25 May 2018

Full Year Results 2017/18
for the year ended 31 March 2018

Delivering for customers, communities and shareholders

Chris Loughlin, Pennon Chief Executive said:

"Pennon has delivered a strong performance this year across water and waste. As a British business providing vital services to our communities, we are committed to delivering for customers and shareholders. Thanks to ongoing cost savings at South West Water, average bills are lower today than they were nine years ago, while we continue to invest significantly in our treatment plants and distribution network. Since 2015 our unique WaterShare policy has identified £79m of financial performance benefits to share with customers and we have been delighted by the response to our customer engagement campaign 'Get Into Water', which sets out our plans for ever improving service and increasing investment in the next regulatory period 2020-2025.

At Viridor the operating fleet of Energy Recovery Facilities is performing well, transforming household waste into electricity and heat. Good progress is being made to bring Viridor's remaining four Energy Recovery Facilities in the portfolio on stream, with three in commissioning and the final facility under construction. The expansion of Viridor's portfolio will support Pennon's earnings growth to 2020 and beyond. Viridor has looked to navigate a challenging recycling market in 2017/18 through self-help measures and a programme of innovation. That said, the UK recycling system needs fixing. We are encouraged that the 'Blue Planet' effect is spurring action and we are optimistic that positive changes will be announced in the Resources & Waste Strategy later this year creating a UK recycling system fit for the future."

Financial Highlights

Underlying[1]	2017/18	2016/17	Change
Revenue	£1,393.0m	£1,353.1m	+2.9%
EBITDA[2]	£509.6m	£486.0m	+4.9%
Adjusted EBITDA[3]	£562.3m	£546.2m	+2.9%
Operating Profit	£323.9m	£304.6m	+6.3%
Profit Before Tax (PBT)	**£258.8m**	**£250.0m**	**+3.5%**
Non-underlying items before tax[4]	£4.1m	(£39.5m)	-
Statutory PBT	**£262.9m**	**£210.5m**	**+24.9%**
Tax	(£41.0m)	(£30.0m)	(36.7%)
Statutory Profit After Tax (PAT)	**£221.9m**	**£180.5m**	**+22.9%**
Earnings per share[5]	50.9p	47.0p	+8.3%
Statutory Earnings per share	**48.0p**	**39.8p**	**+20.6%**
Dividend per share[6]	38.59p	35.96p	+7.3%

Pennon Group

- The Group has performed well in 2017/18, in line with management expectations
- Underlying PBT up +3.5% driven by:
  - South West Water:
    - Higher revenues reflecting net tariff increases and customer demand
    - Sector-leading cost savings on capital and operational expenditure (TOTEX)
  - Viridor:
    - ERF earnings growth, availability of operational ERFs
  - Pennon Group:
    - efficiencies of c.£13 million p.a. secured, c.£17 million p.a. expected from 2019
- Growing cash inflow from operations reflecting robust operational performance, while significant investment continues
- Sustainable, effective funding position underpinning continuing capital investment
  - Hybrid refinanced, Perpetual Capital Securities issue delivering balance sheet flexibility
  - Capital investment peaked in 2017/18 reflecting spending on ERFs
- Statutory earnings per share growth of +20.6% to 48.0p
- 10 year sector-leading dividend policy to 2020, +4% growth above RPI Inflation every year
  - 2017/18 dividend per share +7.3% to 38.59p
- Positive outlook across water and waste – Pennon delivering sustainable long-term returns

[1] Before non-underlying items
[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] Before deferred tax, non-underlying items and proportionately adjusted for the first return due on the 2017 perpetual capital securities
[6] The RPI rate used is 3.3% as of March 2018

South West Water

- Continued strong performance at South West Water, customers at the heart of our business
  - Maintaining momentum - cumulative Return on Regulated Equity (RORE) at 11.8%[7]
  - Achieved accreditation of Institute of Customer Service 'Service Mark' in April 2018
- On track to deliver all our business plan commitments by 2020, since 2015 cumulative performance delivered
  - TOTEX outperformance of £177 million, customers benefit from lower bills
  - Net ODI reward of £8.1 million
- South West Water 'WaterShare' mechanism, £79 million of benefits from outperformance achieved
- Licence expansion to cover Isles of Scilly (IoS) – investing in vital services, delivering growth
- Development of plan for 2020-2025 (PR19) on track – largest ever customer engagement campaign 'Get into Water'
- Bournemouth Water integration - £16 million of cumulative synergies already delivered with c.£27 million of cumulative synergies targeted by 2020

Viridor

- ERFs performing well with operational ERFs delivering in excess of base case expectations, average availability of 92%[8]
- Recycling market has been challenging, with operational costs increasing to meet quality requirements and the impact of China's new import policy (c.£3 million in 2017/18). Self-help measures are focusing on asset and contract optimisation, innovation and accessing new markets. This has contributed to an increase in average revenue per tonne
- UK Government policy changes in recycling expected later this year in Resources & Waste Strategy, Viridor optimistic that positive changes will be announced
- Long-term partnership with Greater Manchester Waste Disposal Authority continues – positive outcome reached
- Securing further ERF growth to support earnings
  - Three ERFs in commissioning (Glasgow, Beddington and Dunbar)
  - One ERF in construction (Avonmouth):
    - Progress on schedule and budget, piling for ERF building completed, bunker construction well underway and process steelwork being erected
- Glasgow - Viridor is contractually entitled to recover incremental costs from the original principal contractor, Interserve, under certain circumstances, £69 million receivable recognised at year end

[7] See page 21
[8] Average ERF availability is weighted by site capacity, includes 100% of joint venture availability, excludes Bolton

Pennon Water Services

- Pennon Water Services in net growth, notable contract wins – Moto, BMI Healthcare, Unite and Kerry Foods

Presentation of Results

A presentation for City audiences will be held today, Friday 25 May 2018, at 08.30am at the London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS.

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

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

For further information, please contact:

Susan Davy	Chief Financial Officer – Pennon	}	01392 443 401
Sarah Heald	Director of Corporate Affairs & Investor Relations - Pennon		
James Murgatroyd	Finsbury	}	020 7251 3801
Faeth Birch			

About Pennon Group

Pennon is one of the largest environmental infrastructure FTSE 250 groups in the UK with assets of around £6.2 billion and a workforce of around 5,000 people. 65% of Pennon's shareholders are predominantly UK pensions, savings, charities, individuals and employees, with two thirds of South West Water's employees being shareholders.

The merged 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 around £7 billion to improve water and wastewater services. This investment means that we will supply some of the best quality drinking water in the UK and have achieved record bathing water quality in recent years.

South West Water was awarded enhanced status for its 2015-2020 Business Plan, and has the highest potential returns in the water sector to 2020.

Viridor is a leading UK recycling, energy recovery and waste management company, providing services to more than 150 local authorities and major corporate clients as well as over 32,000 customers across the UK.

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.

Upcoming Events

5 July 2018	Annual General Meeting
24 September 2018	Trading Statement
27 November 2018	Half Year Results 2018/19
March 2019	Trading Statement
21 May 2019	Full Year Results 2018/19

10 year sector-leading dividend policy

Pennon's long established 10 year dividend policy of 4% year-on-year growth above RPI inflation to 2020 results in an expected doubling of dividend over 10 years (2010-2020)[9]. This policy reflects the Board's confidence in our long term strategy and is underpinned by the highest potential Return on Regulated Equity in the water sector over K6 (2015-2020) and the growth in earnings being delivered by Viridor's ERFs.

For 2017/18, the Board has recommended a final dividend of 26.62p, up 7.0%, subject to shareholder approval at the Annual General Meeting on 5 July 2018. The final dividend will be paid on 4 September 2018 to shareholders on the register on 6 July 2018. Together with the interim dividend of 11.97p, this will result in a total dividend for the year of 38.59p, an increase of 7.3%[10].

At the Half Year Results on 29 November 2017, it was announced that following a review of the Group's capital structure and the successful refinancing of the perpetual capital securities the Board had withdrawn the scrip dividend alternative. In its place, Pennon is now offering shareholders the opportunity to invest their dividend in a Dividend Reinvestment Plan (DRIP).

Full year dividend payment information*

5 July 2018	Ex-dividend date
6 July 2018	Record date
13 August 2018	Final date for receipt of DRIP applications
4 September 2018	Final dividend payment date

* These dates are provisional and subject to obtaining shareholder approval at the 2018 Annual General Meeting.

[9] Future dividends growth based on policy of 4% + RPI forecast to 2020
[10] The RPI rate used is 3.3% as of March 2018

Pennon

PENNON BUSINESS REVIEW

Pennon's purpose is bringing resources to life. We work hard to deliver an outstanding level of service to our customers and communities, while creating value for our shareholders. Pennon is investing significantly in its UK water and waste infrastructure and expects capital expenditure of c. £1.7 billion between 2015 and 2020. The Group generates strong operating cash flows, and has a strong liquidity and balance sheet position, underpinning a well established sector-leading dividend policy.

We know that inspiring trust and delivering transparency are fundamental to our strong relationship with customers and communities. Our core values: Trusted, Collaborative, Responsible, Progressive are embedded in the way we operate. As a UK-listed company, Pennon has a transparent corporate structure. Our Board is focused on strong financial control, sound administration and good governance. To us this means:

- Sharing financial outperformance at South West Water - through 'WaterShare'
- Appropriate gearing
    - South West Water policy of aligning to an Ofwat 'notional level'
- Sustainable dividend policy
    - Delivered through outperformance at South West Water and growth at Viridor
- Paying a fair share of UK tax

Delivering sustainable financial performance across the Group

Pennon and its operating businesses performed well in 2017/18 and inline with management expectations. Earnings growth has been driven by net tariff increases and higher demand at South West Water, ERF growth and a strong focus on cost savings, benefitting customers and shareholders. The cost savings and synergy targets of c.£17 million p.a. from 2019, identified by the Shared Services Review, is on track with c.£13 million p.a. delivered to date.

Pennon remains focused on driving greater synergies and savings across the Group, sharing best practice and ensuring it is well placed to capitalise on emerging opportunities. Both Viridor and South West Water have a breadth and depth of experience in managing large asset bases and in using engineering excellence, technology and innovation to deliver efficiency and effectiveness. By sharing knowledge across the Group and harnessing our combined skills we can provide even better services to our extensive customer base of local authorities, major corporate clients, businesses and household customers. During the year we successfully migrated to a group wide IT platform.

In the water business in particular, we see consolidation as a sustainable way to deliver greater efficiency, lower bills and delivering benefits for customers. This has been demonstrated through the Bournemouth Water integration with c.£27 million of cumulative synergies targeted by 2020, of which £16 million has already been delivered through a 25% reduction in back office costs and sharing best practice to improve performance.

Working collaboratively with customers and communities

Pennon works in long-term partnerships with its customers and communities and has a strong track record of sharing financial and operational benefits between customers and shareholders.

At South West Water, this is delivered through the WaterShare mechanism sharing financial benefits and cost savings across capital and operational expenditure, ultimately leading to lower customer bills. At Viridor, we provide electricity and heat off-takes to local communities and businesses, and in recycling we share risk/reward on 65% of Viridor's recycling volumes.

