performance for the year resulted in our highest net ODI reward of £4.1 million⁴² (£11.3 million cumulatively for K6) reflecting RORE outperformance of 0.4%. Good asset reliability with stable serviceability across all water and wastewater areas has been maintained. Rewards were delivered across bathing water quality, water restrictions and continued improvements in internal sewer flooding. The cumulative net reward of £11.3 million comprises £18.4 million of total rewards and £7.1 million of total penalties. ODI penalties which apply within the regulatory period will reduce customer bills as they are ‘passed back’. ODI net penalties of £2.1 million have been adjusted in customer bills for 2018/19 and £0.3 million will be adjusted in the 2019/20 tariffs.

Whilst a small number of ODIs are in penalty this year, South West Water is forecasting to meet all its ODI commitments by 2020.

- *Flooding – continuing strong performance*

The number of flooding incidents in 2018/19 has reduced and resulted in rewards for both internal and external flooding.

- *22nd consecutive year without water restrictions*

Despite the impact of the hot dry summer, water resources in the South West Water region remained unrestricted for a twenty-second consecutive year and the Bournemouth water region maintained its position of having no water restrictions since privatisation. During the second half of the year South West Water actively replenished water resources through storage schemes to protect future supplies.

⁴² £4.1 million (£11.3 million cumulatively) net ODI reward; £4.9 million (£14.4 million cumulatively) net reward will be recognised at the end of the regulatory period and £0.8 million (£3.1 million cumulatively) net penalty which may be reflected during the regulatory period. Cumulative net reward reflects a prior year reassessment of £0.9 million for supply interruptions relating to the extreme cold weather in March 2018

- *Bathing water quality – c.99% achieving sufficient quality, over 78% excellent*

Our legacy of major investment to protect bathing waters continues to be reflected in extremely positive results for the 2018 bathing water season. Of the 151 bathing waters tested in the South West Water region, 149 (c.99%) were classified 'sufficient' or better, with more than 78% classified as 'excellent'. Neither of the two bathing waters rated as 'poor' were attributed to any failure of South West Water's assets.

- *Leakage – target met despite extreme weather*

The impact of the 'freeze and thaw' in March 2018 as well as the dry summer impacting ground movement, had seen leakage levels increase in the first half of the year. Targeted investment and operational resources (including fixing visible leaks and providing additional support to customers) ensured we met our 2018 target of 84 megalitres per day ensuring no ODI penalty was incurred.

- *Supply interruptions – lowest ever level*

Demand over the summer months placed pressure on both our treatment works and network to meet customer demand. Despite this the average duration of supply interruptions per property for South West Water was below the target set for the year and resulted in a reward for the year.

- *Pollution incidents – serious incidents reduced*

The number of serious pollution incidents (Category 1&2) has reduced to 2 and no penalty has been incurred. Disappointingly, the number of less serious incidents (Category 3&4) has increased slightly from last year with £0.7 million penalty this year. This is a significant area of focus and recent investments to drive reductions in incidents have been completed, including delivery of a fleet of jetters and vactors to provide resilient support on the network.

Financing investment efficiently

Alongside strong operational outperformance, South West Water is confident that the efficient and effective financing strategy in place will continue to deliver cumulative financing outperformance, with £130 million delivered in the K6 period to date. South West Water's diverse and flexible financing structure has underpinned one of the lowest effective interest rates across the industry. The Pennon Sustainable Financing Framework opens further opportunities for debt investment including £60 million of leasing specifically linked to the new innovative Mayflower water treatment works. Gearing levels remain aligned with Ofwat's current notional level and South West Water is the only UK water company to share the benefits of lower interest rates with customers.

Sharing outperformance between customers and shareholders

South West Water is sharing the benefits of business outperformance between customers and shareholders through our unique WaterShare mechanism. Since 2015 £110 million of cumulative benefits have been identified to share with customers through future bill reductions, ODI service improvements and reinvestment in services. This reflects £80 million of Totex savings, £11 million of net ODI benefits and £19 million of other benefits (including financing). These Totex savings and efficiencies (including the forecast to 2020) have been reflected in the K7 business plan, lowering bills for customers over the next regulatory period. This results in forecast average bills in 2025 being lower than they are both today and 15 years ago.

