

3 June 2021

## Full Year Results 2020/21

### *Bringing water to life*

*Supporting the lives of people and the places they love for generations to come*

*Susan Davy, Group Chief Executive, commented:*

*This has been a pivotal year for the Group as we have repositioned Pennon to focus on driving sustainable growth in the UK water sector, building stability for the longer term, and recognising ongoing shareholder loyalty.*

*One of my main priorities as the new CEO has been to focus everyone on transforming Pennon to be the best place to work, supporting one another and our communities through the pandemic. The worst of times brings out the very best in people, and that's true of everyone who works for the Group. I'm so proud of the way they have responded to the challenge.*

*We have ensured Pennon is well positioned for the future, reinvesting for growth, and retaining sufficient funds to drive further value. The acquisition of Bristol Water announced today, is the next step in the growth of the Group, building on significant experience as a leader and consolidator in the industry.*

*Additionally, we have demonstrated our credentials as a responsible business, reducing debt levels, increasing pension contributions, and further supporting the Green Recovery for the much-needed regeneration of our region.*

*With one in 16 households now shareholders as part of our innovative Watershare+ scheme, giving customers a stake and a say, we've made a strong start to K7, focusing on what matters most, with c.80% of ODIs on or ahead of track. Operating in the public interest, we are also putting ESG at the forefront of our decision making, as we scale up investment in the environment, kickstart our race to net zero, and deliver sustainable solutions.*

*Our sector leading dividend policy, together with the planned special dividend, recognises the ongoing loyalty of our shareholders, underpinned by the Group's confidence in our ongoing growth strategy, and building a sustainable future for all.*

## TRANSFORMATIVE YEAR FOR PENNON – RESHAPING THE GROUP

### Successful sale of Viridor

- £3.7 billion net cash proceeds from the sale of Viridor, completed on 8 July 2020; £1.7 billion profit on disposal

### Positioning the Group sustainably

- Almost half of the net cash proceeds reinvested in the business and UK water to date
- Pennon company debt repayment of £1.1<sup>1</sup> billion – restructuring complete
- Responsible employer – over £50 million additional pension contributions – fund now in small surplus<sup>2</sup> position
- c.£0.1 billion capital investment supporting a Green Recovery in the South West – accelerating South West Water’s de-gearing profile
- Value accretive c.£0.4 billion acquisition<sup>3</sup> of Bristol Water<sup>4</sup> – reflecting 16% RCV<sup>5</sup> growth
- Retention of c.£0.1 billion of cash at Group level to maintain flexibility for future growth opportunities

### Recognising shareholder support

- c.£1.5 billion return of shareholder capital – special dividend of £3.55 per share, with consolidation
- Up to c.£0.4 billion share buy-back over 12 months – subject to further value accretive opportunities
- Maintaining sector-leading dividend policy of CPIH + 2%, underpinned by sustainable performance from the Continuing Group
- Dividend base in 2021/22 is expected to increase by 2.00p (c.9%) recognising the earnings accretive nature of the Bristol Water acquisition

---

<sup>1</sup> Includes c.£0.1 billion of debt make-whole costs

<sup>2</sup> On both an accounting and technical provisions basis

<sup>3</sup> Subject to regulatory clearance from the Competition and Markets Authority

<sup>4</sup> Throughout this document references to ‘Bristol Water’ or ‘Bristol Water Group’ refer to the acquisition of Bristol Water Holding UK Limited, including its subsidiaries

<sup>5</sup> Regulatory Capital Value

## Delivering for customers and communities

- Pioneering a new relationship with customers – expanding our pioneering WaterShare+ scheme to our enlarged customer base
- Supporting our customers and communities
  - Helping c.67,000 customers through our range of affordability schemes
  - Introducing community funds – including our Neighbourhood Fund and Water Saving Community Fund
- Officially a Great Place to Work
  - Nurturing talent through apprenticeships, graduate scheme and Kickstart
  - Living wage accredited employer
- A robust start to K7 operationally and financially – continued Return on Regulated Equity<sup>^</sup> (RORE) outperformance at 7.8%
- Growing in the business customer market – c.£20 million annualised contract wins during the year

## FINANCIAL PERFORMANCE

| Underlying <sup>^</sup>                                  | 2020/21          | 2019/20        | Change         |
|--|------------------|----------------|----------------|
| Revenue  | £644.6m          | £636.7m        | +1.2%          |
| EBITDA <sup>^</sup>                                      | £334.7m          | £365.3m        | (8.4%)         |
| Operating profit   | £215.3m          | £245.5m        | (12.3%)        |
| Profit before tax  | £157.0m          | £183.0m        | (14.2%)        |
| Non-underlying items before tax <sup>6</sup>             | (£24.9m)         | £10.1m         | -              |
| <b>Profit before tax</b>                                 | <b>£132.1m</b>   | <b>£193.1m</b> | <b>(31.6%)</b> |
| Tax  | (£24.8m)         | (£70.6m)       | +64.9%         |
| Discontinued operations                                  | £1,654.7m        | £83.8m         | -              |
| <b>Profit for the year</b>                               | <b>£1,762.0m</b> | <b>£206.3m</b> | <b>+754.1%</b> |
| <b>Earnings per share</b>                                |                  |                |                |
| - Adjusted EPS <sup>7</sup> – continuing operations      | 31.9p            | 35.2p          | (9.4%)         |
| - Statutory EPS - continuing and discontinued operations | 418.5p           | 47.7p          | +777.4%        |
| Dividend per share <sup>8</sup> - dividend               | 21.74p           | 43.77p         | N/A            |
| Special Dividend   | 355.00p          | N/A            | N/A            |

<sup>^</sup> Measures with this symbol <sup>^</sup> are defined in the Alternative Performance Measures (APMs) as outlined on pages 65 to 69

<sup>6</sup> Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of financial performance

<sup>7</sup> Earnings per share before deferred tax and non-underlying items

<sup>8</sup> The CPIH rate used is 1.0% as of 31 March 2021

## Resilient financial performance for the Continuing Group in 2020/21

- Results in line with management expectations
- £157.0 million underlying profit before tax<sup>^</sup> (2019/20 £183.0 million)
- 2.5% South West Water effective interest rate<sup>^</sup> (2019/20 3.4%)
- 31.9p adjusted earnings per share<sup>9</sup> (2019/20 35.2p)
- Statutory earnings per share from the combined Continuing Group and discontinued operations of 418.5p (2019/20 47.7p) resulting from the significant gain on disposal of Viridor.

## Sector-leading dividend policy

- 21.74p total dividend per share – growth of 3.0%<sup>10</sup> (2019/20 re-based dividend 21.11p<sup>11</sup>)
- Progressive, sector-leading dividend policy of CPIH + 2%, underpinned by sustainable performance from the Continuing Group
- Earnings accretive acquisition of Bristol Water expected to increase the dividend base in 2021/22 by 2.00p (c.9%)
- c.£1.5 billion return of shareholder capital – special dividend of £3.55 per share, with consolidation

|  |   | Pre-share<br>consolidation | Post-share<br>consolidation |
|--|---|----------------------------|-----------------------------|
| <b>Special Dividend</b>                  |   | 355.00p                    | N/A                         |
| <b>2020/21 – Continuing Group</b>        | Interim dividend                                      | 6.77p                      | 10.15p                      |
|  | Final dividend  | 14.97p                     | 22.46p                      |
|  | <b>Total dividend</b>                                 | <b>21.74p</b>              | <b>32.61p</b>               |
| <b>2021/22 – Increased dividend base</b> | Total dividend  | +2.00p                     | +3.00p                      |
| <b>Annual growth</b>                     | CPIH +2%, sustainable, sector-leading dividend policy |                            |                             |

<sup>^</sup> Measures with this symbol <sup>^</sup> are defined in the Alternative Performance Measures (APMs) as outlined on pages 65 to 69

<sup>9</sup> Earnings per share before deferred tax and non-underlying items

<sup>10</sup> Based on CPIH of 1.0% at March 2021

<sup>11</sup> 21.11p of the Full Year dividend for 2019/20 of 43.77p relates to the Continuing Group based on the proportionate value of the Continuing Group to the total Group including Viridor

## **PENNON BUSINESS REVIEW**

### **A year of challenge and opportunity**

This has undoubtedly been a challenging year for us, and for everyone who works within, and supports the Group. The human tragedy of loss of life as a result of the pandemic, the disruption and difficulties experienced across society and the economic impact will weigh heavy on us all for generations to come, and there is every sense that things will never quite be the same again.

