

## PENNON GROUP PLC

### PUBLICATION OF ANNUAL REPORT AND ACCOUNTS 2020

In compliance with Listing Rule 9.6.1 Pennon Group Plc (the "Company") announces that the following document has been submitted to the Financial Conduct Authority electronically via the National Storage Mechanism and will shortly be available for inspection at <https://data.fca.org.uk/#/nsm/nationalstoragemechanism>

- Annual Report and Accounts 2020

The Annual Report and Accounts 2020 may also be viewed on the Company's website at [www.pennon-group.co.uk](http://www.pennon-group.co.uk)

The Company will hold its 2020 Annual General Meeting ("AGM") at Peninsula House, Rydon Lane, Exeter, United Kingdom, EX2 7HR at 1pm on Friday 31 July 2020. Due to the ongoing COVID-19 pandemic and the restrictions placed on physical public gatherings, it is expected that the meeting will be held as a closed meeting. Further information will be provided in the Notice of AGM, which will be issued to shareholders shortly.

The following information in the Appendix to this announcement is as set out in the Company's Annual Report and Accounts 2020. It should be read in conjunction with the Company's Full Year Results announcement released on 4 June 2020 which included a set of consolidated financial statements, a fair review of the development and performance of the business and the position of the Company and its main trading subsidiary companies. Together these documents constitute the information required by Disclosure and Transparency Rule 6.3.5.

Simon Pugsley  
Group General Counsel & Company Secretary

3 July 2020

## **APPENDIX**

### **PRINCIPAL RISKS AND UNCERTAINTIES**

The Group's business model exposes the business to a variety of external and internal risks influenced by the potential impact of macro political, economic and environmental factors.

While the ability of the Group to influence these macro level risks is limited, they continue to be regularly monitored and the potential implications are considered as part of the ongoing risk assessment process. The Group performs a range of scenario planning and analysis exercises to understand the risk exposure of one, or a number, of these events occurring.

The Group's principal risks have been reviewed and updated to reflect the transfer of risks associated with waste activities as a result of the proposed sale of Viridor, which has received shareholder and European Commission approval. This has resulted in the removal or reassessment of a number of the Group's principal risks when compared with previous annual reports, reflecting the focus of the Group on its water and wastewater businesses.

#### **Britain's exit from the European Union**

Prior to Britain's exit from the EU, detailed contingency plans had been established and tested to mitigate against potential issues that may have occurred in the event of a no-deal scenario. Negotiations on a future trading agreement between Britain and the EU is ongoing and continues to be closely monitored.

The impact of any agreement on the Group's operations and processes will be fully evaluated as further detail is confirmed. In the event that no agreement is reached, and trade arrangements revert to World Trade Organization (WTO) rules, existing contingency plans will ensure that the Group is well prepared to mitigate against any short-term impact that is likely to arise from this scenario.

#### **Impact of COVID-19**

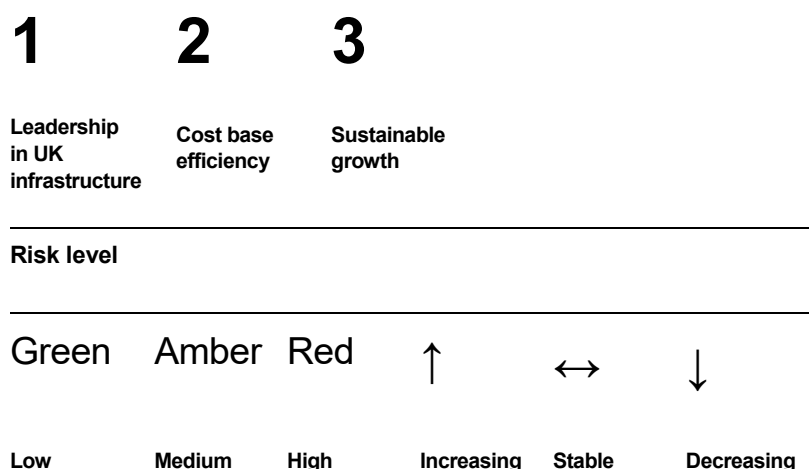
The Board recognise the significant impact that COVID-19 has had globally and within the UK. In response to the current situation the UK Government has designated key worker status to our frontline operational water and waste activities. In order to continue delivering the expected levels of service to our stakeholders we have reviewed our processes and ways of working and drawn on our resilience and continuity plans, while continuing to prioritise the health, safety and wellbeing of our employees and customers which remains paramount during this period. We also continue to work closely with our key stakeholders and peers including local resilience forums, Water UK, Ofwat and Defra ensuring a joined up and collaborative response. Both the Pennon Executive and Pennon Board continue to receive regular updates on the Group's response.