During 2017/18, Viridor negotiated a reset to the contract with its long-term partner the Greater Manchester Waste Disposal Authority (GMWDA), which had a mutually positive outcome.

Positive outlook for water and waste

We continue to expect UK residual waste market dynamics to be favourable with demand for Energy Recovery Facilities exceeding capacity into the long term. We anticipate the capacity gap to be greater than seven million tonnes by 2030. Household waste arisings have increased annually since 2012 and expenditure on waste services is up c.16%[11] from 2008/09. The operational ERF portfolio achieved availability of 92%[12] in 2017/18 with the operational performance of the facilities above management's base case expectations. Three of the four remaining ERFs are in commissioning, and construction is progressing well at Avonmouth near Bristol.

We see opportunities to deliver capacity expansion at existing facilities with planning permissions and permits already in place at Cardiff for a potential 75,000 additional tonnes per annum and at Ardley for a potential 27,000 additional tonnes per annum. A contract to increase power output at Runcorn II has been signed.

Heat transfer opportunities are also being explored. In addition to the scheme at Runcorn that has been operating since 2014, during 2017/18 Viridor signed an agreement with the London Borough of Sutton's energy services company, Sutton Decentralised Energy Network Limited (SDEN), to deliver heat generated at its Beddington site to a network in south London. This initiative will distribute resilient supplies of hot water and heating to the new mixed use development, the New

[11] Source: Tolvik, Defra, SEPA, NRW, MSW and Viridor analysis
[12] Average ERF availability is weighted by site capacity, includes 100% of joint venture availability, excludes Bolton

Mill Quarter with 725 homes, a supermarket, care home and offices. Further opportunities at Dunbar and Avonmouth are being explored.

The recycling market has been challenging, with operational costs increasing to meet quality requirements and the impact of China's new import policy (c.£3 million in 2017/18). Self-help measures are focusing on asset and contract optimisation, innovation and accessing new markets. This has contributed to an increase in average revenue per tonne. Viridor is the UK's largest recycler and we, alongside the wider industry, have been clear that the UK recycling system needs fixing. We are encouraged that the 'Blue Planet' effect is encouraging action and we are optimistic that positive changes may be announced in the Government's Resources & Waste Strategy later this year underpinning a UK recycling system fit for the future and providing a positive catalyst for future investment. Examples of innovative partnerships in this area include 'close-loop' solutions directly with manufacturers.

Following customer consultation and support a licence expansion for South West Water has now been agreed by DEFRA with Ofwat to cover the Isles of Scilly. This transfer is at zero cost but will lead to investment of around £40 million by 2030 to bring the infrastructure up to the standards we would expect at South West Water and at the same time delivering RCV growth. Surveys indicate a willingness to pay for this investment. An increase in water quality, public health and security of supply will all be delivered along with targeted improvements of bathing waters to achieve increased standards, with an approach to cost assessment for PR19 agreed.

South West Water's plans for PR19 are on track and lay out proposals for over £1 billion of investment 2020-2025 to increase resilience. We are consulting on these plans as we conduct our largest ever customer engagement campaign, 'Get into Water', reaching out to our c.1 million household customers.

Furthermore, in September 2017 we published our WaterFuture 2050 plan (www.southwestwater.co.uk/waterfuture/vision2050/) which sets out South West Water's vision and strategy over the long term. We anticipate that significant investment will be required, at least comparable to historical levels, of c.£6 billion to c.£9 billion over the 30 years to 2050.

This investment is informed by DEFRA's guidance to Ofwat, direct engagement with Ofwat and customer and stakeholder engagement. Key areas of investment are:

- Resilience
- Environmental protection and enhancement
- Security of supply
- Flood protection
- Transformational improvement to customer service

Pennon continues to seek and identify further growth opportunities within the UK, assessing the long-term viability of the market and achieving an appropriate risk/reward balance and is confident of delivering sustainable, long-term returns from water and waste.

PENNON FINANCIAL PERFORMANCE

Pennon Group

Underlying[13]	2017/18	2016/17	Change
Revenue	£1,393.0m	£1,353.1m	+2.9%
EBITDA	£509.6m	£486.0m	+4.9%
Adjusted EBITDA[14]	£562.3m	£546.2m	+2.9%
Depreciation and amortisation	(£185.7m)	(£181.4m)	(2.4%)
Operating Profit	£323.9m	£304.6m	+6.3%
Net interest	(£74.5m)	(£58.8m)	(26.7%)
Share of JV PAT	£9.4m	£4.2m	+123.8%
Profit Before Tax (PBT)	£258.8m	£250.0m	+3.5%
Non-underlying items before tax[15]	£4.1m	(£39.5m)	-
Statutory PBT	**£262.9m**	**£210.5m**	**+24.9%**
Tax	(£41.0m)	(£30.0m)	(36.7%)
Statutory Profit After Tax (PAT)	**£221.9m**	**£180.5m**	**+22.9%**
PAT (attributable to holders of hybrid capital)	£21.5m	£16.2m	+32.7%
PAT (attributable to minority interests)	(£0.2m)	-	-
PAT (attributable to shareholders)	£200.6m	£164.3m	+22.1%
Earnings per share[16]	50.9p	47.0p	+8.3%
Statutory Earnings per share	**48.0p**	**39.8p**	**+20.6%**
Dividend per share[17]	38.59p	35.96p	+7.3%
Capital investment[18]	£398.2m	£384.7m	+3.5%
South West Water	£184.2m	£190.9m	(3.5%)
Viridor[18]	£213.0m	£193.8m	+9.9%
Other	£1.0m	-	-
Net debt[19]	£2,801.5m	£2,664.9m	+5.1%

[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] Before deferred tax and non-underlying items and proportionately adjusted for the first return due on the 2017 perpetual capital securities
[17] RPI rate 3.3% as at March 2018
[18] Including construction spend on service concession arrangements
[19] Non-current and current borrowings plus cash and cash deposits

Non-underlying Items

Non-underlying items for the year total a credit of £4.1 million before tax (2016/17 charge of £39.5 million):

- The movement in the fair value of long-dated derivatives associated with South West Water's 2040 bond giving a charge of £2.4 million (2016/17 credit of £16.0 million)

- Reset of Viridor's Greater Manchester contract – credit of £6.5 million, representing a gain on the re-profiling of cash flows (£22.5 million), favourable settlement of all construction related claims (£3.2 million) net of a write down of shareholder loans (£19.2 million).

The tax impact of these non-underlying items is a credit of £3.4 million, leading to a net non-underlying credit after tax of £7.5 million (2016/17 charge of £11.1[20] million).

Ownership of Viridor Laing (Greater Manchester) Holdings Limited (Viridor Laing) passed to the Greater Manchester Waste Disposal Authority (GMWDA). Viridor Laing was previously a joint venture between Viridor (50%) and John Laing (50%).

The ownership of INEOS Runcorn (TPS) Holdings Limited (TPSCo), a joint venture between Viridor, John Laing and Inovyn Chlorvinyls Limited, remains unchanged. This joint venture owns the Runcorn I ERF. As a result of the reset, all external bank debt loaned into TPSCo has been repaid by the GMWDA with consequently lower ongoing gate fees agreed in respect of Runcorn I. Viridor has retained its long term operating contract for this ERF.

Viridor will continue to operate the recycling and reprocessing assets, constructed by Viridor Laing, until at least 31 March 2019. This contract is now subject to a three part re-procurement process which commenced in late 2017 of which Viridor is currently bidding for two.

[20] Restructuring costs of £10.7 million. A credit for the movement in the fair value of long-dated derivatives associated with South West Water's 2040 bond of £16.0 million. A charge for the unwind of the synthetic derivative of £44.8 million (the Peninsula MB derivative as set out in detail in Note 6 to the Annual Report and Accounts 2017). Deferred tax credit arising from reduction of future corporation tax rate of £21.3 million. Tax credit of £7.1 million arising from these non-underlying items.

South West Water

Underlying	2017/18	2016/17[21]	Change
Revenue	£571.3m	£555.3m	+2.9%
Operating costs	(£210.4m)	(£207.7m)	(1.3%)
EBITDA	£360.9m	£347.6m	+3.8%
Depreciation and amortisation	(£113.1m)	(£113.7m)	+0.5%
Operating Profit	£247.8m	£233.9m	+5.9%
Net interest	(£67.3m)	(£61.5m)	(9.4%)
Profit Before Tax	£180.5m	£172.4m	+4.7%

Viridor

Underlying	2017/18	2016/17	Change
Revenue[22]	£785.7m	£793.5m	(1.0%)
EBITDA	£150.2m	£138.3m	+8.6%
ERFs	£123.7m	£106.9m	+15.7%
Landfill	£5.6m	£6.5m	(13.8%)
Landfill Gas	£23.3m	£27.6m	(15.6%)
Recycling	£15.0m	£22.7m	(33.9%)
Contracts, Collections & Other	£39.3m	£34.1m	+15.2%
Indirect Costs	(£56.7m)	(£59.5m)	+4.7%
Share of JV EBITDA	£38.9m	£44.1m	(11.8%)
IFRIC 12 Interest Receivable	£13.8m	£16.1m	(14.3%)
Adjusted EBITDA[23]	£202.9m	£198.5m	+2.2%
Depreciation and amortisation	(£71.6m)	(£67.3m)	(6.4%)
Share of JV Profit after tax	£9.4m	£4.2m	123.8%
Net Interest	(£17.2m)	(£14.8m)	(16.2%)
Profit Before Tax	£70.8m	£60.4m	+17.2%

Pennon Water Services[24]

	2017/18
Revenue	£165.9m
EBITDA	£1.0m
Depreciation and amortisation	(£0.6m)
Operating Profit	£0.4m
Net interest	(£1.5m)
Loss Before Tax	(£1.1m)

[21] For comparative purposes prior year excludes South West Water's Non-Household retail results following exit of the non-household retail market, being £5.7m revenue and £1.5m in both EBITDA and profit before tax
[22] Including landfill tax and construction spend on service concession arrangements
[23] Underlying EBITDA plus share of Joint Venture EBITDA and IFRIC 12 interest receivable
[24] 80:20 venture with South Staffordshire Plc

Strong Group underlying financial performance

Group revenue increased by 2.9% to £1,393.0 million (2016/17 £1,353.1 million). Around 2% of the Group revenue increase relates to the non-household customer retail book acquired from South Staffordshire by Pennon Water Services (the new retail venture with South Staffordshire owned 80:20).

Revenue from South West Water was up by 2.9% to £571.3 million (2016/17 £555.3 million) due to net tariff increases of 2.5%[25], customer demand increasing by 0.2% net of meter switchers and increased infrastructure connections. Viridor's revenue marginally decreased to £785.7 million (1.0%) (2016/17 £793.5 million) principally due to lower landfill tax reflecting lower landfill volumes, lower recycling sales, net of higher ERF sales as the portfolio of operational ERFs performed strongly. IFRIC 12 construction revenues were broadly comparable year on year.

Group EBITDA and adjusted EBITDA were ahead of 2016/17 up 4.9% at £509.6 million (2016/17 £486.0 million) and 2.9% to £562.3 million (2016/17 £546.2 million) respectively. Operating profit increased by 6.3% to £323.9 million (2016/17 £304.6 million) and profit before tax increased by 3.5% to £258.8 million (2016/17 £250.0 million). This has been achieved through increases in earnings from both Viridor and South West Water.