The worst of times brings out the very best in people and that's so true of everyone who works at Pennon. I am so proud of the way all of our employees and business partners have responded to the challenge. My sincere thanks go to each and every one of our colleagues, who have demonstrated what it takes to be resilient, agile and above all, compassionate.

With an unwavering responsibility for our critical infrastructure, we have continued to deliver essential services to our customers and communities. This is due to the dedication of our talented and hard-working employees. It takes courage, determination and professionalism to continue to go out to work each day, during a pandemic, especially at the beginning, when we knew so little about the virus.

### **Transformative year for Pennon**

The sale of Viridor for an enterprise value £4.2 billion<sup>12</sup> (£3.7 billion net cash proceeds) completed on 8 July 2020, recognised the strategic value developed over many years and realises significant value for Pennon shareholders.

Following the successful strategic review, the Group is now focused on delivering long term and sustainable value for shareholders and stakeholders through operational excellence in our water and wastewater businesses, along with continued growth in the UK water industry – with our environmental, social and governance (ESG) commitments at the heart of all we do.

The Board's highly disciplined approach to assessing all opportunities took into account a range of factors including earnings accretion, value creation from the impact of shareholder returns (both income and growth), and the impact on customers and other stakeholders – with all opportunities benchmarked against a return of capital to shareholders. This approach has resulted in the value accretive, c.£0.4 billion acquisition of Bristol Water, along with the c.£1.5 billion return of capital to shareholders, via a special dividend.

---

<sup>12</sup> Includes £0.5 billion debt and debt-like items transferred with Viridor

## **Positioning the Group sustainably, investing in the business and UK water**

On the sale of Viridor, the Group received net cash proceeds of c.£3.7 billion and committed to ensuring that the Group maintains a sustainable foundation for the future. To date, almost half of the net cash proceeds have been reinvested in the business and UK water. This has included the repayment of c.£1.1<sup>13</sup> billion of Pennon company debt, leaving a sustainable ongoing position of c.£180 million which will further reduce to c.£150 million in July 2022. This debt had originally been drawn to fund Viridor's expansion and investment programme. Cash of £100 million will be retained to ensure flexibility at the Pennon level. Alongside this, over £50 million of additional contributions have been made to Pennon's principal pension scheme which is now in a small surplus position on both an accounting and technical provisions basis.

To support organic growth, a further c.£0.1 billion will be invested in to South West Water to support the Green Recovery initiative. The initiative will enable South West Water to make an even bigger and more societal contribution in the region, increasing much needed environmental investment to 2025, and supporting the creation of up to 500 additional jobs in the region. This investment will also accelerate the reduction in South West Water's gearing – resulting in net debt to RCV ratio of 61.8%.

## **Growth and shareholder returns**

The value accretive acquisition of Bristol Water, a regulated water only company, for £425 million represents a strong strategic fit for the Group. The acquisition will deliver c.16% growth in RCV and increase the size and scale of the Group to serve c.3.5 million customers. It offers further opportunities for operational improvements and optimisation through the application of our proven integration strategy, demonstrated following the successful acquisition of Bournemouth Water in 2015.

The Group proposes returning c.£1.5 billion via a special dividend, equating to £3.55 per share. Recognising there may be other growth opportunities to pursue, Pennon is also proposing a share buy-back programme of up to £0.4 billion through to September 2022, noting this may flex as other growth opportunities are identified.

As is common when an amount representing a significant proportion of the market capitalisation of a company is returned to shareholders, the Board recommends that the special dividend is combined with an associated share consolidation. This is intended, so far as possible, to maintain the comparability of the Company's share price before and after the special dividend, subject to normal market movements.

---

<sup>13</sup> Includes c.£0.1 billion of debt make-whole costs

The Group also intends to accelerate plans for a second WaterShare+ issuance, further evolving South West Water's pioneering customer share ownership scheme, which has already seen one in 16 households in our region become Pennon shareholders.

## **Delivering our New Deal**

Our New Deal K7 business plan, focused on changing the nature of our relationship with customers, employees and the environment, is now well underway with strong operational and financial performance driven through innovation across the business.

To date, c.£70 million totex<sup>^</sup> efficiency has been recognised, carrying forward the momentum of savings from K6 (2015-20) – delivered through innovative and sustainable solutions.

South West Water's effective interest rate<sup>^</sup> is amongst the lowest in the industry at 2.5% - significantly below Ofwat's 4.2% allowed nominal cost of debt, reflecting locked-in efficiencies.

c.80%<sup>14</sup> of Outcome Delivery Incentives<sup>^</sup> (ODIs) are on track, with 7 areas of excellence achieving their stretching 2025 target during the year, 12 ahead of their 2020/21 target and 15 on target. For the 10 areas where performance is not where we targeted, we have specific plans in place to deliver improvements. This includes wastewater pollutions where we have already made a significant step change. As a result of our underperformance largely in this area, we will be in a net penalty position on ODIs of £8.8 million. Excluding wastewater pollutions would result in a net reward of £4.4 million and we are confident that our targeted Pollution Incident Reduction Plan will continue along a similar trajectory of improvements.

Pennon Water Services continues to increase its customer base in the highly competitive retail market, winning new contracts totalling c.£20 million through the year as a result of its differentiated customer service proposition. The business is well positioned for the future, through its ongoing focus on targeting a high quality, sustainable customer base, supported by its exceptional service offering and deep customer knowledge.

## **Dividends**

The Group continues to deliver on its commitments to customers, shareholders and stakeholders, as our investments drive tangible, positive and sustainable results. Around two thirds of Pennon's shareholders are UK pension funds, savings, charities and individuals with over half of South West Water's employees being shareholders.

---

<sup>^</sup> Measures with this symbol <sup>^</sup> are defined in the Alternative Performance Measures (APMs) as outlined on pages 65 to 69

<sup>14</sup> On track or within regulatory tolerances

Pennon's sector-leading dividend policy, of growth of CPIH + 2% per annum, reflects the Board's confidence in the Group's sustainable growth strategy and is underpinned by continued RORE outperformance, driven by totex and financing outperformance, in South West Water.

In line with this policy, the Board has recommended a final dividend for 2020/21 of 14.97p per share, subject to shareholder approval at the Annual General Meeting on 22 July 2021. Together with the interim dividend of 6.77p, this will result in a total dividend of 21.74p per share, an increase of 3.0% on the re-based 2019/20 dividend of 21.11p<sup>15</sup>. Pennon offers shareholders the opportunity to invest their dividend in a Dividend Reinvestment Plan (DRIP).

Subject to shareholder approval of the proposed share consolidation, the final dividend will be re-based to 22.46p per new ordinary share. For comparative purposes the total dividend for 2020/21 of 21.74p will equate to 32.61p post consolidation.

The Bristol Water acquisition<sup>16</sup> is expected to deliver further dividend growth for the Group. The Board expects that Bristol Water will deliver dividend growth on a pre-consolidation and post-consolidations basis of 2.0p and 3.0p per share respectively.

---

<sup>^</sup> Measures with this symbol ^ are defined in the Alternative Performance Measures (APMs) as outlined on pages 65 to 69

<sup>15</sup> 21.11p of the Full Year dividend for 2019/20 of 43.77p relates to the Continuing Group based on the proportionate value of the Continuing Group to the total Group including Viridor

<sup>16</sup> Subject to regulatory clearance from the Competition and Markets Authority



## FINANCIAL HIGHLIGHTS

Despite the challenges posed by COVID-19, the performance of the business has been resilient, and the results are in line with management expectations.