To date, our business has remained broadly resilient to the immediate risks that have been presented by COVID-19. It is likely, however, that there will be ongoing restrictions in place during 2020/21, which could provide continued challenges to the delivery of our key operational activities. Medium-term response planning has been undertaken to establish strategies to mitigate these risks where possible, which has considered a range of potential scenarios and been informed by actions taken by other countries impacted by the pandemic. These plans will continue to be reviewed and updated as further Government and Public Health guidance is provided.

The principal risks detailed below have been assessed applying the Group's impact and likelihood methodology, separately identifying both the underlying risk assessment prior to the onset of the COVID-19 virus and the assessment of risk reflecting the potential impact of COVID-19. The commentary for individual principal risks also provides further detail on additional mitigation steps that have been taken in response to this event.

The Directors confirm that during 2019/20 they have carried out a robust assessment of current and emerging risks facing the Group. The assessment of the Group's principal risks has considered the impact on its business model, future performance, solvency and liquidity. These principal risks have been considered in preparing the viability statement on page 68.

## Strategic impact – long-term priorities affected



### Law, regulation and finance

Principal risk	Strategic impact	Mitigation	Net risk (pre-COVID-19)	Net risk (including COVID-19)	Risk appetite
<b>A: Changes in Government policy</b>	<p>Long-term priorities affected:</p> <p><b>1,2</b></p> <p>Changes in Government policy may fundamentally impact our ability to deliver the Group's strategic priorities impacting shareholder value.</p>	<p>The General Election in December 2019 has provided greater certainty over Government policy, with the current UK Government supportive of the existing regulatory model. We continue to engage with MPs, all political stakeholders, customers and wider stakeholders, both directly and via Water UK, demonstrating the value received from our operational performance and continued investment in the network infrastructure.</p> <p>The UK Government has also committed to the £50 Government contribution made to household customers of South West Water being retained for 2020/21.</p> <p>The speed at which action announced by the Government in response to COVID-19, including changes to restrictions and ongoing support to the economy, presents challenges in ensuring the impact to the business is minimised.</p>	<b>Green</b> ↔	<b>Amber</b> ↑	We recognise that Government policy evolves. The Group seeks to minimise potential risk and maximise opportunities through regular engagement, communication and robust scenario planning.
<b>B: Regulatory reform</b>	<p>Long-term priorities affected:</p> <p><b>1,2</b></p> <p>Reform of the regulatory framework may result in changes to the Group's priorities and the service we provide to our customers. It may have a significant impact on our performance which can impact shareholder value.</p>	<p>Greater certainty over reform of the regulatory framework has been provided through the announcement of South West Water's Final Determination for the 2020-25 regulatory period. Both South West Water and Pannon Water Services maintain ongoing dialogue directly with regulators and through sector-wide forums and engage fully with consultations and proposed reforms of the regulatory frameworks.</p> <p>A number of temporary regulatory changes have been introduced in response to COVID-19; in particular in respect of the water retail market, including wholesaler support. The speed at which these changes are being introduced has impacted on the ability to fully consult with regulators and increases the possibility that these changes are detrimental to the Group's activities.</p>	<b>Green</b> ↑	<b>Amber</b> ↑	We accept that regulatory reform occurs and seek to leverage opportunities where possible and minimise the negative impact of regulatory reform by targeting changes which are NPV neutral over the longer term to protect customer affordability and shareholder value.