South West Water's EBITDA and operating profit increased by 3.8% and 5.9% respectively. The increase in revenue more than offset operating cost increases (a lower increase than the 3.7% inflation for the year) net of targeted efficiencies and other savings. In addition, South West Water's bad debt performance remains strong with a charge of 0.8% of revenues (2016/17 1.1%) reduced from 1.7% at March 2015. This continues to be driven by efficient collections as we work with our customers to manage their debt and strive to support those customers in vulnerable circumstances with affordability challenges.

Pennon Water Services has successfully gained new customers since the opening of the non-household retail market to competition on 1 April 2017. During 2017/18, service investment and set up costs of c.£1.5 million have been recognised relating to the successful migration to a single billing system and customer service operation for those customers previously served by South West Water and South Staffs Water. Overall EBITDA for the year is £1.0 million.

Viridor has delivered an increase in EBITDA of 8.6% to £150.2 million (2016/17 £138.3 million) through improved performance of ERF assets and a focus on quality and efficiency.

The ERFs have performed strongly during the year with average availability of 92%. ERF EBITDA[26] increased 15.7% to £123.7 million (2016/17 £106.9 million), with like for like facilities

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[25] Net tariff increase reflects the net position post Wholesale Revenue Forecast Incentive Mechanism (WRFIM) pass back of £10.9m

[26] During the year ERF earnings included contractual compensation of £12.8 million.

contributing a 9% increase with the remainder reflective of a financial contribution from Dunbar ERF. Performance of the operational facilities is above initial base case assumptions.

Landfill EBITDA has dropped since 2016/17 as volumes have decreased, though the rate of volume decline has slowed. The volumes observed in the first half of the year were stronger but have reduced slightly during the second half, however the demand for landfill remains resilient therefore four new cells were constructed during the year. Landfill EBITDA at £5.6 million is 13.8% lower than last year (2016/17 £6.5 million).

As we reported at the half year, we have been investing in our Landfill Gas activities to enhance the long term reliability of our assets. As a result of the required shutdowns, there have been consequential impacts to both revenue (lower availability) and costs. EBITDA for the year is £23.3 million, down 15.6% (2016/17 £27.6 million).

At £15.0 million, Recycling EBITDA is 33.9% lower than last year (2016/17 £22.7 million). The recycling market has been challenging, with operational costs increasing to meet quality requirements and the impact of China's new import policy (c.£3 million in 2017/18). Self-help measures are focusing on asset and contract optimisation, innovation and accessing new markets. This has contributed to an increase in average revenue per tonne.

Viridor also continues to work with customers to improve performance levels, incentivising collaboration to find mutually beneficial solutions with our long term local authority clients. This has contributed to a 15.2% increase in EBITDA from Contracts, Collections and Other to £39.3 million (2016/17 £34.1 million).

Joint venture EBITDA has decreased by 11.8% to £38.9 million (2016/17 £44.1 million). This is as a result of strong performance in TPSCo and Lakeside offset by the impact of the Greater Manchester contract reset where Viridor disposed of its shares in Viridor Laing (Greater Manchester) Holdings Limited. Viridor Laing contributed EBITDA of £7.5 million prior to disposal (2016/17 £14.4 million).

Viridor indirect costs are down 4.7% from £59.5 million to £56.7 million as the business continues to focus on delivering efficiencies, including savings from shared services activities.

Group efficiencies achieved as a result of the Shared Services initiatives have delivered a further £4 million of cost savings and synergy benefits during the year bringing the cumulative position to c.£13 million p.a. to date, and is on track for the cumulative c.£17 million p.a. targeted from 2019.

As a Group we look to efficiently manage and optimise value from our estates portfolio, recognising a profit on sale of assets in the year of £2.5 million (2016/17 £7.5 million).

Net Finance Costs

Net finance costs of £74.5 million were £15.7 million higher than last year (2016/17 £58.8 million). This includes a reduction of £8.0 million in other finance income following the unwind of the 2011 Peninsula MB Limited derivative in the prior year, higher RPI associated with index linked debt and higher net debt following capital investments.

We have secured funding at a cost that is efficient and effective. RPI funding represents approximately 20% of Group borrowing resulting in higher interests costs as inflation rates have risen, but at 3.7% the Group interest rate on average net debt for 2017/18 remains sector leading (2016/17 3.4%) (For South West Water this figure was 3.5% (2016/17 3.2%)). The effective interest rate is calculated after adjusting for capitalised interest of £17.0 million, notional interest items totalling £11.8 million and interest received from shareholder loans to joint ventures of £7.9 million.

During the year net finance costs (excluding pensions net interest cost £1.6 million, discount unwind on provisions £10.2 million and IFRIC 12 interest receivable £13.8 million) were £76.5 million (2016/17 £64.6 million), covered 4.2 times (2016/17 4.7 times) by Group operating profit.

Profit before tax

Group profit before tax was £258.8 million, an increase of 3.5%, compared with the prior year (2016/17 £250.0 million). On a statutory basis, profit before tax was £262.9 million (2016/17 £210.5 million) reflecting a net non-underlying credit before tax of £4.1 million (2016/17 net charge of £39.5 million). Included in profit before tax is the Group's share of joint venture profit after tax of £9.4 million (2016/17 £4.2 million). Joint venture profit before tax is benefitting from improved performance at Lakeside and TPSCo (Runcorn I ERF).

Taxation

In developing our refreshed tax strategy we consulted customers and stakeholders to assess views on our proposed tax strategy. Key principles are:

- Responsible and transparent tax strategy
- Fair contribution to UK tax
- Managing tax efficiently for the benefit of customers and shareholders.

The Group's mainstream UK corporation current tax charge for the year (before prior year adjustments) was £29.7 million, reflective of an effective tax rate of 11.5% (2016/17 16.5%). The lower effective rate of taxation reflects the level of capital allowance claims available to Viridor on its increased capital expenditure. The prior year 2016/17 effective tax rate included a charge for the 2011 Peninsula MB derivative which is not repeated as this transactions was unwound in 2016/17. There was a prior year credit of £3.6 million recognised for the year (2016/17 credit of

£1.8 million). In addition there is a non-underlying £3.0 million current tax credit relating to non-underlying items (2016/17 £9.4 million credit).

Deferred tax for the year (before prior year adjustments) was a charge of £20.7 million (2016/17 £17.8 million). The charge for 2017/18 primarily reflects capital allowances across the Group in excess of depreciation charged. There was a prior year deferred tax credit of £2.4 million recognised for the year (2016/17 £1.1 million charge). In addition there is a non-underlying £0.4 million current tax credit relating to non-underlying items (2016/17 £21.3 million deferred tax credit relating to the enacted reduction in the UK rate of corporation tax to 17% in 2020 and a £2.3 million deferred tax charge). There is no change in rate to be recognised for 2017/18.

Overall the total tax charge for the year was £41.0 million (2016/17 £30.0 million).

Earnings per share

Earnings per share on both a statutory and underlying[27] basis were ahead of last year, up 20.6% at 48.0p (2016/17 39.8p) and up 8.3% at 50.9p (2016/17 47.0p) respectively, reflecting higher profits.

Net assets per share at book value at 31 March 2018 were 391p, up 7.1% on last year (2016/17 365p).

Net debt movements reflecting strong cash inflow from operations, continuing investment in future growth

The Group's operational cash inflows[28] in 2017/18 at £672 million were £106 million higher than last year (2016/17 £566 million). These funds have been put to use in efficiently financing the Group's capital structure and investing in future growth, through our substantial continuing capital investment programme. Capital payments during the year were £381.8 million and £82.1 million was spent on GRREC[29]. This investment has resulted in higher Group net debt.

As a result of the Greater Manchester Contract reset £32.9 million was received reflecting shareholder loan repayments.

On 1st April 2017 Pennon Water Services acquired SSWB Limited from South Staffordshire plc for a consideration of £8.4 million, reflecting the value of the non-household retail customer book.

Contributions into the Group's pension schemes for the year were £17.0 million and corporation tax payments were £21.7 million. Total tax payments, reflecting all taxes borne by the Group, in 2017/18 were £150.7 million.

[27] Before deferred tax, non-underlying items and proportionately adjusted for the first return due on the 2017 perpetual capital securities
[28] Before taxes borne, pension costs and service concession construction spend
[29] Glasgow Recycling and Renewable Energy Centre (GRREC)

During the year the Company paid dividends of £107.8 million (net of scrip dividend) in relation to 2016/17.

Other movements of £16.8 million include non-cash movements in Euro loans (due to exchange rates) and index linked debt.

Strong funding position underpinning capital investment

The Group has a strong liquidity and funding position with £1,171 million cash and committed facilities at 31 March 2018. This consists of cash and deposits of £585 million (including £182 million of restricted funds representing deposits with lessors against lease obligations) and undrawn facilities of £586 million. At 31 March 2018 the Group's borrowings totalled £3,387 million.

In March 2013 the Group issued £300 million of perpetual capital securities recognised as equity. This was refinanced in September 2017 by issuing another £300 million of perpetual capital securities which are also recognised as equity in the financial statements. The new issue achieved a coupon rate of 2.875% (four times oversubscribed) and supports an increase in investible capacity to c.£800 million. For the closure of the 2013 perpetual capital securities there was a take up of approximately 95% to the offer of 103% of par plus accrued periodic returns, resulting in cash outflow of £8 million net of the new issuance. The remaining 2013 perpetual capital securities were called at par plus accrued periodic returns with a cash outflow of approximately £15 million settled in October 2017.

As a result of the refinance of the perpetual capital securities, statutory earnings per share is reduced by:

- £15.7 million (after tax) periodic return on the 2013 issuance, due 8 March 2018, which has effectively been paid to bond holders through accrued payments to the refinance date and the premium to par.
- £5.8 million[30] reflecting the periodic return due on the new issuance payable in May 2018. It has been recognised in accordance with the terms of the securities as an ordinary dividend has been paid in the 12 months preceding May 2018.

The costs of issuing the 2013 perpetual capital securities of £5.2 million have been reclassified from the perpetual capital securities reserve to retained earnings. The costs of issuance for the 2017 perpetual capital securities of £3.3 million have been recognised directly in the perpetual capital securities reserve.

In addition to the refinancing of the perpetual capital securities during the year, £150 million of new and renewed facilities have been signed, £125 million in Pennon Group plc and £25 million in South West Water. An agreement has also been signed to release £50 million of previously

[30] The new perpetual capital securities do not qualify for tax relief

restricted cash held against lease obligations. Following EIB / Government discussions, previous EIB approved transactions are being progressed.

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.

Since the year end £30 million of leases with the use of proceeds focused on our innovative Mayflower Water Treatment Works and £80 million of revolving credit facilities (dependent on sustainability rating / KPIs) have been signed under this sustainable financing framework.

Following these financing initiatives[31], Pennon has cash and committed facilities covering the remainder of planned South West Water's K6 capital programme and our remaining ERF investments.