The other savings identified in recent years and expected out to 2020 will provide the basis for the WaterShare+ scheme in 2020 – a first of its kind - an ambitious, voluntary share scheme, which will give all customers a choice of how to receive these benefits including the option of receiving Pennon shares.

K7 (2020-25) Draft Determination

The key focus for our business plan is empowering customers through a ‘New Deal’ – giving customers a stake and a say. It will ensure customers are sharing in our success and having a say through a Customer AGM and quarterly meetings, which will allow customers to hold us directly to account. In addition, the option for customers to have a shareholding gives them a tangible stake in our business through the outperformance delivered and will further ensure customers are at the heart of our business.

Sector leading outperformance forecast to continue

South West Water has the highest outperformance potential for the next regulatory period and we are confident in delivering outperformance across all areas (Totex, ODIs and Financing).

Totex allowances in K7 are consistent with the allowances in K6 and higher than the current forecast spend for K6 which reflects the c.£300 million of Totex outperformance on track to be delivered by 2020.

An efficient financing structure is already in place for the next regulatory period and South West Water has consistently delivered the lowest effective interest rates in the industry, a strong platform for financing outperformance.

The ODIs⁴³ for K7 are a mixture of bespoke performance measures which are proposed and designed by South West Water and 15 common measures which will be measured consistently

⁴³ Bespoke ODIs, unique rewards for South West Water with up to £68 million reward, up to £74 million of rewards for common ODIs where performance is currently upper quartile or above industry average and ODIs which are an area of focus for improvement reflect a penalty up to £28 million.

across the whole industry. South West Water has a strong base for outperformance in K7 with two thirds of ODIs currently upper quartile or above industry average.

South West Water's continuing investment in our assets and services into K7 reflects significant planned capital expenditure, above forecast K6 levels. This results in c.10%⁴⁴ growth in RCV to £3.75 billion in 2025 (around 28% growth over 10 years).

Operational and service leadership

South West Water's Business Plan, will continue to deliver outstanding customer service whilst keeping bills as low as possible. Alongside this, we will deliver environmental leadership with key commitments including:

- Building on our track record and reducing leakage by a further 15%
- Continued extensive catchment management - Upstream Thinking project improving 80% of catchments
- Implementing innovative solutions in the replacement of Alderney and Knapp Mill water treatment works
- Achieving net zero carbon emissions by 2030.

Delivery preparations underway

The early Draft Determination enables South West Water to make a fast start towards the next period with a number of areas already developed:

- A number of key partnerships are already in place, including our strategic consultants and capital delivery partners, wildlife trusts, customer groups and charities
- Resilient Service Improvement (RSI) transformation project is already underway with South West Water praised by Ofwat as "*setting the standard for others to reach*"
- Sustainable Financing Framework embedded to support funding requirements
- Preparation for the Isles of Scilly transfer well advanced.

⁴⁴ Nominal RCV growth over K7 period based on draft determination

PENNON WATER SERVICES

Focus on delivering operating cost efficiencies

Pennon Water Services, our 80:20 retail venture with South Staffordshire Plc, continues to deliver net gains in customers⁴⁵ and revenue growth during its second year of operation, with continued success with the dual service proposition.

Serving over 160,000 customer accounts across 18 different wholesale regions, Pennon Water Services has c.11,700⁴⁵ new customer accounts generating around £31 million of new revenue, with 100% new tendered contract renewal rate to date.

We continue to focus on delivering customer service that reflects the needs of our business customers with satisfaction scores increasing in the year. We are continuing to implement further strategies to improve operating cost efficiency and billing and cash management.