Principal risk	Strategic impact	Mitigation	Net risk (pre-COVID-19)	Net risk (including COVID-19)	Risk appetite
<b>C: Compliance with laws and regulations</b>	<p>Long-term priorities affected:</p> <p><b>1,2</b></p> <p>The Group is required to comply with a range of regulated and non-regulated laws and regulations across our businesses. Non-compliance with one or a number of these may result in financial penalties, a negative impact on our ability to operate effectively and reputational damage.</p>	<p>The Group operates within robust and mature regulatory frameworks ensuring compliance with Ofwat, Environment Agency and other relevant requirements. These frameworks are subject to regular review by South West Water, Pennon Water Services and the Pennon Executive.</p> <p>Compliance with the regulatory framework has become more complex as a result of a number of temporary changes introduced by our regulators in response to COVID-19. All regulatory changes are subject to detailed review and, where necessary, internal processes, systems and controls are revised to ensure compliance.</p> <p>The Group also maintains a comprehensive internal framework to ensure compliance with corporate laws and regulations. This is reinforced through key policies such as the Group's Code of Conduct, supply chain code of conduct and anti-slavery policy. Additionally, the Group's Speak Up whistleblowing process allows any concerns to be raised confidentially and dealt with through appropriate investigations.</p>	<b>Green</b> ↑	<b>Amber</b> ↑	The Group has the highest standards of compliance and has no appetite for legal or regulatory breaches.
<b>D: Maintaining sufficient finance and funding, within our debt covenants, to meet ongoing commitments</b>	<p>Long-term priorities affected:</p> <p><b>1,3</b></p> <p>Failure to maintain funding requirements could lead to additional finance costs and put our growth agenda at risk. Breach of covenants could result in the requirement to repay certain debt.</p>	<p>The Group has mature treasury, funding and cash flow arrangements in place and the impact of political, economic and regulatory risks on the Group's financing commitments and cash flow is regularly reviewed by Pennon Executive and the Board.</p> <p>The Group has £1.6 billion of cash and committed facilities providing liquidity and ensuring South West Water is prefunded into the next regulatory period.</p> <p>During 2019/20 £840 million of new or renewed funding was entered into, including £245 million of funding through the Sustainable Funding Framework for South West Water.</p> <p>The strength of our position provides the Group with added resilience in the event of volatility which may arise as a result of COVID-19.</p>	<b>Green</b> ↔	<b>Green</b> ↔	The Group operates a prudent approach to our financing strategy in order to ensure our funding requirements are fully met.
<b>E: Non-compliance or occurrence of an avoidable health &amp; safety incident</b>	<p>Long-term priorities affected:</p> <p><b>1,2,3</b></p> <p>A breach of health &amp; safety law could lead to financial penalties, significant legal costs and damage to the Group's reputation.</p>	<p>The effective management of health &amp; safety risks continues to be a priority for the Board and Pennon Executive.</p> <p>During the year there has been two fatalities that have occurred in the delivery of our activities. Both incidents are deeply tragic and full and thorough root cause analysis has been undertaken to identify additional actions required to prevent such incidents from occurring again alongside additional training and system upgrades.</p> <p>During the year the Group progressed the full roll-out of HomeSafe across the Group, which has contributed to a lost time injury frequency rate of 0.9, a further improvement on prior year and the Group remains on track to achieve its LTIFR target of 0.5 by 2025.</p> <p>In response to COVID-19 additional safety measures have been introduced to ensure that key activities across the Group can continue to be performed safely, in line with Government and public health guidance. This includes remote working, social distancing and the provision of</p>	<b>Red</b> ↔	<b>Red</b> ↑	The Group has no appetite for health & safety-related incidents and has the highest standards of compliance within the Group, contractors, partners and other third parties.