However, funding will be sourced over K6 to:

- maintain an appropriate headroom of cash and committed facilities, including replacing maturing finance
- prepare for the next regulatory period.

Efficient long-term financing strategy

The Group has a diversified funding mix of fixed (£1,740 million, 62%), floating (£502 million, 18%) and index-linked borrowings (£560 million, 20%). The Group's debt has a maturity of up to 39 years with a weighted average maturity of 19 years. Much of the Group's debt is floating rate and derivatives are used to fix the rate on that debt. The Group has fixed, or put swaps in place to fix, the interest rate on a substantial portion of the existing water business debt for the entire K6 period, in line with the Group's policy to have at least 50% of funding fixed before the start of a regulatory period.

£505.8 million of South West Water's debt is index-linked at an overall real rate under 2.0%. South West Water's cost of finance is among 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 were secured at the inception of each lease. A quarter of the net funding for South West Water is RPI linked below Ofwat's notional level of 33% leaving headroom for RPI to CPIH transition.

[31] In addition, a further £130 million of new and renewed facilities have also been signed since the year end

Net debt position

The Group's net debt has increased by £137 million to £2,802 million. Cash inflow from operations was a strong £672 million. Cash outflows relating to capital payments totalled £463.9 million, with 2016/17 and 2017/18 representing peak years for the Group's capital expenditure. The gearing ratio at 31 March 2018, being the ratio of net debt to (equity plus net debt) was 63.1% (31 March 2017 63.8%).

South West Water debt to RCV ratio is 60.3% (31 March 2017 61.8%), which broadly aligns with Ofwat's K6 target for efficient gearing of 62.5%.

Group net debt includes £1,442[32] million of investment in wholly-owned ERFs (Runcorn II, Oxford, Exeter, Cardiff, Glasgow, Dunbar, South London (Beddington) and Avonmouth). In addition, the amount invested in joint ventures through shareholder loans is £41 million primarily for TPSCo (which together with ERF associated net debt represents 50% of Group net debt).

Non-recourse net debt from third parties (excluding shareholder loans) at £32 million solely reflects Pennon's share of Lakeside's net debt.

Capital investment focused on regulatory expenditure and ERF build out

Group capital investment was £398.2 million in 2017/18 compared to £384.7 million in 2016/17. The expenditure focused on the regulatory programme for South West Water and ERF build out for Viridor. Viridor's capital investment in the period was £213.0 million, £19.2 million higher than last year.

Viridor

The majority of Viridor's capital investment continues to relate to the delivery of the ERF portfolio, with £167.6 million of the total spend relating to the four remaining ERFs. Beddington, Dunbar and Avonmouth are all expected to be completed on budget and solid progress has been made with Doosan Babcock at Glasgow. Cumulative spend of £238[33] million has been incurred to 31 March 2018 which is higher than the original target of £155 million. Viridor is contractually entitled to recover incremental costs from the original principal contractor, Interserve, under certain circumstances. Discussions with Interserve are ongoing with regard to the contractual settlement. At 31 March 2018 a receivable of £68.7 million has been recognised.

In accordance with IFRIC 12 service concession arrangements, a financial asset of £140.6 million and an intangible asset of £67.6 million have been recognised (including rolled up finance income and capitalised interest), with no operating profit on construction having been taken to date. There are further possible recoveries that are contingent on future events (not currently recognised).

[32] Includes capitalised interest of £86.2 million
[33] Excluding capitalised interest

Dependent upon the conclusion of the claims, margins over the life of the project to 2043 could potentially differ from those originally expected.

Including the £173[34] million total remaining capital expenditure for completion of the ERF portfolio, the total investment in ERFs will be £1.5[34] billion.

Landfill demand has remained strong and new cells have been constructed at four sites during the year at a cost of £5 million.

South West Water

South West Water's capital expenditure in the year was £184.2 million compared to £190.9 million in 2016/17 with the slight decrease being in line with the profile of the K6 capital plan.

Key areas of drinking water investment and activity during 2017/18 included:

- ongoing expenditure at the new £60 million state-of-the-art Mayflower water treatment works, due to enter commissioning in the Autumn, as well as mains improvement in the area, c.£28 million of expenditure in 2017/18 (2016/17 c.£27 million)
- improved water treatment processes with continuing investment in Granular Activated Carbon (GAC) filters being installed at Northcombe and Tolliford Water Treatment Works
- real-time pressure management and network modelling technology targeting interventions efficiently

Key areas of wastewater investment and activity during 2017/18 included:

- investment in Plymouth Bathing Waters, delivering targeted improvement to maintain the high level of bathing water quality in that area. This included investments in sixty thousand cubic metres of storm storage in the sewage network
- improvements in water quality targeted at eight shellfish catchments on key estuaries in Devon and Cornwall completed in March 2018
- continuing investment to meet increasing capacity and resilience at our wastewater treatment works, including Hayle in Cornwall
- enhanced monitoring of our network during severe weather events.

Energy hedging

[34] Excluding capitalised interest and amounts subject to legal contractual processes

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 c.68% hedged until March 2020 and c.45% hedged until 2021 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 Portfolio management team continues to actively manage the Group net energy generation position in liquid markets.

Pensions

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

At 31 March 2018 the Group's pension schemes showed an aggregate deficit (before deferred tax) of £49.5 million (March 2017 £68.0 million). The deficit has decreased primarily due to increases in corporate bond yields during the year. For the Group's principal pension scheme the recovery plan includes annual deficit contributions up to 2022. South West Water accounts for around 80% of the principal scheme.

The net aggregate liabilities of £41 million (after deferred tax) represented around 2% of the Group's market capitalisation at 31 March 2018.

SOUTH WEST WATER

OPERATIONAL PERFORMANCE

Delivering and outperforming our plan to 2020

South West Water has performed well in 2017/18, and has delivered in line with management expectations. Strong operational and financial performance underpins our sector-leading RORE[35], which has been consistently above 11%[36] annually and is 11.8% cumulatively since the start of the K6 business plan period. Of the 11.8%, 6.0% is the base return, 2.6%[37] reflects Totex savings and efficiencies, 0.3% reflects a net reward on Outcome Delivery Incentives (ODIs) and 2.9%[38] reflects the difference between actual and assumed financing costs using a cumulative forecast RPI over K6 of 2.8%, which is consistent with the approach adopted for calculating our innovative WaterShare mechanism. The business is on track to deliver against all its business plan commitments, including all ODI commitments, by 2020.

	2017/18	**K6 to date**
Base return	6.0%	6.0%
Totex outperformance[37]	2.0%	2.6%
ODI outperformance	0.3%	0.3%
Financing Outperformance[38]	2.8%	2.9%
WaterShare RORE	**11.1%**	**11.8%**
Ofwat RORE[36]	*12.5%*	*11.5%*

Totex efficiency reducing customer bills

South West Water is striving for ever greater efficiency. Totex outperformance has already achieved cumulative savings of £177 million. These savings are being driven by:

- continuing advantages from our strategic alliances including a new water distribution framework and the H5O capital alliance
- efficiencies from the Bournemouth integration, including delivery of key capital schemes in the region with c.£16 million of net synergies delivered in the two years since the merger

[35] 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

[36] 2017/18 RORE of 11.1% delivered reflecting 6.0% base return, 2.0% totex savings and efficiencies, 0.3% net reward on ODIs and 2.8% on financing outperformance. RORE based on Ofwat guidance results in 4.2% of financing outperformance (calculated using in-year average RPI rate of 1.1% for 2015/16, 2.1% for 2016/17 and 3.7% for 2017/18) resulting in a total RORE of 12.5% for 2017/18 (2016/17 2.4% and 11.9% respectively)

[37] Includes integration synergies already delivered. Phasing of actual expenditure compared to the planned programme has been reflected. Outperformance includes a reduction in the RCV run-off for the RCV element of Totex outperformance calculated based on the Final Determination PAYG. Tax impacts reflect actual effective tax rates

[38] Interest 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%, notional debt gearing of 62.5%, and actual effective tax rates

- delivering continued operational improvements and efficiencies in particular optimising chemical usage through enhanced site management and process compliance improvements

- ensuring efficient capital investment through the use of data analytics, optimising capital and operating solutions and promoting efficient off-site build techniques

- utilising new technology and equipment to increase the resources needed to deliver wastewater improvement, real-time pressure management and network modelling targeting efficient interventions

This focus on cost efficiency is reducing costs for customers and has allowed us to keep bills down. Average bills for South West Water customers are currently lower than they were nine[39] years ago.

ODIs in net reward

Operational performance in the year has resulted in a net ODI reward of £2.6 million[40] (£8.1 million cumulatively for K6) reflecting RORE outperformance of 0.3%. 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 leakage with external and internal sewer flooding resulting in a reward for the first time. The cumulative net reward of £8.1 million to 2017/18 comprises £14.2 million of total rewards and £6.1 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.

South West Water is exceeding its ODI commitments:

- *21st consecutive year without water restrictions*

Customers regard a clean and safe supply of drinking water as their top service priority so maintaining water resources and drinking water quality are essential to meeting customer expectations. South West Water continues to maintain the high standards achieved last year.

Despite the continued increase in customer demand, water resources in the South West Water region remained unrestricted for a twenty-first consecutive year and the Bournemouth water region maintained its position of having no water restrictions since privatisation.

[39] Based on 2018/19 bills
[40] £2.6m split £2.9m (£10.4m cumulatively) net reward will be recognised at the end of the regulatory period and £0.3m (£2.3m cumulatively) net penalty which may be reflected during the regulatory period.

- *Leakage ODI target beaten at 83 Ml/day – sector-leading performance*

South West Water's leakage for 2017 was 83 megalitres per day beating our 84 megalitres target and resulting in an ODI reward of £0.4 million.

- *Bathing water quality – 98% achieving sufficient quality, over 75% excellent*

Our legacy of major investment to protect bathing waters continues to be reflected in extremely positive results for the 2017 bathing water season. Of the 143 bathing waters tested in the South West Water region, 140 (c.98%) were classified 'sufficient' or better, with more than 75% classified as 'excellent'. None of the three bathing waters rated as 'poor' were attributed to any failure of South West Water's assets.

- *External and internal sewer flooding moved into reward for 2017/18*

The flooding of properties can be very difficult for customers and South West Water is pleased that performance in this area has improved with both internal and external sewer flooding incidents reducing, resulting in an ODI reward for the first time this year.

South West Water focusing on improving ODI performance:

- *Supply interruptions – minimal short term impact of March extreme cold weather*

The average duration of supply interruptions per property for South West Water was temporarily impacted by the extreme cold weather in March 2018 and resulted in a penalty of £0.9 million[41]. During the extreme 'freeze and thaw' South West Water's staff and partners worked tirelessly to restore supplies as quickly as possible, providing support to our customers in vulnerable circumstances and keeping customers informed of progress. In the Bournemouth water region, targets remain on track for the year.

- *Wastewater improvements*

We aim to ensure the safe and efficient removal and disposal of wastewater while minimising the likelihood of sewer flooding or pollution affecting homes, businesses or the environment.

South West Water continues to focus on a targeted programme of wastewater treatment improvements and investments while also working to prevent potential future failures through increased monitoring. The numeric compliance (the percentage of wastewater treatment works deemed compliant) for the year at 97.1% was slightly lower than the prior year when performance at 98.4% was at our highest ever level. Investment in high risk sites and changes in operational approach is targeting improvements for 2018/19.