The results of the Continuing Group compared to 2019/20 reflect:

- Underlying Continuing Group revenue has increased from £636.7 million to £644.6 million. Higher than expected household demand, driven by lockdown restrictions, and the impact of new contract wins for Pennon Water Services outside the South West Water region, has outstripped the expected reductions arising from the transition to the new K7 regulatory period and the impact of COVID-19 on non-household demand
- Group EBITDA<sup>^</sup> has reduced in line with our expectations by 8.4% to £334.7 million (2019/20 £365.3 million), reflecting the revenue impact of the K7 reset
- Underlying profit before tax<sup>^</sup> was £157.0 million (2019/20 £183.0 million) reflecting the year on year reduction in net finance costs, benefitting from the efficient financing that has been put in place
- Non-underlying items of £24.9 million include £20.5 million reduction in revenue being the recognition in full of Watershare+ and £4.4 million pension curtailment charge from the decision to close the main defined benefit scheme to future accrual with effect from 1 July 2021
- Continuing Group adjusted earnings per share<sup>17</sup> are in line with expectations, down 9.4% to 31.9p
- Sector leading dividend growth with dividend per share up 3.0% (CPIH +2%) to 21.74p.

A full reconciliation to the statutory reported results is included in item (i) in the Alternative Performance Measures on pages 65 to 69 of this announcement.

### Viridor Disposal

- Sale of Viridor completed on 8 July 2020 – £4.2 billion<sup>18</sup> enterprise value
- £3.7 billion net cash proceeds received on completion
- £1.7 billion profit from discontinued operations for the year to 31 March 2021, including gain on disposal of £1,682.7 million, non-underlying cost items of £75.6 million associated with the disposal and subsequent debt retirement costs and profit from trading up to 8 July 2020
- Tax exemption on gain on disposal through Substantial Shareholding Exemption
- Debt right-sizing completed with c.£1.1<sup>19</sup> billion of debt repaid, originally drawn by Pennon to fund Viridor's investment strategy

<sup>^</sup> Measures with this symbol ^ are defined in the Alternative Performance Measures (APMs) as outlined on pages 65 to 69

<sup>17</sup> Earnings per share before deferred tax and non-underlying items

<sup>18</sup> Includes £0.5 billion debt and debt-like items transferred with Viridor

<sup>19</sup> Includes c.£0.1 billion debt make-whole costs

- £36 million contribution into the Group's principal pension scheme, with a further £17 million of responsible contributions being payable following the payment of the proposed special dividend
- Statutory earnings per share from the combined Continuing Group and discontinued operations of 418.5p resulting from significant gain on disposal of Viridor.

## Presentation of results

A presentation of these results hosted by Susan Davy, Group Chief Executive and Paul Boote, Group Finance Director, will be available at 08.30am (BST), today 3 June 2021 and can be accessed here: <https://pennon-group.connectid.cloud/register>

The presentation will be followed by a live Q&A conference call at 10:00am (BST).

|                         |                  |
|-------------------------|------------------|
| United Kingdom:         | 0800 640 6441    |
| United Kingdom (Local): | 020 3936 2999    |
| All other locations:    | +44 203 936 2999 |
| Conference passcode:    | 635235           |

### For further information, please contact:

|                   |                                  |               |
|-------------------|----------------------------------|---------------|
| Paul Boote        | Group Finance Director           | 01392 443 168 |
| Jennifer Cooke    | Group Investor Relations Manager |               |
| James Murgatroyd  | Finsbury Glover Hering           | 020 7251 3801 |
| Harry Worthington |                                  |               |

## Final dividend payment information

|                   |   |
|-------------------|---|
| 22 July 2021      | Ordinary shares quoted ex-dividend          |
| 23 July 2021      | Record date for final dividend              |
| 10 August 2021*   | Final date for receipt of DRIP applications |
| 2 September 2021* | Final dividend payment date                 |

\*These dates are provisional and are subject to obtaining shareholder approval at the 2021 Annual General Meeting.

## Upcoming events

|                   |                           |
|-------------------|---------------------------|
| 22 July 2021      | Annual General Meeting    |
| September 2021    | Capital Markets Day       |
| 28 September 2021 | Trading Statement         |
| 30 November 2021  | Half Year Results 2021/22 |
| 1 April 2022      | Trading Statement         |
| 31 May 2022       | Full Year Results 2021/22 |

## CHIEF EXECUTIVE'S REVIEW

This has been a transformational year for the Group. Purpose driven by our core values, we have created a sustainable platform for the future and are focused on delivering long term, sustainable value for shareholders and stakeholders through operational excellence and continued growth in UK water.

Delivery of our New Deal business plan to 2025 is progressing well – building a new relationship with our customers, delivering a step change in environmental performance and creating a great place to work for our dedicated employees.

Our focus on doing the right things, in the right way, enables us to outperform our business plan and deliver sustainable returns – demonstrating our strong platform for both organic and acquisitive growth in the UK water sector.

### **Bristol Water – compelling rationale, complementary acquisition to the Group**

Our acquisition of Bristol Water marks a new chapter for Pennon, with further growth in UK water. Bristol Water is a profitable, water only regulated business serving a population of 1.2 million, and increasing the size and scale of the Group – now serving 3.5 million customers.

Our strong track record of delivery in this space will enable the application of our proven integration strategy. As with our successful acquisition of Bournemouth Water in 2015, this presents the opportunity to optimise and make further efficiency improvements to deliver totex<sup>^</sup> outperformance, financial efficiency, synergies and growth.

Our value accretive acquisition will deliver meaningful benefits for both customers and shareholders.

Alongside this acquisition, we intend to further evolve our unique customer share ownership initiative – WaterShare+, giving customers a tangible stake, and a greater say in the business. When we launched WaterShare+ in 2020, we were thrilled to see one in 16 household customers in the region choosing to become Pennon shareholders.

We will also look to expand our successful operating model – already utilised across South West Water and Bournemouth Water, with centralised control, streamlined processes and systems from each business supporting the delivery of outstanding services to customers and the environment. Increasing the size and scope of the Group also unlocks the opportunity to realise cost efficiencies through sharing support services and benefiting from economies of scale.

---

<sup>^</sup> Measures with this symbol <sup>^</sup> are defined in the Alternative Performance Measures (APMs) as outlined on pages 65 to 69

## **Delivering more of what matters for our communities**

### *Sharing our success*

Our innovative New Deal business plan, informed by our most extensive engagement programme to date, set out our focus to change the nature of our relationship with our customers. WaterShare+, a key tenet of our plan, launched in October 2020, shared c.£20 million of outperformance from 2015-20 with customers offering a choice of a £20 credit to their bill or to receive shares in Pennon. We were delighted with the positive response to this trailblazing initiative that saw one in 16 household customers in the region opting to become Pennon Group shareholders and giving them a tangible stake in the business.

WaterShare+ also seeks to give customers a greater say in what South West Water does and how the company is run. The independent WaterShare+ Advisory Panel meets in public on a quarterly basis (although held virtually this year) with the panel reviewing South West Water's progress against targets and an opportunity for customers to have a real say in how the business operates.

This year South West Water will hold its first dedicated customer AGM on 9 September 2021, designed to be more accessible for all customers to be able to listen to and input into the company's plans.

### *Supporting our communities*

We recognise the importance of our role in the communities we serve, and we are committed to delivering more of what matters to them. During the year, we have launched dedicated initiatives including our Neighbourhood Fund and the Water-Saving Community Fund.

Our Neighbourhood Fund builds on our work to support communities with funding available for community groups which inspire physical activities, education, health and wellbeing and deliver positive environmental outcomes. Community groups supported to date include; The Hugs Foundation – offering therapeutic and supportive interventions for those suffering from mental ill health, social exclusion, disadvantages and disabilities; and the Cornwall Accessible Activities Programme – supporting families and children with additional needs to access activities during the school holidays.