Principal risk	Strategic impact	Mitigation	Net risk (pre-COVID-19)	Net risk (including COVID-19)	Risk appetite
		<p>additional hygiene and appropriate personal protective equipment (PPE).</p> <p>The easing of Government restrictions continues to be carefully reviewed to ensure the Group's activities can continue to be delivered safely and Government and public health guidance will continue to be stringently followed.</p>			
<b>F: Tax compliance and contribution</b>	<p>Long-term priorities affected:</p> <p><b>2</b></p> <p>Non-compliance may result in financial penalties, legal costs and reputational damage. Furthermore, the perception that Pennon's overall tax contribution is inadequate could have a detrimental impact on the reputation of the Group.</p>	<p>The Group continues to achieve the Fair Tax Mark; an independent certification scheme, which recognises organisations that demonstrate they are paying the right amount of corporation tax in the right place, at the right time.</p> <p>The Group have an experienced and professionally qualified in-house tax team supported, where necessary, by external specialists.</p> <p>Senior accounting officers are required to review and declare annually the effectiveness of tax-related internal controls within their respective area of responsibility.</p> <p>Discussions continued with HMRC regarding the agreement of uncertain tax items in order to enable the finalisation of tax returns.</p>	<b>Green</b> ↔	<b>Green</b> ↔	The Group ensures full compliance with HMRC requirements and will not enter into artificial tax arrangements or take an aggressive stance in the interpretation of tax legislation.
<b>G: Failure to pay all pension obligations as they fall due and increased costs to the Group should the deferred pension scheme deficit increase</b>	<p>Long-term priorities affected:</p> <p><b>2</b></p> <p>The Group could be called upon to increase funding to reduce the deficit, impacting our cost base.</p>	<p>The Group has an experienced in-house Pensions team who also engage professional advisers to manage the pension scheme's investment strategy, ensuring the scheme can pay its obligations as they fall due.</p> <p>The triennial 2019 valuation of the Group's principal pension scheme has recently been completed, with a recovery plan to return to full funding on a technical provisions basis by March 2022. In addition, the Group has sought to support the scheme through the acceleration of contributions of £17 million during the year.</p> <p>The Group is currently consulting on potential changes to its pension scheme arrangements including closure to future accrual of the main scheme which, if implemented, will be effective from July 2020.</p>	<b>Amber</b> ↑	<b>Amber</b> ↑	The Group will ensure that all obligations are met in full but seeks to manage this without unnecessary increased costs to the Group.

#### Market and economic conditions

Principal risk	Strategic impact	Mitigation	Net risk (pre-COVID-19)	Net risk (including COVID-19)	Risk appetite
<b>H: Non-recovery of customer debt</b>	<p>Long-term priorities affected:</p> <p><b>1,2,</b></p> <p>Potential impact on revenue as a result of reduced customer debt collection, particularly with regards to vulnerable customers and affordability.</p>	<p>South West Water has mature and embedded debt collection strategies which has continued to deliver improved collection rates and decreased debt exposure during the year. The collection of debt within Pennon Water Services has also improved during the year.</p> <p>The potential impact of COVID-19 could place affordability pressure on both our domestic and business retail customers negatively impacting on collection rates and debt exposure. Measures introduced by regulators within the retail water market, including the deferral of payments to wholesalers, may also impact on immediate debt levels.</p> <p>We have worked proactively with our customers, identifying and contacting those most in need and</p>	<b>Green</b> ↑	<b>Red</b> ↑	While seeking to minimise non-recoverable debt, we recognise customer affordability challenges and the inability to disconnect household customers results in a residual risk of uncollectable debt remaining.

Principal risk	Strategic impact	Mitigation	Net risk (pre-COVID-19)	Net risk (including COVID-19)	Risk appetite
		supporting them in the most appropriate way. This has included automatically extending social tariffs and payment plans for our domestic customers. Additional short-term flexibility, requested by our regulators, has already been incorporated within our collection processes for both our domestic and retail water businesses.			
<b>I: Macroeconomic risks impacting inflation, commodity and power prices</b>	<p>Long-term priorities affected:</p> <p><b>3</b></p> <p>Changes such as currency exchange movements, tariffs and volatility within the energy markets could increase the Group's cost base.</p>	<p>The Group has a dedicated procurement function supported by established processes to ensure the quality of provision and price for goods and services procured.</p> <p>There remains the potential for increased costs arising from COVID-19 due to demand and exchange rate volatility for the limited goods purchased from outside the UK, in particular chemicals, which increases risk in this area.</p> <p>Energy usage is minimised and where possible on-site renewable generation schemes are implemented to reduce the requirement to purchase electricity from the grid.</p> <p>Despite the current volatility experienced within the spot market, partly as a result of COVID-19, medium-term electricity markets are relatively stable and South West Water had hedged the majority of wholesale power costs for the first two years of the new regulatory period.</p>	<b>Amber</b> ↓	<b>Amber</b> ↑	The Group seeks to take well-judged and informed decisions while ensuring plans are in place to mitigate the potential impact of macroeconomic risks.