⁴⁵ As at 31 March 2019. c.11,785 new accounts, net growth of c.1,955 accounts

Technical Guidance 2019/20

Pennon Group		2018/19	Change
Capex	Passed peak of committed ERF capex. Growth capex in near term principally reflects completion of Avonmouth and investment in recycling	£396m	▼
Dividend	Reflecting policy of RPI + 4% annual increase in dividend	41.06p per share	▲
Tax rate	Underlying effective tax rate lower than UK headline rate of 19% reflecting capital allowances (including ERFs)	11.6%	◀
IFRS 16	Minimal impact on profit before tax	-	◀
South West Water			
Revenue	Impact of net tariff increases and lower metered volumes reflecting 2018 extreme summer weather	£581m	◀
Opex	2018/19 includes costs associated with extreme weather. Continued efficiency into 2019/20	£214m	▼
Totex Efficiency	On track to deliver c.£300m over K6	£237m cumulative	▲
RORE	Continued momentum for delivering outperformance in all areas	11.8% cumulative	◀
IFRS 16	Impact of new standard applicable in 2019/20. Minimal impact on profit before tax. Approximate impact on balance sheet and income statement lines as follows: <ul style="list-style-type: none"> £32m gross assets; £34m gross liabilities £2m EBITDA; £1m depreciation; £1m interest 	N/A	▲ ▲
Viridor			
Revenue	Lower following impact of cessation of Greater Manchester contract and lower IFRIC 12 construction revenue, partially offset by ERF ramp up and full year operations at new ERFs	£853m	▼
EBITDA	Impact of ERF ramp up	£179m	▲
IFRS 16	Impact of new standard applicable in 2019/20. Minimal impact on profit before tax. Approximate impact on balance sheet and income statement lines as follows: <ul style="list-style-type: none"> £76m gross assets; £85m gross liabilities £11m EBITDA; £8m depreciation; £3m interest 	N/A	▲ ▲

Board Matters

As previously announced and in line with governance best practice, Martin Angle, Non-Executive Director and chairman of the Remuneration Committee, who had been a Director for nine years, stood down from the Board on 31 December 2018. Iain Evans was appointed as his successor and joined the Board on 1 September 2018. We thank Martin for his considerable contribution to the Group's success and strong governance over the years.

We are also pleased to have recruited Claire Ighodaro to our Board. Claire's extensive background in finance and across both regulated and non-regulated industries will be a great asset to the Group and will complement the broad range of skills of the current Board. Claire will join us in September 2019.

Chris Loughlin
Group Chief Executive Officer
30 May 2019

Financial Timetable

30 May 2019	Full Year Results 2018/19
June 2019	Annual Report & Accounts published
25 July 2019	Annual General Meeting
25 July 2019*	Ordinary shares quoted ex-dividend
26 July 2019*	Record date for final dividend
12 August 2019*	Final date for receipt of DRIP applications
3 September 2019*	Final dividend paid
27 September 2019	Trading Statement
26 November 2019	Half Year Results 2019/20
March 2020	Trading Statement
2 June 2020	Full Year Results 2019/20

* These dates are provisional and, in the case of the final dividend subject to obtaining shareholder approval at the 2019 Annual General Meeting.

CAUTIONARY STATEMENT IN RESPECT OF FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements relating to the Pennon Group's operations, performance and financial position based on current expectations of, and assumptions and forecasts made by, Pennon Group management which may constitute "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are identified in this Report by words such as "anticipate", "aim", "believe", "continue", "could", "due", "estimate", "expect", "forecast", "goal", "intend", "may", "outlook", "plan", "probably", "project", "remain", "seek", "should", "target", "will", "would" and related and similar expressions, as well as statements in the future tense. All statements other than of historical fact may be forward-looking statements and represent the Group's belief regarding future events, many of which, by their nature, are inherently uncertain and outside the Group's control. Various known and unknown risks, uncertainties and other factors could lead to substantial differences between the actual future results, financial situation, development or performance of the Group and the estimates and historical results given herein. Important risks, uncertainties and other factors that could cause actual results, performance or achievements of Pennon Group to differ materially from any outcomes or results expressed or implied by such forward-looking statements include, among other things, changes in Government policy; the exit of the United Kingdom from the European Union; international treaty changes and other events; re-nationalisation; regulatory and legal reform; compliance with laws and regulations; maintaining sufficient finance and funding to meet ongoing commitments; non-compliance or occurrence of avoidable health and safety incidents; tax compliance and contribution; failure to pay all pension obligations as they fall due and increased costs to the Group should the defined benefit pension scheme deficit increase; non-recovery of customer debt; poor operating performance due to extreme weather or climate change; macro-economic risks impacting commodity and power and other matters; poor service and/or increased competition leading to loss of customers; business interruption or significant operational failure/incidents; difficulty in recruitment, retention and development of skills; non-delivery of regulatory outcomes and performance commitments; failure or increased cost of capital projects/exposure to contract failures; failure of information technology systems, management and protection, including cyber risks. These risks will be described in greater detail in the Pennon Group Annual Report to be published in June 2019.