[41] Excluding the impact of the extreme weather South West Water had exceeded our commitment and would have resulted in a £0.1m reward for the year.

- *Pollution incidents reduced again this year - significant pollutions reduced to 3*

Pollution events in wastewater continue to be higher than committed levels and this remains an area of focus for improvement over the remaining regulatory period, with a dedicated programme of improvements and further investment being implemented over the coming year. This strategy is yielding positive results with the number of significant pollution incidents (Category 1-2) reducing to 3 (2016: 4 incidents) and the number of minor incidents (Category 3-4) also reducing. Whilst there has been an improvement in performance this falls short of the committed levels and a penalty of £0.7 million has been recognised.

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 K6 financing outperformance, with £100 million delivered in the K6 period to date. The effective interest rate in South West Water has increased slightly in the year reflecting higher RPI on index-linked facilities. There is a continued focus on maintaining efficient gearing levels, having a good balance of fixed and floating rate debt and continuing to implement cost efficient debt through finance leasing. 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 £79 million of cumulative benefits[42] have been identified to share with customers through investment in services and lower future bills. This reflects £58 million of Totex savings, £8 million of net ODI benefits and £13 million of other benefits (including financing). The other benefits are available to share with customers during the regulatory period, c.£3 million of which has been re-invested in improving services to customers including additional helpline staff who are focused on billing and affordability support resulting in over 90% of calls now answered in less than 1 minute and increased social housing support activities.

The process for sharing is guided by an independent WaterShare panel. The panel recommended that the c.£4 million benefit identified for 2016/17 should be deferred with investments planned later in the regulatory period. The 2017/18 benefit of c.£6 million will be considered by the panel following customer research activities later in the year.

Customers at the heart of our delivery

[42] Benefits delivered through future bill reductions (Totex savings), ODI service improvements and reinvestment

Improving customer service is at the heart of our delivery plans with our customer service score (SIM) increasing again for 2017/18. In addition, South West Water was awarded the Institute of Customer Services (ICS) ServiceMark accreditation for retail activities in April 2018. ServiceMark is a national standard recognising an organisation's achievement in customer service and its commitment to upholding those standards. This is a key development because the next generation of Ofwat's SIM mechanism – its customer experience measure known as CMeX (customer measure of excellence) – is likely to be based on the ICS metrics and principles.

The SIM score is calculated against a qualitative element (based on a customer survey) and a quantitative element that takes into account, amongst other things, the number of complaints received in writing or by phone. South West Water's SIM score for 2017/18 of 85, is our best yet and our qualitative score (CES[43]) is the largest improvement in the industry. Bournemouth Water's SIM score at 88 remains at the frontier as one of the best in the industry.

Written complaints continue to fall in the year with South West Water's and Bournemouth Water's complaints reducing by 12% and 39% respectively, building on the c.30% reduction across both regions last year.

The improvement in service is driven by a range of activities including enhanced 'customer journeys' which have been developed jointly with customers, through focus groups, as well as improving the channels customers can contact us on, such as online and social media.

South West Water has been leading the way for the last 10 years in providing support to customers who find themselves in vulnerable circumstances or who struggle to pay their bills. We currently support over 19,000 customers on reduced tariffs, the highest proportion in the industry[44], which now include the new social tariff, rolled out in the Bournemouth region for 2017/18, and 51,000 customers through other support programmes.

Since the opening of the non-household retail market in April 2017, South West Water has operated successfully with 16 different retailers and our wholesale service desk has been operating effectively.

Development of our PR19 plan on track

South West Water is well positioned for PR19 and we are currently finalising our Business Plan. The Ofwat Methodology for PR19 published in July 2017 indicates a relatively more prescriptive price review, but South West Water is focused on ensuring plans will continue to reflect the priorities of our customers, communities and regulators.

[43] Customer Experience Score – qualitative element of SIM score
[44] English operational water companies, (excluding Welsh Water), normalised per 10,000 customers

South West Water is supportive of Ofwat's approach for greater incentives for outperformance; particularly in those areas customers value the most. We are also committed to sharing outperformance with customers and are seeking to build on our existing innovative WaterShare mechanism, which has delivered significant benefits to customers during K6.

Customer engagement at the heart of our plans

In September 2017 we published our WaterFuture 2050 plan which sets out South West Water's vision and strategy over the long term. We have completed our largest customer engagement programme 'Get into Water', reaching out to all our customer base, for the next five year regulatory period using a range of techniques including interactive videos, focus groups and acceptability testing and surveys.

'Proposals and Choices' – co-creating our plan with customers

Our plan for PR19 is focused on delivering our customer priorities through 8 outcomes and targeting performance improvements. We have had strong support from our Customer Challenge Group (CCG) made up of representatives from a range of customer and stakeholder groups who are supporting development of our plan.

In line with our 2050 Vision we anticipate that significant investment will be required in both the South West Water and Bournemouth Water regions. Our plans for the next price review incorporate the requirements of our key regulators, as well as responding to Government policy. Customer engagement so far is indicating support for increased investment with proposed options of over £1 billion of future investment in 2020-2025. Major investments proposed include:

- a leading edge water treatment works in Bournemouth building on technology and innovation used at Mayflower Water Treatment Works, North Plymouth
- further reduction in leakage of 15% and interruptions to supply
- 100% wastewater compliance
- significant further reduction in wastewater pollution incidents
- enhanced resilience and quality in extreme circumstances
- uplift in environmental programmes - protecting and enhancing natural capital

Ensuring fair and affordable bills

Once we have finalised the co-creation of our plan with our customers, we will ensure we set fair and affordable bills for the 2020-2025 period. This will mean some of the same principles we used in our 2015-2020 Business Plan, which was awarded 'enhanced' status such as:

- Stable bill profile – smoothing across the period
- Further enhanced support for customers in vulnerable circumstances
- A sustainable dividend policy in K7

VIRIDOR

Consistent operational performance

	2017/18	2016/17
Total Waste Inputs (MT)	7.0	7.6
ERFs	2.2	2.2
Landfill	1.5	1.7
Recycling and Other	3.3	3.7
Recycling Volumes Traded	1.4	1.6
ERF availability	92%	>90%

ERFs continuing to perform strongly

The performance of our operational ERFs has been strong, outperforming the base case indications we have previously published. The good operational performance delivered 15.7% higher EBITDA. Like for like facilities contributed a 9% increase with the remainder reflective of a financial contribution[45] from Dunbar ERF.

Availability has risen from the half year and has averaged 92%[46] for the year, above base case expectations. Maintenance is currently running at c.2% of capital spend. This is expected to increase over the life of the assets to an average of c.3.5%.

The operational ERFs have a nameplate capacity of 2.1 million tonnes of waste and 178 megawatts (MW) of power generation per annum, including joint ventures. This is in line with the same period last year. This will extend to 2.9 million tonnes and 242 MW in 2018/19 and 3.2 million tonnes and 276 MW by 2021.

At the Glasgow Recycling and Renewable Energy Centre the Materials Recycling Facility (MRF) and Anaerobic Digestion (AD) facility have operated throughout the period and commissioning is underway for the Advanced Combustion Facility (ACF).

Commissioning is nearing completion at Beddington, with waste deliveries being received and financial contribution recognised from H1 2018/19. Work at Dunbar continues to progress with liquidated damages expected to be received until commissioning is complete. Both Beddington and Dunbar are expected to be completed on budget.

Progress at Avonmouth is on schedule and budget, with the piling for the ERF building completed, bunker construction well underway and process steelwork being erected.

[45] Reflecting liquidated damages
[46] Average ERF availability is weighted by site capacity, includes 100% of joint venture availability, excludes Bolton

Flexible landfill strategy

During the year Viridor has not closed any landfill sites to waste arising and continues to operate 11 sites. Compared with last year, landfill volumes have decreased but at a slower rate than previously observed. Strong demand for a landfill solution continues, and pricing has held up. Viridor's average gate fees were in line with last year at around £20.

We continue to make decisions on the future of our landfill sites based on assessments of local market conditions and we have invested in new cells at four sites during the year. The flexible landfill strategy has resulted in us continuing to operate more sites than we had previously expected and we see the potential to reopen sites where consented void remains. Consented landfill capacity reduced from 42.5 million cubic metres (mcm) to 40.5 mcm in the year, reflecting usage during the period.

Our landfill energy business continues to be managed to maximise the value of landfill gas power generation, whilst exploring alternative commercial development opportunities and other energy uses such as photovoltaic (PV) and energy storage at our landfill sites.

At present, Viridor's landfill gas sites contribute 96MW of engine generation capacity which presents an opportunity for growth. Viridor has a photo voltaic (PV) capacity of 2.4MW.

During the period, cells at certain sites have been reopened to landfill, resulting in a short-term greater reduction in the volumes of gas captured. In addition, higher engine maintenance has been performed, and we have commenced implementation of our Engine Replacement Strategy. Average revenue per Megawatt hour (MWh) was higher at £93.39 (2016/17 £87.16). Average operating costs increased 24.0% to £40.96 per MWh (2016/17 £33.02) impacted by the lower generation volumes and higher maintenance costs.

Recycling markets challenging

Viridor retained its position as one of the leading recycling businesses in the UK, although the market environment remains challenging. Recycling volumes traded in 2017/18 were lower than the previous year at 1.4 million tonnes, in part reflecting a decision not to re-tender certain contracts where we considered the level of contamination from inputs unacceptable.

We are active across the recycling spectrum, including mixed materials, glass, plastics, paper, and transforming food waste into organic and energy resources.

Recycling markets have been challenging during the period. One of the most important developments was the change in import regulations in China. This announced new quality requirements for imports of plastic waste and paper waste with the expectation that China will take lower volumes of these materials. This does not affect other parts of our recycling operations as the metal and glass that Viridor processes stays in the UK. Viridor anticipated this change in advance of the announcement and has secured new markets for plastic waste in the UK, Asia (ex-China) and elsewhere in Europe. For paper we are developing export markets in India, Vietnam and South Korea. We are also making additional investments and working with our supply chain to improve the quality of recycled paper for the Chinese market.

EBITDA for recycling has reduced by £7.7 million from £22.7 million to £15.0 million. Around £3 million of the reduction related to the pricing and quality implications of China's policy announcement. The remaining reduction of £4.7 million reflects an overall reduction in recycling volumes and increase in processing and reject costs as a result of local authority cost savings impacting input quality, and higher output quality demands. Consequently EBITDA per tonne has fallen to £11 (2016/17 £14). Revenue per tonne is up 7.8% to £97 (2016/17 £90), reflecting a mix change towards higher value product, including polymers and higher-grade paper. Operational cost per tonne have increased by £11 to £83 (2016/17 £72). Compared with the second half of 2017/18 we anticipate market and operational improvements into 2018/19.

Confidence in UK waste sector, strong drivers for recycling

Viridor, alongside the waste industry has called for a new attractive framework for UK recycling to address input quality to UK Materials Recycling Facilities (MRFs), stagnant recycling rates and producer responsibility.