Our Water-Saving Community Fund promotes ideas to help our customers and communities to get involved in water conservation projects, including support for organisations to create drought tolerant gardens, to install water butts in community allotments or provide educational training and displays in schools.

In partnership with the South West Lakes Trust, an innovative, interactive new education centre is being set up at Roadford Lake informing and promoting water efficiency and the benefits our work

has on communities and the environment to visitors and school visits. It is hoped this centre can help educate our customers to reduce water consumption and reduce the risk of sewer blockages and pollutions through sewer misuse.

### *Innovative affordability and Watercare programme*

Our New Deal included a pledge to eliminate water poverty by 2025 by expanding our toolkit of affordability support to those who need it most. During the year, our WaterCare advisors completed over 3,600 virtual home visits, unlocked c.£2.4 million of financial support by ensuring customers are receiving all eligible benefits. We continue to expand our affordability toolkit with over 67,000 customers now benefitting from one or more of our support measures, representing an 11% increase compared to 2019/20.

### **A great place to work**

At the heart of any great business are the people who work in it. With over 2,000 employees, our people strategy is centred around talented people doing great things for customers and each other and creating the best place to work.

### *Officially a Great Place to Work*

This year we asked employees how it feels to work for Pennon using Great Places to Work Best Workplace Survey. We achieved our highest ever participation rate of 84% and have officially passed the threshold to become accredited as a Great Place to Work. Our Trust Index score has increased to 68% - significantly higher than the national average of 53%.

These results show that we have made good progress during the year in embedding the Group's HR strategy but importantly in a year dominated by COVID-19, how we have worked hard to ensure our employees have felt supported.

Pennon was recognised as the winner in Britain's Most Admired Companies (Utilities) – the longest-running annual survey of corporate reputation in the UK. This award demonstrates our commitment to engaging employees in our strategy and the important role they play in delivering it.

### *Investing in future leaders*

We continue to embrace apprenticeships having awarded 161 during the last year, towards our target to offer 500 new apprenticeships by 2025, with a greater focus on recruiting operational apprentices to ensure we have the future skills to deliver essential services.

More recently we have launched our 2021 graduate programme which will offer 100 opportunities over the next 5 years. Our graduates will benefit from a 2-year structured programme of training, work experience and career development before moving into key permanent roles across the Group.

South West Water were the first water company, and the first company in the South West, to sign up to the Government's Kickstart scheme, offering 50 work placements for 16-24 year olds on universal credit and during 2020/21, we were pleased to welcome 25 new starters through this scheme on paid work placements.

#### *A diverse and inclusive place to thrive*

Building an agile, diverse and engaged workforce is central to Pennon's success. Pennon is now one of a handful of top FTSE businesses to have both a female CEO and Chair, and was once again listed in the 2021 Bloomberg gender equality index, as one of 380 companies globally committed to disclosing their efforts to support gender equality through policy development, representation and transparency. We have continued to make progress in this area through strong leadership and our gender diversity has improved for the third year running. With a workforce comprising of over 2,000 employees with a gender split of 71% male and 29% female, we have seen a 6% increase in the proportion of female employees during the year.

We are pleased to have been recognised once again as a top quartile company in the Hampton Alexander review, and our gender pay gap at 5.7% remains significantly below the national average of 15.5%.

As a further commitment to our Social Mobility Pledge, Pennon has joined the Purpose Coalition. Working alongside the Rt Hon Justine Greening we are producing an Opportunity Action Plan to help shape our plans and improvements in supporting social mobility during 2021.

The Group has also been recognised as an accredited Living Wage Employer, meaning that every member of staff working for the company earns a minimum of £9.50 an hour. The real Living Wage is higher than the Government's minimum, or National Living Wage, and is calculated each year and announced by the Living Wage Foundation. Pennon's commitment not only applies to directly employed staff but also to third party contracted staff.

In 2020, Pennon pledged its support to the CBI Change the Race Ratio initiative, a campaign to increase racial and ethnic participation in the senior leadership of companies, as a route to encouraging more diversity at all levels and was the first water company to do so.

#### **Operational delivery – driving performance through innovation**

South West Water has made a robust start to K7, driving performance and efficiency through innovation.

#### **Clean, safe and reliable drinking water**

Our focus remains on ensuring the supply of clean, safe and reliable drinking water, whilst protecting the precious natural resources within our region.

### *Improving water quality for customers*

We continue to target improvements in the quality of water for customers and have seen a c.20% reduction in taste, smell and colour contacts over 2020/21.

During the year, we have introduced a range of innovative raw water management techniques including reservoir mixing at Wistlandpound Reservoir and through the introduction of sonic technology aimed at reducing algae from raw water sources to our treatment sites.

We continue to target further improvements through our planned c.£90<sup>20</sup> million investment in new water treatment works in the Bournemouth Water region, with initial works commencing during the year.

### *Minimising customer supply interruptions*

We understand the importance that our customers place on having a reliable supply of drinking water, and the inconvenience that supply interruptions can cause. During 2020/21, we achieved our best ever performance level of 5 minutes 38 seconds, a c.40% year on year reduction for those customers who have an outage for more than three hours, two years ahead of target. We have also delivered a c.80% reduction in supply interruptions over 12 hours, achieving our 2025 target.

A key component of our strategy includes a dedicated, in-house supply continuity and alternative water supply team. Alongside this we have introduced innovative technology enabling repairs to the network under pressure. We have also introduced enhanced training and greater use of data analysis to support our focus on continuous improvement.

### *Delivering a resilient service*

During the year, demand has been higher than the previous year, as a result of the sustained stay at home measures during lockdown, along with a peak in demand driven by the hot, dry period in the spring and an increase in 'staycations' during the summer. Throughout the year, we successfully managed our water resources, balancing supply across the network to maintain safe and resilient supplies at all times, and our reservoir levels at 31 March 2021 remain robust at 97.0%, broadly in line with the prior year.

2020 was the 24<sup>th</sup> consecutive year without water restrictions in the South West Water region and maintained Bournemouth Water's track record of no water restrictions ever.

Our customers feel very strongly that we should prevent water from being lost due to leakage, and we continue to invest significantly to prevent and manage leaks on our network. Our water network was tested throughout the year with increased demand due to customer behaviour during the

---

<sup>20</sup> Excluding Ofwat's draft decision on Green Recovery



multiple lockdown periods and a higher than normal regional population given the significant proportion of second home ownership in our region. As a result, increased pumping has been required to more rural areas, away from concentrated urban environments. With a record number of bursts seen in early 2021, our teams provided a robust response to this increased network activity. This resulted in a c.40% increase in the number of leaks detected. Despite this, our leakage target was not achieved.

Our targeted action plan to recover leakage performance includes:

- Detection & repair – even more investment to reduce leak running times
- Focus on customer leaks – proactive identification and support for supply pipe repairs
- Data and control systems – increasing network monitoring and innovative combined smart meters
- Reducing our own use – making our operations more water efficient
- Reducing customer usage – water efficiency initiatives including customer education programmes to reduce demand.

## **Reliable wastewater services**

### *Reducing sewer collapses*

During the year we have delivered a c.20% reduction in the number of sewer collapses per 1,000km compared to last year, with benefits arising from our K7 early start enhanced sewer cleansing and monitoring programme.

Sewer collapses are a lead indicator for possible flooding and pollution from our network. The reducing trend demonstrates that our programmes to identify collapses through CCTV investigations and rapid repairs help reduce the more significant impacts of pollution and flooding on our customers and the environment.

### *Reducing internal flooding incidents*

We understand the impact that sewer flooding has on customers, and we continue to do all we can to reduce the likelihood of these events. As a result of our unwavering focus in this area we are pleased to have achieved our stretching 2025 commitment during 2020/21 – a c.35% improvement from 2019/20. We achieved this through the continuous review of processes and systems to deliver improvements, including a range of initiatives such as educational campaigns aimed at influencing customer behaviours, hydraulic modelling, enhanced CCTV and a dedicated investigation team supporting proactive targeting.