## Operating performance

Principal risk	Strategic impact	Mitigation	Net risk (pre-COVID-19)	Net risk (including COVID-19)	Risk appetite
<b>J: Poor operating performance due to extreme weather or climate change</b>	<p>Long-term priorities affected:</p> <p><b>1</b></p> <p>Failure of our assets to cope with extreme weather conditions may lead to an inability to meet our customers' needs, environmental damage, additional costs and reputational damage.</p>	<p>The increased frequency and impact of extreme weather exposes our assets to risk, while there continues to be a reduced appetite for reduced performance arising from such incidents from the regulator and our stakeholders.</p> <p>The Group seeks to mitigate this risk proactively through a planned capital investment programme as well as established emergency resources and contingency planning.</p> <p>As part of the risk management process the Group also performs horizon scanning on the longer-term impacts of climate change on its operations.</p> <p>Further improvement in South West Water's resilience is a key focus within the next regulatory period. A Director of Resilience has been appointed during the year to lead this workstream.</p>	<b>Amber</b> ↔	<b>Amber</b> ↔	The Group seeks to reduce both the impact and likelihood through long-term planning and forecasting to ensure that sufficient measures are in place to mitigate the impact of extreme weather and climate change on our operations.
<b>K: Poor service and/or increased competition leading to loss of customers</b>	<p>Long-term priorities affected:</p> <p><b>1,3</b></p> <p>Poor customer service has a direct impact on the ability of Penmon Water Services to retain and grow market share.</p>	<p>Despite the retail water market continuing to remain highly competitive, Penmon Water Services has a knowledgeable key account team to support customers. The business has strategically targeted high-consumption customers to maintain market share.</p> <p>As a result of restrictions imposed in response to COVID-19 a proportion of Penmon Water Services' customers have temporarily ceased operating. If these businesses are unable or choose not to resuming trading following the easing of restrictions this could result in overall attrition to the customer base. Regular contact and communication is being maintained with customers to support them during this period.</p>	<b>Green</b> ↑	<b>Amber</b> ↑	The Group continually seeks to increase customer satisfaction and maximise customer retention while taking well informed risk to develop further markets and offerings.
<b>L: Business Interruption or significant operational failures/incidents</b>	<p>Long-term priorities affected:</p> <p><b>1,3</b></p>	<p>South West Water has mature processes in place for the management of their assets which is done through a programme of sophisticated planned and preventive maintenance and effective management of stores.</p> <p>In the event of a significant incident South West Water maintains detailed contingency plans and</p>	<b>Amber</b> ↔	<b>Amber</b> ↑	The Group operates a low tolerance for significant operational failure and seeks to mitigate these