Such forward looking statements should therefore be construed in light of all risks, uncertainties and other factors, including without limitation those identified above, and undue reliance should not be placed on them. Nothing in this report should be construed as a profit forecast.

Any forward-looking statements are made only as of the date of this document and no representation, assurance, guarantee or warranty is given in relation to them including as to their

accuracy, completeness, or the basis on which they are made. The Group accepts no obligation to revise or update publicly these forward-looking statements or adjust them as a result of new information or for future events or developments, except to the extent legally required.

UNSOLICITED COMMUNICATIONS WITH SHAREHOLDERS

A number of companies, including Pennon Group plc, continue to be aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters which imply a connection to the company concerned. If shareholders have any concerns about any contact they have received then please refer to the Financial Conduct Authority's website www.fca.org.uk/scamsmart. Details of any share dealing facilities that the Company endorses will be included in Company mailings.

PENNON GROUP PLC
Consolidated income statement for the year ended 31 March 2019

	Notes	Before non- underlying items 2019 £m	Non- underlying items (note 5) 2019 £m	Total 2019 £m	Before non- underlying items 2018 £m	Non- underlying items (note 5) 2018 £m	Total 2018 £m
Revenue	4	1,478.2	-	1,478.2	1,393.0	3.2	1,396.2
Operating costs							
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	4	546.2	(25.7)	520.5	509.6	3.2	512.8
Depreciation and amortisation		(195.2)	-	(195.2)	(185.7)	-	(185.7)
Operating profit	4	351.0	(25.7)	325.3	323.9	3.2	327.1
Finance income	6	23.5	-	23.5	24.2	-	24.2
Finance costs	6	(106.7)	5.8	(100.9)	(98.7)	(21.6)	(120.3)
Net finance costs	6	(83.2)	5.8	(77.4)	(74.5)	(21.6)	(96.1)
Share of post-tax profit from joint ventures		12.4	-	12.4	9.4	22.5	31.9
Profit before tax	4	280.2	(19.9)	260.3	258.8	4.1	262.9
Taxation	7	(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)	8						
- Basic				51.1			48.0
- Diluted				50.9			47.8

PENNON GROUP PLC

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

	Before non- underlying items 2019 £m	Non-underlying items (note 5) 2019 £m	Total 2019 £m	Before non- underlying items 2018 £m	Non-underlying items (note 5) 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						
<i>Items that will not be reclassified to profit or loss</i>						
Remeasurement of defined benefit obligations	(17.2)	-	(17.2)	24.5	-	24.5
Income tax on items that will not be reclassified	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
<i>Items that may be reclassified subsequently to profit or loss</i>						
Share of other comprehensive Income / (loss) from joint ventures	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	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	(19.3)	-	(19.3)	34.6	-	34.6
Total comprehensive income 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 interest	(0.3)	-	(0.3)	(0.2)	-	(0.2)
Perpetual capital security holders	8.6	-	8.6	21.5	-	21.5