### *Improved wastewater compliance*

South West Water has made considerable progress in improving the standard of the water it returns to the environment over the past five years. During the year we achieved our best ever performance of 99% for the number of compliant wastewater treatment works in 2020 as we work towards a goal of 100%. We have enhanced treatment processes by embedding innovative techniques including the use of I-Phyc's algae-based treatment to sustainably remove phosphorus and micro-pollutants from sewerage and the introduction of peak load technology. This nature-based approach is beneficial to the environment, whilst reducing costs to operate with lower power and chemical consumption required.

### **Driving for environmental leadership**

Our New Deal business plan includes our largest environmental programme in 15 years, recognising that a healthy environment is vital for the long-term sustainability of the services we provide to customers.

### *Boosting biodiversity in our regions*

Our award winning 'Upstream Thinking' programme has driven an increase in the region's biodiversity since 2005. During 2020/21 we have recognised improvements at c.20,000 hectares in key catchments, improving both water quality and natural capital in our region.

We were pleased to have achieved our 2025 commitment to planting c.100,000 trees during the year and we continue to work closely in partnership with wildlife charities, national parks and farmers to deliver continued environmental benefits as we work towards planting an additional 150,000 trees over K7.

Our partnership with the North Devon Biosphere Foundation targets further improvement in water quality, quantity and soil health within the catchment. This project seeks to create a UK first, landscape scale environmental intelligence programme harnessing artificial intelligence, big data, remote sensing & satellite earth observation to build real-time and predictive models.

The Smart Biosphere triggers a range of economic activity, integrated supply chain development, apprenticeships and jobs in the emerging environment and natural capital economy, whilst also mitigating flood risks, and improving catchment predictability.

### *Bathing water quality improvements*

We are passionate about protecting and enhancing our regions' bathing waters. During the year we delivered capital improvements at four bathing waters, representing 50% of our commitment to 2025. The improvements to date include sustainable solutions such as sewer separation at Seaton in Cornwall with plans for separation at Dawlish and Budleigh Salterton in Devon. These projects help

support our commitment to maintaining excellent quality bathing waters, supporting the region's economy.

### **Dedicated pollutions focus delivering results**

We launched our Pollution Incident Reduction Plan in September 2020, which has delivered immediate and sustained improvements in our performance with the average number of monthly pollutions now less than half of that seen before the implementation of the new plan.

We are committed to delivering a step change in our performance in order to achieve the challenging targets set for K7. Our plan centres around the following key initiatives:

- Root cause analysis – enhanced data modelling supporting proactive interventions
- Control systems and early warning – dedicated task force and 24/7 incident recovery
- Asset specific plans – accelerated investments at key hotspot locations
- Influencing customer behaviour – targeted educational campaigns
- Improving our environmental culture – additional training, resources and empowerment for local teams to find and fix issues immediately.

### **Delivering for shareholders**

South West Water's strong operational and financial performance has contributed to a RORE<sup>^</sup> of 7.8%.

#### *Total expenditure (Totex<sup>^</sup>) savings*

Overall totex c.8% lower than in the Final Determination reflecting c.20% efficiency offset by c.8% advanced investments and c.4% increased expenditure in the areas of focus including pollutions and leakage. The momentum of cost efficiencies delivered to date in K7 is comparable to those in K6, with c.£70 million recognised during 2020/21.

The key enablers behind this continued outperformance:

- Innovation supporting delivery – including artificial intelligence and machine learning, alongside new technology such as remote operated vehicles to inspect service reservoirs and delivery of advanced algae based treatment solutions to reduce chemical usage
- Outcome-driven smart design – better monitoring of networks and asset condition, proactively targeting hot spots and using flow monitoring and modelling to reduce the scale of investment required

---

<sup>^</sup> Measures with this symbol <sup>^</sup> are defined in the Alternative Performance Measures (APMs) as outlined on pages 65 to 69

- Delivering investment efficiently – packaging of work for effective delivery such as bringing forward delivery of bathing water capital investments to take advantage of economies of scale, as well as outperforming our ODI commitments
- Operational ways of working – refining business activities within our operations including the introduction of centralised control centres and incident management, cross business teams to drive compliance and focusing on water and energy efficiency at our sites
- Right sourcing – continuing to build on our successful relationships with strategic suppliers – increasing flexibility and out-of-hours responsiveness to minimise adverse impacts for customers
- Support & administrative services – identifying the optimal level of support to effectively deliver our commitments to customers.

### *Financing*

Our efficient financing strategy continues to drive outperformance with South West Water's effective interest rate<sup>^</sup> at 2.5% (2019/20 3.4%), significantly lower than Ofwat's nominal cost of debt of 4.2%. Over half of the 90 basis point reduction from the prior year is linked to active management of our debt portfolio in the current rate environment, whilst the remainder relates to index-linked debt.

### *Outcome Delivery Incentives<sup>^</sup>*

In 2020/21, South West Water achieved c.80%<sup>21</sup> of its ODIs across a broad range of challenging bespoke, common and comparative measures.

7 ODIs have achieved their 2025 target four years early – representing areas of excellence, with a further 12 outperforming their 2020/21 target, and 15 achieving their target or on track.

For those areas marginally underperforming their target, we have introduced dedicated initiatives to deliver the improvements in performance required in future years.

Overall, ODIs for the year resulted in a net penalty of £8.8 million, largely as a result of our wastewater pollutions performance, reflecting an annual equivalent RORE<sup>^</sup> underperformance of 0.7%. If pollutions and EPA<sup>22</sup> were excluded, the net reward would have been £4.4 million, equivalent to +0.3% ODI RORE outperformance.

---

<sup>^</sup> Measures with this symbol <sup>^</sup> are defined in the Alternative Performance Measures (APMs) as outlined on pages 65 to 69

<sup>21</sup> On track or within regulatory tolerances

<sup>22</sup> Environment Agency – Environment Performance Assessment

The table below summarises the RORE<sup>^</sup> position:

| <b>RORE</b>                         | <b>2020/21</b> |
|-------------------------------------|----------------|
| Base return                         | 3.9%           |
| Totex performance                   | 2.5%           |
| ODI performance                     | (0.7%)         |
| Financing performance               | 2.1%           |
| <b>WaterShare RORE<sup>23</sup></b> | <b>7.8%</b>    |
| <i>Ofwat RORE<sup>24</sup></i>      | 6.7%           |

### **Pennon Water Services – customer growth despite a challenging environment**

Pennon Water Services demonstrated its resilience during a year of significant economic uncertainty by engaging proactively with its customer base whilst continuing to win new contracts and delivering against its strategic priorities, prioritising the safety of its employees, customers, and the communities it serves. Its continued focus upon simple, transparent, sustainable, and innovative retail services delivered low levels of customer attrition, contact wins and high levels of customer satisfaction.

During the year non-household demand has been impacted by COVID-19 due to restrictions on customer's operations in some sectors, with numerous customers being identified as temporarily vacant within the market.

#### *Supporting the market*

Pennon Water Services took an active role in engaging constructively with MOSL, regulators and other market stakeholders on measures designed to protect businesses and the water industry from the effects of COVID-19. It worked closely with Ofwat, the UK Water Retailer Council (WRC) and jointly chaired the Retail Wholesale Group (RWG) and as a Code Panel representative was instrumental in helping to form opinion on measures designed to protect the market and business interests. It devised customer support mechanisms in line with the resulting changes to the Customer Protection Code of Practice to assist businesses who were struggling to deal with the impacts of COVID-19, balancing its own interests by employing a fair but robust collections strategy.

We note Ofwat's recent decision to limit the potential risk of bad debt exposure to retailers in the market to a maximum of 2% of revenue. For 2020/21 our bad debt charge was 0.6% of revenue, broadly in line with prior year (0.4% in 2019/20) despite the challenges our customers have faced.