We are encouraged that the 'Blue Planet' effect is spurring action and we are optimistic that positive changes may be announced in the Resources & Waste Strategy later this year creating a UK recycling system fit for the future including:

- Incentives for 'Producer Responsibility'
    - Rewarding recyclability and use of recycled content
- Consistency of household bin collections, increasing household waste quality
- New packaging recycling targets
- PRN[47] reform expected, making recycling more profitable, enabling investment and innovation
    - National Audit Office inquiry due to conclude in July

Contracts and Collections securing waste inputs

We continue to work with our customers to identify mutually beneficial enhancements to our contracts. We have sharing mechanisms in place in our long term local authority contracts where returns exceed contractual hurdle levels, demonstrating a commitment to partnership and working for a common goal.

[47] Packaging Recovery Note (PRN)

On 1 April 2018 Viridor and Ansa Environmental Services signed a five year contract with the option to extend for up to a further five years, diverting Cheshire East's residual waste away from landfill to energy recovery. Under the contract, around 55,000 tonnes a year of household residual waste will go to Runcorn II ERF.

Viridor's recycling business continues to win new contracts and extensions and has secured a number in 2017/18 including:

- Crayford MRF
  - New contract with Surrey Heath District Council for 10,000tpa
  - New contract with Lewes District Council, 8,000tpa
  - Contract extension with London Borough of Harrow for 18,000tpa
  - Contract extension with Bournemouth BC for 18,000tpa
  - Contract extension with Kent County Council - 7 Authorities in combined contract for 62,000tpa
- Milton Keynes MRF
  - Bedford Borough and Central Bedfordshire Councils, 20,000tpa

The contract to operate the recycling assets on behalf of the Greater Manchester Waste Disposal Authority has entered a 'run off' period of at least 18 months from 1 October 2017 whilst GMWDA run a tender process for a new contract expected to commence in 2019. Performance on the Greater Manchester contract and the other major local authority contracts has been in line with expectations. The Greater Manchester contract is now subject to a three part re-procurement process which commenced in late 2017 of which Viridor is currently bidding for two.

Our collections business continues to provide a valuable service to our customers and secures volume for our ERF, landfill and recycling assets.

Joint Ventures continue to perform strongly

Viridor Laing Greater Manchester (VLGM), a joint venture between Viridor and John Laing, as part of the contract exit was sold to GMWDA at the end of September and as a result is no longer a joint venture. On disposal of the joint venture, of the £42.7 million outstanding shareholder loans £23.5 million was repaid resulting in a write-down of £19.2 million.

The TPSCo joint venture (between Viridor, John Laing and Inovyn) remains in place and has performed strongly during the year. As part of the wider contract reset, GMWDA provided finance to the joint venture to enable the repayment of external bank debt. This change in cash flows resulted in the recognition of income in this joint venture, with an amount deferred relating to the lower ongoing gate fee. The overall share of profit after tax, in 2017/18, related to the reset is £22.5 million.

In addition the contract to operate VLGM's assets will continue for at least 18 months on a reset basis. All claims relating to construction of VLGM's assets have been settled, resulting in a net benefit to Viridor of £3.2 million in the year. Viridor's operating contract for TPSCo's Runcorn I ERF remains unchanged.

Following the changes in contractual arrangements it is anticipated that, future annual earnings will reflect:

- No further finance income or share of profit after tax will be recognised from Viridor Laing, as the entity is no longer part of the Group
- A non material reduction in profit after tax and finance income from TPSCo shareholder loans, due to a re-profiling of cash flows
- Improved earnings from the recycling asset operations contract over the 18 month run-off period

The TPSCo joint venture between Viridor, John Laing Infrastructure and Inovyn has performed strongly during the year. The external bank debt in the joint venture was paid off following agreement with GMWDA to exit the previous contract with Viridor Laing. A new seventeen-year contract between TPSCo and GMWDA was signed during the year securing fuel supply for the ERF over the period covered by the previous contract.

The joint venture at Lakeside ERF (a 50:50 joint venture with Grundon Waste Management) continues to perform strongly. In its eighth year of operation it continues to outperform its original targets for both waste processing and power generation.

PENNON WATER SERVICES

Growth and compliance in new Water Retail market

We have seen a successful start to the new non-household water retail market, which opened on 1 April 2017. Our retailer, Pennon Water Services (PWS), which is an 80:20 venture with South Staffordshire Plc has performed strongly in the new market, delivering net customer[48] and revenue growth during its first year of operation.

Serving over 160,000 customer accounts across 18 different wholesale regions, Pennon Water Services has c.7,000[48] new customer accounts, and has facilitated around 5.6 per cent of all switches in the market.

We are focused on delivering customer service that reflects the needs of our business customers with an emphasis on value enhancing contracts and offering a 'dual service' (water and wastewater) proposition. We have had success in gaining multi-year contracts securing future

[48] As at 21 May 2018. c.7,000 new accounts, net growth of 1,026 accounts

revenue. Set up costs and service investment of c.£1.5 million are reflected in the EBITDA performance for the year, resulting from our successful migration to a single billing system and customer service operation for those customers previously served by South West Water and South Staffs Water.

Throughout the year, PWS has regularly achieved industry leading standards showing strong compliance with required market performance as measured by MOSL. Financial penalties for poor performance will be introduced during 2018/19, with PWS already having established a solid base to minimise potential penalties.

Board Matters

In line with governance best practice, Martin Angle, Non-Executive Director and chairman of the Remuneration Committee, who has been a Director for nine years, will stand down from the Board on 31 December 2018. The Board plans to make an announcement about a successor shortly. In order to allow a period of continuity with a replacement, Martin will stand for reappointment at the AGM on 5 July 2018. We thank Martin for his considerable contribution to the Group's success and strong governance over the years.

During the year, South West Water appointed Jon Butterworth as a new independent non-executive director and Matthew Taylor as senior independent director. While Jon and Matthew's roles are with South West Water, under Pennon's governance structure, they and their colleague Martin Hagen, South West Water's third independent non-executive director, attend the Pennon Board and are encouraged to contribute to a range of issues from a South West Water perspective.

Chris Loughlin
Group Chief Executive Officer
25 May 2018

Financial Timetable

25 May 2018	Full Year Results 2017/18
Early June 2018	Annual Report & Accounts published
5 July 2018	Annual General Meeting
5 July 2018*	Ordinary shares quoted ex-dividend
6 July 2018*	Record date for final dividend
13 August 2018*	Final date for receipt of DRIP applications
4 September 2018*	Final dividend paid
24 September 2018	Trading Statement
27 November 2018	Half Year Results 2018/19
March 2019	Trading Statement
21 May 2019	Full Year Results 2018/19

* These dates are provisional and, in the case of the final dividend subject to obtaining shareholder approval at the 2018 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, compliance with laws and regulations; Government and regulatory reform, including water industry reform; maintaining sufficient finance and funding to meet ongoing commitments; non-compliance or occurrence of avoidable health and safety incidents; tax compliance and contribution; increase in defined benefit pension scheme deficit; non-recovery of customer debt; poor operating performance due to extreme weather and climate change; macro-economic risks arising from the Global and UK economic downturn impacting commodity and power prices; poor operating performance due to extreme weather or climate change; poor customer service/increased competition leading to loss of customer base; business interruption or significant operational failure/incidents; difficulty in recruitment, retention and development of appropriate skills which are required to deliver the Group’s strategy; failure or increased cost of capital projects/exposure to contract failures; and 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 at the beginning of June 2018. Such forward looking statements should therefore be construed in light of such risks, uncertainties and other factors 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 2018

	Notes	Before non-underlying items 2018 £m	Non-underlying items (note 5) 2018 £m	Total 2018 £m	Before non-underlying items 2017 £m	Non-underlying items (note 5) 2017 £m	Total 2017 £m
Revenue	4	**1,393.0**	**3.2**	**1,396.2**	1,353.1	-	1,353.1
Operating costs							
Employment costs		**(192.9)**	**-**	**(192.9)**	(179.7)	(1.1)	(180.8)
Raw materials and consumables used		**(108.7)**	**-**	**(108.7)**	(115.8)	-	(115.8)
Other operating expenses		**(581.8)**	**-**	**(581.8)**	(571.6)	(9.6)	(581.2)
Earnings before interest, tax, depreciation and amortisation	4	**509.6**	**3.2**	**512.8**	486.0	(10.7)	475.3
Depreciation and amortisation		**(185.7)**	**-**	**(185.7)**	(181.4)	-	(181.4)
Operating profit	4	**323.9**	**3.2**	**327.1**	304.6	(10.7)	293.9
Finance income	6	**24.2**	**-**	**24.2**	36.3	16.0	52.3
Finance costs	6	**(98.7)**	**(21.6)**	**(120.3)**	(95.1)	(44.8)	(139.9)
Net finance costs	6	**(74.5)**	**(21.6)**	**(96.1)**	(58.8)	(28.8)	(87.6)
Share of post-tax profit from joint ventures		**9.4**	**22.5**	**31.9**	4.2	-	4.2
Profit before tax	4	**258.8**	**4.1**	**262.9**	250.0	(39.5)	210.5
Taxation	7	**(44.4)**	**3.4**	**(41.0)**	(58.4)	28.4	(30.0)
Profit for the year		**214.4**	**7.5**	**221.9**	191.6	(11.1)	180.5
Attributable to:							
Ordinary shareholders of the parent		**193.1**	**7.5**	**200.6**	175.4	(11.1)	164.3
Non-controlling interests		**(0.2)**	**-**	**(0.2)**	-	-	-
Perpetual capital security holders		**21.5**	**-**	**21.5**	16.2	-	16.2
Earnings per ordinary share (pence per share)	8						
- Basic				**48.0**			39.8
- Diluted				**47.8**			39.6

PENNON GROUP PLC

Consolidated statement of comprehensive income for the year ended 31 March 2018

	Before non-underlying items 2018 £m	**Non-underlying items (note 5) 2018 £m**	**Total 2018 £m**	Before non-underlying items 2017 £m	Non-underlying items (note 5) 2017 £m	Total 2017 £m
Profit for the year	**214.4**	**7.5**	**221.9**	191.6	(11.1)	180.5
Other comprehensive Income / (loss)						
Items that will not be reclassified to profit or loss						
Remeasurement of defined benefit obligations	**24.5**	**-**	**24.5**	(23.6)	-	(23.6)
Income tax on items that will not be reclassified	**(4.2)**	**-**	**(4.2)**	4.7	(1.4)	3.3
Total items that will not be reclassified to profit or loss	**20.3**	**-**	**20.3**	(18.9)	(1.4)	(20.3)
Items that may be reclassified subsequently to profit or loss						
Share of other comprehensive income from joint ventures	**(2.7)**	**-**	**(2.7)**	0.3	-	0.3
Cash flow hedges	**20.5**	**-**	**20.5**	4.9	-	4.9
Income tax on items that may be reclassified	**(3.5)**	**-**	**(3.5)**	(1.0)	(0.3)	(1.3)
Total items that may be reclassified subsequently to profit or loss	**14.3**	**-**	**14.3**	4.2	(0.3)	3.9
Other comprehensive Income / (loss) for the year net of tax	**34.6**	**-**	**34.6**	(14.7)	(1.7)	(16.4)
Total comprehensive income for the year	**249.0**	**7.5**	**256.5**	176.9	(12.8)	164.1
Total comprehensive income attributable to:						
Ordinary shareholders of the parent	**227.7**	**7.5**	**235.2**	160.7	(12.8)	147.9
Non-controlling interest	**(0.2)**	**-**	**(0.2)**	-	-	-
Perpetual capital security holders	**21.5**	**-**	**21.5**	16.2	-	16.2