PENNON GROUP PLC
Consolidated balance sheet at 31 March 2019

	Notes	2019 £m	2018 £m
ASSETS			
Non-current assets			
Goodwill		385.0	385.0
Other intangible assets		92.1	72.6
Property, plant and equipment		4,509.4	4,310.6
Other non-current assets		256.4	263.5
Derivative financial instruments		70.5	70.5
Investments in joint ventures	10	51.1	22.8
		5,364.5	5,125.0
Current assets			
Inventories		28.8	24.6
Trade and other receivables		484.8	416.0
Derivative financial instruments		11.8	12.9
Cash and cash deposits	14	569.6	585.3
		1,095.0	1,038.8
LIABILITIES			
Current liabilities			
Borrowings	14	(150.4)	(209.8)
Financial liabilities at fair value through profit		(3.8)	(2.6)
Derivative financial instruments		(11.1)	(9.4)
Trade and other payables		(298.0)	(342.0)
Current tax liabilities		(19.1)	(24.4)
Provisions		(28.7)	(38.0)
		(511.1)	(626.2)
Net current assets			
		583.9	412.6
Non-current liabilities			
Borrowings	14	(3,498.7)	(3,177.0)
Other non-current liabilities		(147.9)	(140.1)
Financial liabilities at fair value through profit		(43.1)	(46.6)
Derivative financial instruments		(9.9)	(8.2)
Retirement benefit obligations		(60.8)	(49.5)
Deferred tax liabilities		(305.1)	(295.6)
Provisions		(203.1)	(181.5)
		(4,268.6)	(3,898.5)
Net assets			
		1,679.8	1,639.1
Shareholders' Equity			
Share capital	11	171.1	170.8
Share premium account		223.6	218.8
Capital redemption reserve		144.2	144.2
Retained earnings and other reserves		843.0	807.1
Total shareholders' equity		1,381.9	1,340.9
Non-controlling interests		1.2	1.5
Perpetual capital securities	12	296.7	296.7
Total equity		1,679.8	1,639.1

PENNON GROUP PLC
Consolidated statement of changes in equity for the year ended 31 March 2019

	Share capital (note 11) £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Non- controlling interests £m	Perpetual capital securities (note 12) £m	Total Equity £m
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
<i>Transactions with equity shareholders:</i>							
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 due 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
	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
	Share capital (note 11) £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Non- controlling interests £m	Perpetual capital securities (note 12) £m	Total Equity £m
At 1 April 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
<i>Transactions with equity shareholders:</i>							
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

PENNON GROUP PLC
Consolidated statement of cash flows for the year ended 31 March 2019

	Notes	2019 £m	2018 £m
Cash flows from operating activities			
Cash generated from operations	13	399.8	443.5
Interest paid		(83.9)	(69.6)
Tax paid		(29.2)	(21.7)
Net cash generated from operating activities		286.7	352.2
Cash flows from investing activities			
Interest received		10.3	8.3
Dividends received		5.5	6.5
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)
Proceeds from sale of property, plant and equipment		6.3	10.6
Purchase of intangible assets		-	(1.0)
Acquisition of subsidiary undertaking		-	(8.4)
Net cash used in investing activities		(409.8)	(299.0)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		5.1	3.9
Proceeds from the issuance of perpetual capital securities		-	296.7
Redemption of 2013 perpetual capital securities	12	-	(300.0)
Purchase of ordinary shares by the Pennon Employee Share Trust		(1.5)	(1.8)
Proceeds from new borrowing		384.5	106.9
Repayment of borrowings		(181.6)	(116.0)
Finance lease sale and leaseback		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)
Perpetual capital securities periodic return		(5.8)	(19.6)
Net cash used in financing activities		85.8	(24.5)
Net (decrease) / increase in cash and cash equivalents		(37.3)	28.7
Cash and cash equivalents at beginning of year	14	403.0	374.3
Cash and cash equivalents at end of year	14	365.7	403.0

PENNON GROUP PLC**Notes****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 58. 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.

The financial information for the years ended 31 March 2019 and 31 March 2018 does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The Annual Report and Accounts for the year ended 31 March 2019, including the financial statements from which this financial information is derived, will be delivered to the Registrar of Companies after the AGM on 25 July 2019. The auditor's report on the 2019 financial statements was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

The full financial statements for the year ended 31 March 2018 were approved by the Board of Directors on 24 May 2018 and have been delivered to the Registrar of Companies. The independent auditor's report on those financial statements was unqualified and did not contain a statement under section 498 of the Companies Act 2006. This final results announcement and the results for the year ended 31 March 2019 were approved by the Board of Directors on 29 May 2019.