<sup>23</sup> Watershare RORE – financing outperformance is based on the outturn effective interest rate translated into an effective real interest rate using K7 forecast CPIH of 2.0% (consistent with the FD)

<sup>24</sup> Based on Ofwat's K7 approach to RORE, including total tax impacts and using actual average inflation for totex and financing

Given the potential uncertainty regarding the economic recovery over the next year, this regulatory intervention provides all retailers with reassurance with an effective cap on bad debt risk.

#### *Focus upon safety, people and customer service*

Our customer service operations and contact centre have continued to operate effectively through the year and we continue to focus on cash collections, which remain robust. This has largely been achieved by working closely with customers and understanding their business requirements. Our customer centric approach continues to underpin the provision of outstanding service and remains a key differentiator in the market as recognised through an excellent Trustpilot score.

#### *Market share*

Despite a landscape of economic uncertainty Pennon Water Services was able to grow its market share in line with its strategic plan through its strong reputation with market stakeholders and customers, delivering c.£20 million of new annualised contract wins, whilst retaining business secured in prior financial years. The new wins included quality, national customers including Princes Foods, Mars and Smurfit Kappa.

### **Strong platform for growth**

#### *Consolidation in the water sector*

The future for the Group is strong with further consolidation in the water sector, building on the success of the Bournemouth Water acquisition in 2015. Bristol Water is an accretive acquisition being a profitable business with over 1.2 million customers. The business combination will increase the size and scale of the Group, providing meaningful benefits for a combined group of 3.5 million customers as well as our shareholders and will increase the Group's RCV by c.16%, supporting long-term, sustainable returns. The Group's track record in delivering significant efficiency improvements and optimisation by expanding our successful operating model can deliver greater outperformance for customers and shareholders into the future.

#### *Isles of Scilly*

2020/21 saw the expansion of our licence to include the Isles of Scilly with operations transferred seamlessly into South West Water. Assets were successfully transferred, key suppliers are now in place and our operational teams continue to work hard to deliver essential water and wastewater services. Work is well underway to deliver improvements in critical infrastructure as well as improvements for both customers and the environment, with this investment reflected in South West Water's RCV.

## *Green recovery*

Following the UK Government's commitment to both build back better and build back greener, we were pleased to have been asked to consider ways in which we could support the green economic recovery. Our Green Recovery Initiative, developed with customers and stakeholders, proposed a set of schemes benefiting our region – delivering significant benefits for customers, society and the environment.

On 17 May 2021, following a detailed assessment by Regulators, Ofwat published their draft green economic recovery decision, outlining c.£80 million of additional environmental investment for South West Water's Green Recovery Initiative over the period to 2025, with no impact to customer bills in K7. This represents RCV growth of 2.9%<sup>25</sup>

Our proposals incorporate an important and manageable set of schemes in addition to our existing K7 business plan commitments – supported by our customers, with a customer acceptance rating of 81%, along with the support of South West Water's independent WaterShare+ Advisory Panel.

Our Green Recovery Initiative provides much needed investment that will support the creation of up to 500 additional jobs across our regions over the next four years and provide further opportunities for South West Water's existing workforce to gain new green skills.

Ofwat's draft decision will allow us to take extra action on the most pressing environmental issues. Our proposals include a range of initiatives which include taking action to eliminate harm from storm overflows and trialling improvements to river quality to match standards of bathing waters. Alongside this, many of our initiatives also support the achievement of our ambitious net zero carbon commitment including extensive peatland restoration in the South West, the development of our low-carbon water treatment works, and helping customers to create smarter, healthier homes.

More information on South West Water's Green Recovery Initiatives can be found on our website: [www.pennon-group.co.uk/investor-information/green-recovery](http://www.pennon-group.co.uk/investor-information/green-recovery)

## **Living our purpose – a sustainable future**

Understanding our role in society is crucial to maximising the value we create for stakeholders. We are proud that our ongoing commitment to do the right thing, in the right way has continued to deliver sustainable results providing essential services to customers and communities.

---

<sup>25</sup> Based on 31 March 2020 RCV – 2017/18 prices

### *Net zero by 2030*

The Group is committed to achieving net-zero carbon emissions by 2030 to support the drive for ambitious climate change action. Achieving Net Zero will enable us to transform into a different kind of water company. Our plans are driven by a combination of activities, structured through three key pillars – bringing wider benefits to the South West:

- Sustainable living
  - Reducing emissions through operational practices, increasing energy efficiency and using lower carbon fuel sources
  - Reducing leakage and helping customers to use less - protecting the environment and saving carbon
- Championing renewables
  - Targeting c.50% renewable energy generation at our sites across the South West - working with partnerships and utilising our expertise in this area
  - Where we cannot generate enough ourselves to meet all our needs, 100% of the energy we purchase will be from renewable sources
- Reversing carbon emissions
  - Working in partnership to deliver natural carbon sequestration through peatland restoration and tree planting
  - Supporting the development of innovative solutions to develop low carbon footprint processes through research & development.

### *Sustainability at the heart of our business*

Our ESG strategy continues to deliver with some good progress made in the past year. The strategy is underpinned by three key objectives:

- Protecting and enhancing our environment for the generations to come
- Supporting our people and communities
- Being a responsible business for all our stakeholders.

Highlights over the past year include the establishment of our new ESG capitals framework, strong performance across external ESG ratings and significant progress implementing the TCFD<sup>26</sup> recommendations.

As part of our ESG strategy we set targets to improve our natural and social capital from a 2019/20 baseline. We have since expanded this to produce our new ESG Capitals Framework, aligned with

---

<sup>26</sup> Task Force of Climate-related Financial Disclosures



internationally accepted Capitals Frameworks structured around, and building on, our existing ESG strategy.

Our new Capitals strategy will support decision making to deliver the best outcomes for our customers, communities and the environment. The reporting of our Capitals performance ('net impact') is one phase of our planned Capitals programme which includes:

- ESG aligned Capitals Framework and accompanying metrics
- Applying appropriate valuations to inform our understanding and use of Capitals information
- Embedding our Capitals approach in our planning and decision making
- Collaboration with regional partners to apply Capitals thinking in practice
- Enhanced reporting and assurance of our performance.

### **Capital markets day**

We look forward to sharing further information about our plans at our Capital Markets Day in September 2021.

## GROUP FINANCE DIRECTOR'S REVIEW

We have realised substantial value from the sale of Viridor, enabling further investments in UK water, repayment of Group debt, additional contributions into our pensions scheme and returns to shareholders. Following the sale of Viridor, the Continuing Group in 2020/21 comprises the two operating companies of South West Water and Pennon Water Services. The disposal of Viridor was announced prior to the previous financial year end and the comparatives as reported last year reflect the results of the Continuing Group.

| <b>Underlying<sup>^</sup></b>   | <b>FY 2020/21</b>    | <b>FY 2019/20</b>    | <b>Change</b>  |
|---|----------------------|----------------------|----------------|
| Revenue   | £644.6m              | £636.7m              | +1.2%          |
| Operating costs   | (£309.9m)            | (£271.4m)            | (14.2%)        |
| EBITDA <sup>^</sup>   | £334.7m              | £365.3m              | (8.4%)         |
| Depreciation and amortisation   | (£119.4m)            | (£119.8m)            | +0.3%          |
| Operating profit  | £215.3m              | £245.5m              | (12.3%)        |
| Net interest charge   | (£58.3m)             | (£62.5m)             | +6.7%          |
| <b>Profit before tax</b>  | <b>£157.0m</b>       | <b>£183.0m</b>       | <b>(14.2%)</b> |
| Non-underlying items before tax <sup>27</sup>                         | (£24.9m)             | £10.1m               | -              |
| Profit before tax   | £132.1m              | £193.1m              | (31.6%)        |
| Tax   | (£24.8m)             | (£70.6m)             | +64.9%         |
| Discontinued operations   | £1,654.7m            | £83.8m               | -              |
| <b>Profit for the year</b>  | <b>£1,762.0m</b>     | <b>£206.3m</b>       | <b>+754.1%</b> |
| <b>Adjusted earnings per share</b>                                    |                      |                      |                |
| - Adjusted EPS <sup>28</sup> - continuing operations                  | 31.9p                | 35.2p                | (9.4%)         |
| - Adjusted EPS <sup>28</sup> - continuing and discontinued operations | 42.1p                | 61.7p                | (31.8%)        |
| <b>Statutory earnings per share</b>                                   |                      |                      |                |
| - Basic EPS - continuing operations                                   | 25.5p                | 27.7p                | (7.9)%         |
| - Basic EPS - continuing and discontinued operations                  | 418.5p               | 47.7p                | +777.4%        |
| Dividend per share <sup>29</sup>                                      | 21.74p               | 43.77p               | N/A            |
| Capital investment  | £168.5m              | £161.6m              | +4.3%          |
| - South West Water  | £168.2m              | £161.0m              | +4.5%          |
| - Other   | £0.3m                | £0.6m                | (50.0%)        |
|   | <b>31 March 2021</b> | <b>31 March 2020</b> |                |
| Total Group net cash/(debt)   | £64.3m               | (£3,264.0m)          |                |