PENNON GROUP PLC

Consolidated balance sheet at 31 March 2018

	Notes	2018 £m	2017 £m
ASSETS			
Non-current assets			
Goodwill		**385.0**	385.0
Other intangible assets		**72.6**	67.1
Property, plant and equipment		**4,310.6**	4,103.2
Other non-current assets		**263.5**	308.0
Derivative financial instruments		**70.5**	73.6
Investments in joint ventures	5	**22.8**	0.1
		5,125.0	4,937.0
Current assets			
Inventories		**24.6**	21.3
Trade and other receivables		**416.0**	340.8
Derivative financial instruments		**12.9**	14.1
Cash and cash deposits	13	**585.3**	598.1
		1,038.8	974.3
LIABILITIES			
Current liabilities			
Borrowings	13	**(209.8)**	(146.5)
Financial liabilities at fair value through profit		**(2.6)**	(2.4)
Derivative financial instruments		**(9.4)**	(17.3)
Trade and other payables		**(342.0)**	(286.5)
Current tax liabilities		**(24.4)**	(26.8)
Provisions		**(38.0)**	(40.4)
		(626.2)	(519.9)
Net current assets		**412.6**	454.4
Non-current liabilities			
Borrowings	13	**(3,177.0)**	(3,116.5)
Other non-current liabilities		**(140.1)**	(180.7)
Financial liabilities at fair value through profit		**(46.6)**	(48.4)
Derivative financial instruments		**(8.2)**	(25.2)
Retirement benefit obligations		**(49.5)**	(68.0)
Deferred tax liabilities		**(295.6)**	(269.6)
Provisions		**(181.5)**	(173.8)
		(3,898.5)	(3,882.2)
Net assets		**1,639.1**	1,509.2
Shareholders' Equity			
Share capital	10	**170.8**	168.4
Share premium account		**218.8**	217.4
Capital redemption reserve		**144.2**	144.2
Retained earnings and other reserves		**807.1**	684.4
Total shareholders' equity		**1,340.9**	1,214.4
Non-controlling interests		**1.5**	-
Perpetual capital securities	11	**296.7**	294.8
Total equity		**1,639.1**	1,509.2

PENNON GROUP PLC
Consolidated statement of changes in equity for the year ended 31 March 2018

	Share capital (note 10) £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Non-controlling interests £m	Perpetual capital securities (note 11) £m	Total Equity £m
At 1 April 2016	167.8	213.3	144.2	667.5	-	294.8	1487.6
Profit for the year	-	-	-	164.3	-	16.2	180.5
Other comprehensive loss for the year	-	-	-	(16.4)	-	-	(16.4)
Total comprehensive income for the year	-	-	-	147.9	-	16.2	164.1
Transactions with equity shareholders:							
Dividends paid	-	-	-	(138.5)	-	-	(138.5)
Adjustment for shares issued under the Scrip Dividend Alternative	0.3	(0.3)	-	6.9	-	-	6.9
Adjustment in respect of share-based payments (net of tax)	-	-	-	3.2	-	-	3.2
Distributions due to perpetual capital security holders	-	-	-	-	-	(20.3)	(20.3)
Current tax relief on distributions to perpetual capital security holders	-	-	-	-	-	4.1	4.1
Own shares acquired by the Pennon Employee Share Trust in respect of Share options granted	0.1	1.2	-	(2.6)	-	-	(1.3)
Proceeds from shares issued under the Sharesave Scheme	0.2	3.0	-	-	-	-	3.2
Proceeds from shares issued under the Executive Share Option Scheme	-	0.2	-	-	-	-	0.2
	0.6	4.1	-	(131.0)	-	(16.2)	(144.4)
At 31 March 2017	168.4	217.4	144.2	684.4	-	294.8	1,509.2

	Share capital (note 10) £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Non-controlling interests £m	Perpetual capital securities (note 11) £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
Transactions with equity shareholders:							
Dividends paid	-	-	-	(149.5)	-	-	(149.5)
Adjustment for shares issued under the Scrip Dividend Alternative	2.1	(2.1)	-	41.7	-	-	41.7
Adjustment in respect of share-based payments (net of tax)	-	-	-	2.2	-	-	2.2
Issuance of perpetual capital securities	-	-	-	-	-	296.7	296.7
Redemption of perpetual capital securities	-	-	-	(5.2)	-	(294.8)	(300.0)
Distributions 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**

PENNON GROUP PLC

Consolidated statement of cash flows for the year ended 31 March 2018

	Notes	2018 £m	2017 £m
Cash flows from operating activities			
Cash generated from operations	12	**443.5**	431.5
Interest paid		**(69.6)**	(76.4)
Tax paid		**(21.7)**	(36.4)
Net cash generated from operating activities		**352.2**	318.7
Cash flows from investing activities			
Interest received		**8.3**	14.5
Dividends received		**6.5**	4.5
Loan repayments received from joint ventures		**33.3**	0.3
Return of restricted deposits		**42.3**	
Purchase of property, plant and equipment		**(390.6)**	(354.1)
Proceeds from sale of property, plant and equipment		**10.6**	4.1
Purchase of intangible assets		**(1.0)**	-
Acquisition of subsidiary undertaking		**(8.4)**	-
Net cash used in investing activities		**(299.0)**	(330.7)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**3.9**	4.7
Proceeds from the issuance of perpetual capital securities		**296.7**	-
Redemption of 2013 perpetual capital securities	11	**(300.0)**	-
Return of restricted funds		**-**	2.7
Purchase of ordinary shares by the Pennon Employee Share Trust		**(1.8)**	(2.6)
Proceeds from new borrowing		**106.9**	130.0
Repayment of borrowings		**(116.0)**	(39.0)
Finance lease sale and leaseback		**140.1**	60.7
Finance lease principal repayments		**(28.6)**	(24.0)
Disposal of non-controlling interest		**1.7**	-
Dividends paid		**(107.8)**	(131.6)
Perpetual capital securities periodic return		**(19.6)**	(20.3)
Net cash used in financing activities		**(24.5)**	(19.4)
Net increase / (decrease) in cash and cash equivalents		**28.7**	(31.4)
Cash and cash equivalents at beginning of year	13	**374.3**	405.7
Cash and cash equivalents at end of year	13	**403.0**	374.3

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 53. During 2017/18 Pennon Group's business was operated through two main subsidiaries. South West Water Limited includes the merged water companies 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's business is recycling, energy recovery and waste management. 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 2018 and 31 March 2017 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 2018, including the financial statements from which this financial information is derived, will be delivered to the Registrar of Companies following the Company's Annual General Meeting on 5 July 2018. The auditor's report on the 2018 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 2017 were approved by the Board of Directors on 23 May 2017 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 2018 were approved by the Board of Directors on 24 May 2018.

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 2017 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 2018 Annual Report and Accounts which have not changed significantly from those adopted in the Group's 2017 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**

It is anticipated that adoption of the following standard could impact the Group's future results as set out below:

- IFRS 16 'Leases' no longer distinguish between an on the balance sheet finance lease and an off the balance sheet operating lease. Instead, for virtually all lease contracts the lessee recognises a lease liability reflecting future lease payments and a 'right-of-use' asset. The standard is effective for annual periods beginning on or after 1 January 2019 and is subject to EU endorsement.

  The Directors anticipate that the adoption of IFRS 16 on 1 April 2019 will affect primarily the accounting for the Group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of £163m. The Group is assessing these commitments which will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. Existing borrowing covenants are not impacted by changes in accounting standards.

Other new standards or interpretations in issue, but not yet effective, including IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments' are not expected to have a material impact on the Group's net assets or results.

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, energy recovery and waste management services provided by Viridor. The non-household retail business is a new segment created this period reflecting the services provided by Pennon Water Services following the opening of the non-household water and wastewater retail market to competition on 1 April 2017.

	2018	2017
	£m	£m
Revenue		
Water	**571.3**	555.3
Waste management	**788.9**	793.5
Non-household retail	**165.9**	128.6
Other	**13.8**	12.8
Less intra-segment trading *	**(143.7)**	(137.1)
	1,396.2	1,353.1
Segment result		
Operating profit before depreciation, amortisation and non-underlying items (EBITDA)		
Water	**360.9**	347.6
Waste management	**150.2**	138.3
Non-household retail	**1.0**	1.5
Other	**(2.5)**	(1.4)
	509.6	486.0
Operating profit before non-underlying items		
Water	**247.8**	233.9
Waste management	**78.6**	71.1
Non-household retail	**0.4**	1.5
Other	**(2.9)**	(1.9)
	323.9	304.6
Profit before tax and non-underlying items		
Water	**180.5**	172.4
Waste management	**70.8**	60.4
Non-household retail	**(1.1)**	1.5
Other	**8.6**	15.7
	258.8	250.0
Profit before tax		
Water	**178.1**	185.9
Waste management	**77.3**	50.2
Non-household retail	**(1.1)**	1.5
Other	**8.6**	(27.1)
	262.9	210.5

* 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.

Geographic analysis of revenue based on location of customers

	2018 £m	2017 £m
UK	**1,338.0**	1,287.6
Rest of European Union	**12.3**	10.3
China	**31.0**	45.1
Rest of World	**11.7**	10.1
	1,393.0	1,353.1

The UK is the Group's country of domicile and generates the majority of its revenue from external customers in the UK. The Group's non-current assets are all located in the UK.

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.

	2018 £m	2017 £m
Revenue		
Construction contract settlements (1a)	**3.2**	-
Operating costs		
Restructuring costs (2)	**-**	(10.7)
Earnings before interest, tax, depreciation and amortisation	**3.2**	(10.7)
Remeasurement of fair value movement in derivatives (3)	**(2.4)**	16.0
Write-down of joint venture shareholder loans (1b)	**(19.2)**	-
Refinancing of joint venture arrangement (1c)	**22.5**	-
Unwind of synthetic derivative (4)	**-**	(44.8)
Deferred tax change in rate (5)	**-**	21.3
Tax credit arising on non-underlying items (5)	**3.4**	7.1
Net non-underlying credit /(charge)	**7.5**	(11.1)

(1) On reset of the contracts associated with the Greater Manchester Waste Disposal Authority (GMWDA) an overall net credit before tax of £6.5m has been recognised as follows:

(a) A net amount of £3.2m has been 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 £23.5m of Viridor's shareholder loans were repaid, resulting in the write down of the remaining financial asset of £19.2m.

(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 is £22.5 million, which has contributed to an increase in investments in joint ventures recognised on the balance sheet to £22.8m (31 March 2017 £0.1m).