2. Basis of preparation

The financial information in this announcement has been prepared on the historical cost accounting basis (except for fair value items as set out in the 2018 Annual Report and Accounts) 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. The accounting policies adopted are consistent with those followed in the preparation of the Group's 2019 Annual Report and Accounts which have not changed significantly from those adopted in the Group's 2018 Annual Report and Accounts (which are available on the Company website www.pennon-group.co.uk), except as described in note 3.

3. Accounting policies*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 statements line, there has been no restatement of prior year figures.

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.

PENNON GROUP PLC**Notes (continued)****3. Accounting policies (continued)**

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 expected credit losses where applicable. This has not had any material impact on the Group.

The Group has a policy of hedging currency risk and interest rate risks. 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 adoption 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 leases under IAS 17.

Carrying amounts for assets and liabilities under finance leases existing at 1 April 2019 will not be changed on adoption of IFRS 16.

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 figure 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.

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 flows 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.

PENNON GROUP PLC
Notes (continued)
4. 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 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.

	2019	2018
	£m	£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 trading between and to different segments is under normal market based commercial terms and conditions. Intra-segment revenue of the other segment is at cost.

PENNON GROUP PLC
Notes (continued)
5. Non-underlying items

Non-underlying items are those that in the Directors' view are required to 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.

	2019	2018
	£m	£m
Revenue		
Construction contract settlements ^(4a)	-	3.2
Operating costs		
Pension past service cost (GMP equalisation impact) ⁽¹⁾	(3.0)	-
Provision for receivable (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⁾	5.8	(2.4)
Write-down of joint venture shareholder loans ^(4b)	-	(19.2)
Refinancing of joint venture arrangement ^(4c)	-	22.5
Tax credit arising on non-underlying items	5.0	3.4
Net non-underlying credit /(charge)	(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 (Guaranteed Minimum Payment (GMP) equalisation). The judgment concluded that the claimant is under a duty to amend the schemes in order to equalise benefits for men and woman in relation to GMP benefits. 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 judgment. The cost has been recognised as a past service cost in the current year income statement. The charge is considered non-underlying due to its 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 (GRREC). 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 (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 assessment using the latest public information available. Consequently a provision of £22.7 million has been recognised in the year against the receivable, resulting in a 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.

PENNON GROUP PLC
Notes (continued)

- (3) In the year a credit of £5.8 million (2017/18 charge of £2.4 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.

PENNON GROUP PLC
Notes (continued)
6. Net finance costs

	2019			2018		
	Finance cost £m	Finance income £m	Total £m	Finance cost £m	Finance income £m	Total £m
Cost of servicing debt						
Bank borrowings 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	(1.4)	-	(1.4)	(1.6)	-	(1.6)
Unwinding of discounts on provisions	(11.1)	-	(11.1)	(10.2)	-	(10.2)
	(12.5)	14.6	2.1	(11.8)	13.8	2.0
Net finance costs before non-underlying items	(106.7)	23.5	(83.2)	(98.7)	24.2	(74.5)
Non-underlying items (note 5)						
Write-down of joint venture Shareholder loans	-	-	-	(19.2)	-	(19.2)
Fair value remeasurement of non-designated derivative financial instruments, providing commercial hedges	5.8	-	5.8	(2.4)	-	(2.4)
Net finance costs 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).

PENNON GROUP PLC
Notes (continued)

7. Taxation

	Before non- underlying items 2019 £m	Non- underlying items (note 5) 2019 £m	Total 2019 £m	Before non- underlying items 2018 £m	Non- underlying items (note 5) 2018 £m	Total 2018 £m
Analysis of charge						
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 the 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).