Principal risk	Strategic impact	Mitigation	Net risk (pre-COVID-19)	Net risk (including COVID-19)	Risk appetite
	Operational failure in our water business could mean that we are unable to supply clean water to our customers or provide safe wastewater processes. This has a direct impact on the successful delivery of the PR19 business plan.	incident management procedures which are regularly reviewed. Existing processes have been extensively reassessed in light of the potential impact of COVID-19 and appropriate measures and actions have been introduced, working with the wider water sector and our key strategic partners, to ensure the continued delivery of our highest priority activities. This has included new working processes, adjusted shift patterns and enhanced operational cover to provide added resilience. These actions have been effective to date in ensuring the resilience of our operations, however, the potential ongoing impact of COVID-19 on our business will continue to remain a risk.			risks where possible.
<b>M: Difficulty in the recruitment, retention and development of appropriate skills required to deliver the Group's strategy</b>	Long-term priorities affected:  <b>1,2,3</b> Failure to have a workforce of skilled and motivated individuals will detrimentally impact all of our strategic priorities. We need the right people in the right places to innovate, share best practice, deliver synergies and move the Group forward.	The Group's HR Strategy continues to be embedded across the organisation in order to continue to attract, retain and develop our employees. Succession plans remain in place for senior and other key positions while the Group recruited an additional 191 new apprentices during the year. There are also various engagement forums across the Group which provide opportunities for employees to regularly discuss business priorities and challenges with business leaders. The impact of these initiatives is measured through the results of the most recent Great Places to Work Best Workplace Survey which showed an improved Trust Index score of 63% and maintained last year's engagement score of 68%. We also achieved our highest ever participation rate at 83%, demonstrating employees value this mechanism for feedback. During COVID-19 we have refocused our resources where appropriate to essential parts of our business and not furloughed any employees. To date there has been no immediate impact of COVID-19 on the ability to attract and retain necessary skills within the Group. It is recognised that there may be longer-term challenges and action is underway to minimise the impact of these.	<b>Amber</b> ↔	<b>Amber</b> ↑	While turnover of employees does occur we ensure the appropriate skills and experience is in place with succession plans providing adequate resilience.
<b>N: Non-delivery of regulatory outcomes and performance commitments</b>	Long-term priorities affected:  <b>1,2,3</b> South West Water's Regulatory Outcomes and performance commitments cover key strategic focus areas. Non-delivery against these could result in financial penalties being applied as well as reputational damage to the Group.	The regulatory framework has been in place since 1 April 2015 and South West Water has delivered cumulative net ODI rewards of £13.3 million during 2015-20. The ODI regime in the 2020-25 regulatory period is more stretching with the overall reward/penalty range more penal. While South West Water has used the fast-track status awarded by Ofwat to commence early roll-out of key projects and initiatives, the impact of COVID-19 could present additional medium-term challenges that impact on the ability to deliver the required step change and outperform the agreed performance commitments. Alternative strategies and ways of working are being developed which seek to ensure the continued delivery of performance commitments into the future.	<b>Amber</b> ↑	<b>Red</b> ↑	The Group is committed to achieving all of our performance commitments over the length of each regulatory period. Where performance in an individual year falls below expectation we implement action plans and targeted interventions to ensure performance returns to committed levels.

#### Business systems and capital investment

Principal risk	Strategic impact	Mitigation	Net risk (pre-COVID-19)	Net risk (including COVID-19)	Risk appetite
<b>O: Failure or increased cost of capital projects/exposu</b>	Long-term priorities affected:	All capital projects are subject to a robust business case process which includes challenge and risk modelling of key assumptions. Projects are delivered using skilled project management	<b>Green</b> ↔	<b>Green</b> ↑	The Group's investment activities are taken on an



Principal risk	Strategic impact	Mitigation	Net risk (pre COVID-19)	Net risk (including COVID-19)	Risk appetite
re to contract failures	<b>1,3</b> Inability to successfully deliver on our capital programme may result in increased costs and delays and detrimentally impacts our ability to provide top class customer service and achieve our growth agenda.	resource complemented by senior oversight and leadership. The scheduling of a number of projects for the 2020-25 regulatory period have been advanced and agreements are in place with strategic partners who will support the delivery of the capital programme. The impact of COVID-19 has seen further strain placed on the financial health of key contractors and supply chain partners. There is regular engagement and communication with our supply chain and early intervention is taken where necessary. Medium-term restrictions, which could include continued social distancing or restricted travel, could also impact on the costs and timescales in delivering these projects.			informed basis with risks weighed against appropriate returns.
P: Failure of information technology systems, management and protection including cyber risks	Long-term priorities affected:  <b>1</b> Failure of our information technology systems, due to inadequate internal processes or external cyber threats could result in the business being unable to operate effectively and the corruption or loss of data. This would have a detrimental impact on our customers and result in financial penalties and reputational damage for the Group.	The Group operates a mature and embedded governance framework over the IT environment and South West Water holds the ISO 27001 accreditation. There has been a significant increase in the number of employees working remotely as result of COVID-19, which has placed additional strain on the capacity of our systems. Additional bandwidth and licences have been procured and IT systems have remained resilient during this period. Disaster recovery plans are in place for corporate and operational technology, which have been updated to reflect the impact of COVID-19. During this period there has also been an increase in the volume and sophistication of cyber threats. These risks are mitigated by a strong preventive and detective information security framework aligned to guidance issued by the National Cyber Security Centre (NCSC). South West Water also continues to progress actions to meet the requirements of the Network and Information Systems (NIS) directive with activities aligned to the priorities identified by the Drinking Water Inspectorate.	Amber ↑	Amber ↑	We seek to minimise the risk of informational technology failure and cyber security threats to the lowest level without detrimentally impacting on business operations.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

(This statement is extracted from the governance section of the Annual Report 2020 and page numbers referred to are those in the Annual Report 2020.)