<sup>^</sup> Measures with this symbol <sup>^</sup> are defined in the Alternative Performance Measures (APMs) as outlined on pages 65 to 69

<sup>27</sup> Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of financial performance

<sup>28</sup> Earnings per share before deferred tax and non-underlying items

<sup>29</sup> The CPIH rate used is 1.0% as of 31 March 2021

## **Profit from discontinued operations**

The sale of Viridor resulted in record profits in the year with profit from discontinued operations of £1,654.7 million, including trading to the date of disposal, non-underlying cost items associated with the disposal of £75.6 million (before tax), and the gain on disposal of £1,682.7 million.

The gain on disposal reflects our best estimate of the deferred consideration and finalisation of the completion balance sheet. As required under IFRS, a range of possible outcomes in connection with the deferred consideration has been considered and each outcome is probability weighted to determine the fair value of the deferred consideration recognised. Latest available information has been used to update this assessment and the fair value of deferred consideration has been adjusted accordingly. This adjustment does not impact the cash proceeds previously reported.

The results for discontinued operations include a tax credit of £4.3 million (2019/20 £24.6 million charge) relating to the trading of Viridor up to the point of disposal and subsequent retirement of debt originally drawn to fund Viridor's investment strategy. The gain on the sale of Viridor qualifies for the Substantial Shareholding Exemption and as such is not subject to corporation tax.

## **Resilient financial performance from the Continuing Group**

Despite the challenges posed by COVID-19 the performance of the business has been in line with management expectations, with revenues marginally higher than expected with the pandemic impacting demand patterns as outlined in more detail below.

Underlying Continuing Group revenue has increased by 1.2% (£7.9 million) to £644.6 million (2019/20 £636.7 million). Higher than expected household demand, driven by lockdown restrictions, and the impact of new contract wins for Pennon Water Services outside the South West Water region has outstripped the expected reductions arising from the transition to the new K7 regulatory period (£19.5 million) and the impact of COVID-19 on non-household demand. The contract wins for Pennon Water Services contributed to revenue growth of £24.8 million compared to last year.

Statutory revenue of £624.1 million reflects the reduction from the £20.5 million Watershare+ credit to customer bills.

Underlying operating costs are £309.9 million (2019/20 £271.4 million) reflecting inflationary impacts, specific costs relating to COVID-19 in South West Water and higher wholesale charges in Pennon Water Services from new business won outside of the South West Water region.

Cash collections in both South West Water and Pennon Water Services have remained robust throughout the year. Underlying expected credit loss charges of £2.8 million (0.5% of revenue) and £1.0 million (0.6% of revenue), respectively, are in line with the previous years' levels of 0.5% and

0.4%. At 31 March 2020 the Continuing Group recognised a non-underlying charge for expected credit losses in relation to COVID-19 of £7.9 million. The majority of the expected credit loss provision that was created from this non-underlying charge remains in place, with the full impact of the pandemic on collections not expected to be fully known until such point as the Government's relief measures are withdrawn and the economy starts to be fully re-opened.

Overall, profitability has been resilient with a modest financial impact from COVID-19. Group EBITDA<sup>^</sup>, before non-underlying items, has reduced in line with our expectations by 8.4% to £334.7 million (2019/20 £365.3 million), reflecting the revenue impact of the K7 regulatory reset. Underlying profit before tax<sup>^</sup> was £157.0 million (2019/20 £183.0 million) and included the year on year reduction in net finance costs, benefitting from the efficient financing that has been put in place.

### South West Water

| Underlying <sup>^</sup>       | FY 2020/21 | FY 2019/20 | Change |
|-------------------------------|------------|------------|--------|
| Revenue <sup>30</sup>         | £563.0m    | £570.3m    | (1.3%) |
| Operating Costs               | (£222.4m)  | (£206.1m)  | (7.9%) |
| EBITDA <sup>^</sup>           | £340.6m    | £364.2m    | (6.5%) |
| Depreciation and amortisation | (£118.3m)  | (£118.8m)  | +0.4%  |
| Operating profit              | £222.3m    | £245.4m    | (9.4%) |
| Net interest charge           | (£57.7m)   | (£71.4m)   | +19.2% |
| Profit before tax             | £164.6m    | £174.0m    | (5.4%) |

South West Water underlying revenue for 2020/21 of £563.0 million has reduced by 1.3% (£7.3 million) compared with last year (2019/20 £570.3 million). This expected reduction has arisen from the transition to the new K7 regulatory period, net of inflationary increases. South West Water has seen a net increase in demand from COVID-19 with higher household demand (c.9%) more than offsetting the expected reduction in non-household demand (c.22%) and developer services revenue as a result of reduced construction activity during lockdown and subsequent restrictions.

Operating costs of £222.4 million increased by £16.3 million compared to £206.1 million in 2019/20. This increase principally reflects:

- Cost increases including inflationary impacts of c.£8 million, reflecting annual pay increases, higher power costs, reflecting our energy risk management to mitigate volatility
- Additional operating costs of c.£2 million to support operations impacted by COVID-19, including personal protective equipment and IT related costs
- Expansion to the Isles of Scilly of c.£1 million

<sup>^</sup> Measures with this symbol <sup>^</sup> are defined in the Alternative Performance Measures (APMs) as outlined on pages 65 to 68  
<sup>30</sup> Includes wholesale revenue for non-household customers

- Other cost increases including the impact of maintaining supplies during peak demand have been partly offset by continued efficient delivery.

A COVID-19 bad debt provision of c.£3 million was recognised in March 2020 and remains largely intact. Cash collections have remained robust with underlying bad debt costs c.0.5% of revenue, in line with last year.

South West Water's underlying EBITDA<sup>^</sup> and operating profit reduced by 6.5% and 9.4%, respectively, in line with our expectations for the first year of the new regulatory period.

The Group's efficient funding and hedging strategy resulted in a reduction in net interest costs for South West Water of £13.7 million to £57.7 million (2019/20 £71.4 million), as new hedges at lower rates commenced at 1 April 2020.

South West Water's capital expenditure this financial year was £168.2 million, compared to £161.0 million in 2019/20, reflecting planned and advanced expenditure in both water and wastewater operations offset by efficient delivery of schemes in conjunction with key partners.

Advanced expenditure includes the delivery of two bathing water quality improvements ahead of schedule with economies of scale achieved through the delivery of multiple schemes at the same time.

Significant investment continues to be advanced with earlier than planned upgrades in our network to accelerate our plan to deliver a 15% reduction in leakage by 2025. This includes proactive network replacement at susceptible locations and the installation of combined smart meters with acoustic loggers to improve monitoring.

Upgrades to water treatment works continue with the completion of the granular activated carbon filters installed at College water treatment works and the commencement of installation of granular activated carbon and UV filters at other locations including Stithians and Littlehempston. Work also commenced during the year on our new water treatment works in Bournemouth with pilot plants built to test our innovative technology with the unique raw water supplies in those catchments.

As part of our focus on reducing wastewater pollution incidents, additional expenditure has been incurred upgrading wastewater treatment works and pumping stations at key locations with a greater risk of pollution events.