PENNON GROUP PLC
Notes (continued)

8. 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 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 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

Adjusted basic and diluted earnings per ordinary share

Adjusted earnings per share before non-underlying items and deferred tax are presented to provide a more useful comparison of business trends and performance. Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance (as described in note 5). In the prior year, perpetual capital returns were proportionately adjusted to allow a more useful comparison in the year as a full return is accrued at 31 March but not payable until May. Earnings per share have been calculated:

	2019			2018		
	Profit after tax £m	<u>Earnings per share</u>		Profit after tax £m	<u>Earnings per share</u>	
		Basic p	Diluted p		Basic p	Diluted p
Statutory earnings	214.3	51.1	50.9	200.6	48.0	47.8
Deferred tax 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 securities	-	-	-	1.3	0.3	0.3
Adjusted earnings	242.5	57.8	57.6	212.7	50.9	50.7

PENNON GROUP PLC
Notes (continued)

9. **Dividends**

Amounts recognised as distributions to ordinary equity holders in the year:

	2019	2018
	£m	£m
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
<hr/>		
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	
	<hr/>	

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.

10. **Investments in joint ventures**

	Shares £m
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

PENNON GROUP PLC
Notes (continued)

10. **Investments in joint ventures (continued)**

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.

11. **Share capital**

Allotted, called up and fully paid

	Number of shares		£m
	Treasury shares	Ordinary shares	
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 £0.5m, shares issued to the Pennon Employee Share Trust	-	46,205	0.1
For consideration of £3.4m, 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 £5.1m, shares issued in respect of 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 re-issued for any of the Company's share schemes, or cancelled.

PENNON GROUP PLC
Notes (continued)

	2019	2018
	£m	£m
12. Perpetual capital securities		
GBP 300m 2.875% perpetual subordinated capital securities	296.7	296.7
	296.7	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 had no fixed redemption date but the Company could 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 (2017/18 £5.8 million) has been recognised as a financial liability at the year end.

PENNON GROUP PLC
Notes (continued)

13. **Cash flow from operating activities**

Reconciliation of profit for the year to net cash inflow from operations:

	2019	2018
	£m	£m
Cash generated from operations		
Profit for the year	222.6	221.9
Adjustments for:		
Share-based payments	3.6	2.5
Profit on disposal of property, plant and equipment	(3.9)	(2.5)
Depreciation charge	190.0	182.5
Amortisation of intangible assets	5.2	3.6
Non-underlying JV 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 (before non-underlying items)	(23.5)	(24.2)
Finance costs (before non-underlying items)	106.7	98.7
Taxation charge	37.7	41.0
Changes in working capital:		
Increase in inventories	(4.2)	(5.2)
Increase in trade and other receivables	(46.4)	(36.9)
Decrease / (increase) in service concession arrangements receivable	6.8	(15.2)
(Decrease) / Increase in trade and other payables	(47.7)	2.2
(Decrease) / increase in retirement benefit obligations from contributions	(7.3)	4.5
Decrease in provisions	(21.6)	(15.9)
Cash generated from operations	399.8	443.5
	2019	2018
	£m	£m
Total interest paid		
Interest paid in operating activities	83.9	69.6
Interest paid in investing activities	15.2	17.0
Total interest paid	99.1	86.6

PENNON GROUP PLC
Notes (continued)

14.	Net borrowings		
		2019	2018
		£m	£m
	Cash and cash deposits	569.6	585.3
	<i>Borrowings – current</i>		
	Bank and other loans	(59.8)	(149.6)
	Other current borrowings	(27.0)	(32.0)
	Finance lease obligations	(63.6)	(28.2)
	Total current borrowings	(150.4)	(209.8)
	<i>Borrowings – non-current</i>		
	Bank and other loans	(1,628.0)	(1,408.8)
	Other non-current borrowings	(373.9)	(291.4)
	Finance lease obligations	(1,496.8)	(1,476.8)
	Total non-current borrowings	(3,498.7)	(3,177.0)
	Total net borrowings	(3,079.5)	(2,801.5)

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

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

PENNON GROUP PLC
Notes (continued)

15. Contingencies	2019	2018
	£m	£m
Contingent liabilities		
Performance bonds	201.7	185.1
	201.7	185.1

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 from the Health and Safety Executive and limited contractual commitments to provide certain employees with defined benefit pension provision.

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 have not been recognised as at 31 March 2019.

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