The Directors are responsible for preparing the annual report, the Directors' remuneration report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for the year.

In preparing these financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates which are reasonable and prudent
- State whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements. The Directors confirm that they have complied with the above requirements in preparing the financial statements.



The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, and disclose with reasonable accuracy at any time the financial position of the Group and the Company; and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the International Accounting Standards Regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors, whose names and functions are listed on pages 76 and 77, confirms that, to the best of his or her knowledge:

- (i) The financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and of the Company.
- (ii) The strategic report (pages 1 to 69 and 121) and the Directors' report, include a fair review of the development and performance of the business during the year and the position of the Company and the Group at the year end, together with a description of the principal risks and uncertainties they face.
- (iii) Following receipt of advice from the Audit Committee, the annual report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the shareholders to assess the Group's position and performance, business model and strategy.

The Directors are responsible for the maintenance and integrity of the Company's website [www.pennon-group.co.uk](http://www.pennon-group.co.uk).

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## RELATED PARTY TRANSACTIONS

(The following is Note 44 to the Financial Statements set out in the Annual Report 2020.)

During the year Group companies entered into the following transactions with joint ventures who are not members of the Group. The year end balances as at 31 March 2020 with joint ventures are included within assets held for sale (see note 46 for further details).

	2020 £m	2019 £m
<b>Sales of goods and services</b>		
INEOS Runcorn (TPS) Limited	18.2	16.6
<b>Purchase of goods and services</b>		
Lakeside Energy from Waste Limited	12.8	12.4
INEOS Runcorn (TPS) Limited	8.3	7.1
<b>Dividends received</b>		
Lakeside Energy from Waste Holdings Limited	6.0	5.5

### Year-end balances

	2020 £m	2019 £m
<b>Receivables due from related parties</b>		
Lakeside Energy from Waste Limited (loan balance)	7.1	7.7
INEOS Runcorn (TPS) Limited (loan balance)	59.5	65.0
	66.6	72.7
Lakeside Energy from Waste Limited (trading balance)	1.0	1.0
INEOS Runcorn (TPS) Limited (trading balance)	1.2	1.8
	2.2	2.8
<b>Payables due to related parties</b>		

Lakeside Energy from Waste Limited (trading balance)	1.1	0.9
INEOS Runcorn (TPS) Limited (trading balance)	1.7	3.2
	2.8	4.1

The £66.6 million (2019 £72.7 million) receivable relates to loans to related parties due for repayment in instalments between 2018 and 2033. Interest is charged at an average of 13.0% (2019 13.0%).

#### Company

The following transactions with subsidiary undertakings occurred in the year:

	2020 £m	2019 £m
Sales of goods and services (management fees)	17.9	19.7
Purchase of goods and services (support services)	0.6	2.0
Interest receivable	43.4	43.3
Interest payable	0.1	0.1
Dividends received	335.6	196.7

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

#### Year-end balances

	2020 £m	2019 £m
<b>Receivables due from subsidiary undertakings</b>		
Loans	1,225.6	1,044.6
Trading balances	16.0	19.9

Interest on £591.8 million of the loans has been charged at fixed rates during the year with an average effective rate of 4% (2019 £499.8 million charged at 5%), and on £591.8 million at an average effective rate of three-month LIBOR plus 2.6% (2019 £499.8 million charged at 12-month LIBOR + 2.2%). Interest on £16.0 million (2019 £18.1 million) has been charged at a fixed rate of 6.0%. These loans are due for repayment in instalments over the period 2021 to 2045.

Interest on £13.0 million (2019 £13.5 million) of the loans has been charged at a fixed rate of 5.0%. Interest on £13.0 million (2019 £13.5 million) of the loans has been charged at 12-month LIBOR + 3.0%. These loans are due for repayment in instalments over a five-year period following receipt of a request to repay.

No material expected credit loss provision has been recognised in respect of loans to subsidiaries (2019 £nil).

	2020 £m	2019 £m
<b>Payables due to subsidiary undertakings</b>		
Loans	284.4	283.9
Trading balances	9.1	14.3

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

3 July 2020

[www.pennon-group.co.uk](http://www.pennon-group.co.uk)

End transmission