(2) Last year a one-off charge of £10.7m was made relating to restructuring costs associated with a Group-wide Shared Services Review. The £10.7m charge consisted of a £9.5m non-cash charge to other operating expenses relating to a rationalisation of systems leading to an asset de-recognition, and a £1.1m charge to manpower costs and a £0.1m charge to other operating costs in relation to restructuring provisions. The charge was considered non-underlying due to its size and non-recurring nature.

(3) In the year a charge of £2.4m 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 dependant and potentially can be significant in value (size).

(4) This relates to the unwind of a synthetic derivative in place from 2011 until it was unwound in February 2017 (the Peninsula MB derivative as set out in Note 6 of the Annual Report and Accounts 2017).

(5) Last year the rate of corporation tax reduced from 18% to 17% from April 202, resulting in a one-off credit of £21.3m being recognised in the previous period. In addition, a charge of £3.8 million was recognised in the statement of comprehensive income and a charge of £0.1 million was recognised directly in equity. These movements were non-underlying due to being dependent on UK tax law and due to size.

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

6. Net finance costs

	2018			2017		
	Finance cost £m	**Finance income £m**	**Total £m**	Finance cost £m	Finance income £m	Total £m
Cost of servicing debt						
Bank borrowings and overdrafts	**(48.6)**	**-**	**(48.6)**	(49.4)	-	(49.4)
Interest element of finance lease rentals	**(34.4)**	**-**	**(34.4)**	(31.9)	-	(31.9)
Other finance costs	**(3.9)**	**-**	**(3.9)**	(3.5)	-	(3.5)
Interest receivable	**-**	**2.5**	**2.5**	-	3.2	3.2
Interest receivable on shareholder loans to joint ventures	**-**	**7.9**	**7.9**	-	10.2	10.2
	(86.9)	**10.4**	**(76.5)**	(84.8)	13.4	(71.4)
Notional interest						
Interest receivable on service concession arrangements	**-**	**13.8**	**13.8**	-	16.1	16.1
Retirement benefit obligations	**(1.6)**	**-**	**(1.6)**	(1.2)	-	(1.2)
Unwinding of discounts on provisions	**(10.2)**	**-**	**(10.2)**	(9.1)	-	(9.1)
	(11.8)	**13.8**	**2.0**	(10.3)	16.1	5.8
Net gains on derivative financial instruments arising from the combination of non-derivative instruments	**-**	**-**	**-**	-	6.8	6.8
Net finance costs before non-underlying items	**(98.7)**	**24.2**	**(74.5)**	(95.1)	36.3	(58.8)
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	**(2.4)**	**-**	**(2.4)**	-	16.0	16.0
Unwind of synthetic derivative	**-**	**-**	**-**	(44.8)	-	(44.8)
Net finance costs after non-underlying items	**(120.3)**	**24.2**	**(96.1)**	(139.9)	52.3	(87.6)

In addition to the above, finance costs of £17.0m (2017 £12.9m) have been capitalised on qualifying assets included in property, plant and equipment, and other intangible assets.

PENNON GROUP PLC

Notes (continued)

7. Taxation

	Before non-underlying items 2018 £m	Non-underlying items (note 5) 2018 £m	Total 2018 £m	Before non-underlying items 2017 £m	Non-underlying items (note 5) 2017 £m	Total 2017 £m
Analysis of charge						
Current tax charge	**26.1**	**(3.0)**	**23.1**	39.5	(9.4)	30.1
Deferred tax - other	**18.3**	**(0.4)**	**17.9**	18.9	2.3	21.2
Deferred tax – arising on change of rate of corporation tax	**-**	**-**	**-**	-	(21.3)	(21.3)
Tax charge for the year	**44.4**	**(3.4)**	**41.0**	58.4	(28.4)	30.0

UK corporation tax is calculated at 19% (2017 20%) of the estimated assessable profit for the year.

UK corporation tax is stated after a credit relating to prior year current tax of £3.6m (2017 credit of £1.8m) and a prior year deferred tax credit of £2.4m (2017 charge of £1.1m).

The 2017 deferred tax credit includes a credit of £21.3m, reflecting a reduction in the rate of UK corporation tax.

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:

	2018	2017
Number of shares (millions)		
For basic earnings per share	**417.9**	413.0
Effect of dilutive potential ordinary shares from share options	**1.5**	1.9
For diluted earnings per share	**419.4**	414.9

Adjusted basic and diluted earnings per ordinary share

Adjusted earnings per share 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). Perpetual capital returns are proportionately adjusted to all on a more useful comparison in the year. Earnings per share have been calculated:

	2018			2017		
	Profit after tax £m	**Earnings per share Basic p**	**Diluted p**	Profit after tax £m	Earnings per share Basic p	Diluted p
Statutory earnings	**200.6**	**48.0**	**47.8**	164.3	39.8	39.6
Deferred tax before non-underlying items	**18.3**	**4.4**	**4.4**	18.9	4.5	4.6
Non-underlying items (net of tax)	**(7.5)**	**(1.8)**	**(1.8)**	11.1	2.7	2.6
Proportional adjustment on perpetual capital securities	**1.3**	**0.3**	**0.3**	-	-	-
Adjusted earnings	**212.7**	**50.9**	**50.7**	194.3	47.0	46.8

PENNON GROUP PLC

Notes (continued)

9. **Dividends**

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

	2018 £m	2017 £m
Interim dividend paid for the year ended 31 March 2017 : 11.09p (2016 10.46p) per share	**45.9**	43.1
Final dividend paid for the year ended 31 March 2017 : 24.87p (2016 23.12p) per share	**103.6**	95.4
	149.5	138.5

Proposed dividends

Proposed interim dividend for the year ended 31 March 2018 : 11.97p per share	**50.2**
Proposed final dividend for the year ended 31 March 2018 : 26.62p per share	**111.8**
	162.0

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

The proposed interim dividend for 2018 was paid on 4 April 2018 and the proposed final dividend is subject to approval by shareholders at the Annual General Meeting.

PENNON GROUP PLC

Notes (continued)

10. Share capital

Allotted, called up and fully paid

	Number of shares		
	Treasury shares	Ordinary shares	£m
At 1 April 2016 Ordinary shares of 40.7p each	10,356	412,340,597	167.8
Shares issued under the Scrip Dividend Alternative	-	771,563	0.3
For consideration of £0.0m, shares re-issued Under the Company's Executive Share Option Scheme	(1,913)	1,913	-
For consideration of £1.3m, shares issued to the Pennon Employee Share Trust	-	143,479	0.1
For consideration of £0.2m, shares issued under the Company's Executive Share Option Scheme	-	24,457	-
For consideration of £3.2m, shares issued under the Company's Sharesave Scheme	-	611,284	0.2
At 31 March 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 in respect of 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**

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

PENNON GROUP PLC

Notes (continued)

		2018	2017
		£m	£m
11.	**Perpetual capital securities**		
	GBP 300m 2.875% perpetual subordinated capital securities	**296.7**	-
	GBP 300m 6.75% perpetual subordinated capital securities	**-**	294.8
		296.7	294.8

On 8 March 2013 the Company issued £300m perpetual capital securities. Costs directly associated with the issue of £5.2m 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 8 March 2018 or any subsequent periodic return payment date after this. In the event the Company acquired 80% or more of the securities it could then redeem the remainder at its sole discretion.

On 22 September 2017 the Company purchased £285.8m in principal amount of the capital securities and settled accrued periodic returns totalling £19.0m for a total of £304.8m. On 25 September notice was given to the remaining holders that the Company would be exercising its option to redeem all of the remaining £14.2m capital securities on 10 October 2017 at their principal amount. The outstanding liability at 30 September 2017 of £14.2m, together with accrued periodic returns of £0.6m is classified as current liabilities on the balance sheet.

On 22 September 2017 the Company issued £300m perpetual capital securities. Costs directly associated with the issue of £3.3m 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 on 4 April 2017 the first periodic return of £5.8m, scheduled 22 May 2018, is payable and consequently has been recognised as a liability.

Profits during the year attributable to perpetual capital security holders of £21.5m reflect £19.6m of distributions noted above on the March 2013 perpetual capital securities, £3.8m of associated corporation tax relief and £5.8m for periodic returns due on 2017 perpetual capital securities (note the newly issued securities do not qualify for corporation tax relief).

PENNON GROUP PLC

Notes (continued)

12. Cash flow from operating activities

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

	2018	2017
	£m	£m
Cash generated from operations		
Profit for the year	**221.9**	180.5
Adjustments for:		
Share-based payments	**2.5**	2.9
Profit on disposal of property, plant and equipment	**(2.5)**	(7.5)
Depreciation charge	**182.5**	178.2
Amortisation of intangible assets	**3.6**	3.2
Non-underlying JV loan write-off and credit	**(6.5)**	-
Non-underlying remeasurement of fair value movement in derivatives	**2.4**	(16.0)
Non-underlying unwind of synthetic derivative	**-**	44.8
Non-underlying provision charge	**-**	10.7
Share of post-tax profit from joint ventures	**(9.4)**	(4.2)
Finance income (before non-underlying items)	**(24.2)**	(36.3)
Finance costs (before non-underlying items)	**98.7**	95.1
Taxation charge	**41.0**	30.0
Changes in working capital:		
Increase in inventories	**(5.2)**	(0.7)
Increase in trade and other receivables	**(36.9)**	(13.1)
Increase in service concession arrangements receivable	**(15.2)**	(22.2)
Increase in trade and other payables	**2.2**	8.5
Increase in retirement benefit obligations	**4.5**	2.3
Decrease in provisions	**(15.9)**	(24.7)
Cash generated from operations	**443.5**	431.5

	2018	2017
	£m	£m
Total interest paid		
Interest paid in operating activities	**69.6**	76.4
Interest paid in investing activities	**17.0**	12.9
Total interest paid	**86.6**	89.3

PENNON GROUP PLC

Notes (continued)

13. **Net borrowings**

	2018 £m	2017 £m
Cash and cash deposits	**585.3**	598.1
Borrowings – current		
Bank and other loans	**(149.6)**	(74.9)
Other current borrowings	**(32.0)**	(41.1)
Finance lease obligations	**(28.2)**	(30.5)
Total current borrowings	**(209.8)**	(146.5)
Borrowings – non-current		
Bank and other loans	**(1,408.8)**	(1,439.3)
Other non-current borrowings	**(291.4)**	(323.4)
Finance lease obligations	**(1,476.8)**	(1,353.8)
Total non-current borrowings	**(3,177.0)**	(3,116.5)
Total net borrowings	**(2,801.5)**	(2,664.9)

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

	2018 £m	2017 £m
Cash and cash deposits as above	**585.3**	598.1
Less : deposits with a maturity of three months or more (restricted funds)	**(182.3)**	(223.8)
	403.0	374.3

PENNON GROUP PLC

Notes (continued)

14. **Contingencies**

Contingent liabilities	**2018 £m**	2017 £m
Performance bonds		
Other	**185.1**	187.5
	-	-
	185.1	187.5

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 2018 of certain subsidiaries: Peninsula Leasing Limited and Viridor Waste 2 Limited since these companies qualify 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.

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 have not been recognised as at 31 March 2018.

Pennon Group plc
Registered Office :
Peninsula House
Rydon Lane
Exeter
EX2 7HR
pennon-group.co.uk

Registered in England No 2366640