---

<sup>^</sup> Measures with this symbol <sup>^</sup> are defined in the Alternative Performance Measures (APMs) as outlined on pages 65 to 69

## Pennon Water Services

| Underlying <sup>^</sup>                        | FY 2020/21      | FY 2019/20       | Change         |
|--|-----------------|------------------|----------------|
| Revenue  | £162.8m         | £173.5m          | (6.2%)         |
| <i>SWW wholesale elimination</i>               | <i>(£81.6m)</i> | <i>(£106.4m)</i> | <i>(23.3%)</i> |
| <i>Revenue – external to the Group</i>         | <i>£81.2m</i>   | <i>£67.1m</i>    | <i>+21.0%</i>  |
| Operating Costs <sup>31</sup>                  | (£161.4m)       | (£171.6m)        | +5.9%          |
| <i>SWW wholesale elimination</i>               | <i>£81.6m</i>   | <i>£106.4m</i>   | <i>+23.3%</i>  |
| <i>Operating Costs – external to the Group</i> | <i>(£79.8m)</i> | <i>(£65.2m)</i>  | <i>(22.4%)</i> |
| EBITDA <sup>^</sup>                            | £1.4m           | £1.9m            | (26.3%)        |
| Depreciation and amortisation                  | (£0.7m)         | (£0.7m)          | -              |
| Operating profit                               | £0.7m           | £1.2m            | (41.7%)        |
| Net interest charge                            | (£1.7m)         | (£1.6m)          | (6.3%)         |
| Loss before tax                                | (£1.0m)         | (£0.4m)          | (150.0%)       |

Throughout 2020/21 Pennon Water Services' business customers have been impacted by COVID-19. The initial lockdown in the first quarter of 2020/21 caused a significant reduction in non-household demand whilst businesses adjusted to new ways of working. Demand increased across the second quarter of 2020/21 with a largely normal summer holiday season but was further impacted by business closures over the winter, particularly in the leisure and hospitality industries.

The overall impact on revenues for Pennon Water Services, excluding the impact of new contract wins, is a reduction of c.16% compared to the prior year. Despite the impact of the pandemic, Pennon Water Services has made revenue gains through tender activity with c.£20 million of new business compared to last year. Non-wholesale operating costs have remained stable and the business has maintained positive EBITDA<sup>^</sup> despite the significant demand reductions.

The business continues to maintain its focus on targeting high quality, sustainable customers who will benefit from the value-added services that form part of Pennon Water Services' differentiated service proposition.

Pennon Water Services demonstrated its resilience during a year of significant economic uncertainty by engaging proactively with its customer base whilst continuing to win new contracts and delivering against its strategic priorities. Overall, the business had the largest revenue impact of COVID-19 for the Group because of temporary business closures. Pennon Water Services has continued to leverage its deep customer knowledge, supporting those customers who find themselves in financial difficulty. With the reopening of non-essential businesses, a return to more normal levels is anticipated during 2021/22.

<sup>^</sup> Measures with this symbol <sup>^</sup> are defined in the Alternative Performance Measures (APMs) as outlined on pages 65 to 69

<sup>31</sup> Includes wholesale costs for non-household customers

## **Group net finance costs**

The Group continues to secure funding for South West Water through its Sustainable Financing Framework and has efficiently hedged c.50% of its interest rate risk through the K7 regulatory period. As a result, the effective interest rate<sup>^</sup> for South West Water is 2.5%, representing a 90 basis point reduction in comparison to last year.

Underlying net finance costs for the Continuing Group of £58.3 million are £4.2 million lower than last year (2019/20 £62.5 million), benefitting from the efficient financing that has been achieved.

## **Profit before tax before non-underlying items**

Group underlying profit before tax<sup>^</sup> is £157.0 million compared with the prior year of £183.0 million. This reflects the expected reductions in South West Water of £9.4 million, resulting from the K7 revenue reset offset by financing efficiencies, in addition to losses before tax in Pennon Water Services of £1.0m and other costs of £6.6 million. The other segment includes interest costs on debt held at the Pennon company level for the Continuing Group offset by interest receivable on cash retained from the Viridor disposal.

## **Non-underlying items before tax**

For the Continuing Group, non-underlying items for 2020/21 total a charge before tax of £24.9 million (2019/20 credit of £10.1 million). The Directors believe excluding non-underlying items provides a more useful comparison of business trends and performance.

The non-underlying charge of £24.9 million consists of:

- £20.5 million reduction in revenue being the recognition in full of Watershare+, a pioneering scheme which shares our success with customers, empowering customers with a stake and a say in the business. Customers were given the option to receive their share, which equates to £20 per customer, as either a credit on their bill, or as shares in Pennon Group
- A non-underlying curtailment charge of £4.4 million has been recognised in respect of the Continuing Group's principal pension scheme which arises from the decision to close the main defined benefit scheme to future accrual with effect from 1 July 2021.

A tax credit of £4.8 million<sup>32</sup> has been recognised on the above items.

---

<sup>^</sup> Measures with this symbol <sup>^</sup> are defined in the Alternative Performance Measures (APMs) as outlined on pages 65 to 69

<sup>32</sup> £3.9 million current tax credit and £0.9 million deferred tax credit

## **Taxation**

The overall tax charge for the Continuing Group is £24.8 million (2019/20 £70.6 million). On an underlying basis, the net tax charge for 2020/21 for the Continuing Group of £29.6 million (2019/20 £38.4 million) consists of:

- Current year current tax charge of £23.7 million, reflecting an effective tax rate of 15.1% (2019/20 £28.6 million, 15.6%). The lower effective rate versus the UK's mainstream corporation tax rate of 19% reflects the accelerated level of capital allowance claims available to the Group compared with the depreciation charge and tax relief on accelerated pension payments made during the year and in recent years
- Current year deferred tax charge of £6.2 million (2019/20 £6.7 million) primarily reflects capital allowances across the Group in excess of depreciation charged together with relief on pension contributions
- In relation to prior years, there is a:
  - Current tax credit of £0.7 million (2019/20 £0.3 million credit), as a result of the submission of the tax computations in prior years
  - Deferred tax charge of £0.4 million (2019/20 £3.4 million credit), reflecting the submission of the tax computations in prior years.

The 2020/21 non-underlying items result in a £4.8 million credit (2019/20 £32.2 million charge), reflecting current tax relief on the cost of the WaterShare+ scheme and future tax relief available on pension contributions.

## **Earnings per share**

Statutory earnings per share from the Continuing Group and discontinued operations of 418.5p (2019/20 47.7p) include the profit from the sale of Viridor and non-underlying charges in discontinued operations resulting from the restructuring of debt that was drawn to fund Viridor's growth programme.

## **Robust cash collections**

Cash generation has remained robust despite the potential for disruption from COVID-19. The Continuing Group's total operational cash inflows<sup>^</sup> in 2020/21 were £396.8 million (2019/20 £449.4 million) with the reduction being driven from the expected decline in underlying EBITDA<sup>^</sup> (c.£30 million) and the impact of the Watershare+ scheme being applied to customer bills in the second half of the year (c.£20 million). Working capital has remained stable with significant focus on managing collections. Cash collections have remained resilient throughout the year in both South West Water and Pennon Water Services, despite the increased risks arising from the pandemic.



These funds adequately support our effective finance structures (net interest paid<sup>33</sup> £66.3 million) and capital investment programme<sup>^</sup> (£157.6 million). Interest payments for the Continuing Group are higher than the net finance costs recognised in the income statement due to the timings on interest settlements impacting the levels of accrued interest compared to this same time last year.

The sale of Viridor generated net cash proceeds of £3,690.2 million after transaction costs<sup>34</sup> and settlement adjustments required under the purchase agreement. The Group's net debt was further reduced by the net debt disposed of with Viridor of £179.0 million.

Other significant impacts on net debt include the Group's decision to repay its perpetual capital securities of £300.0 million in May 2020, a £36.0 million contribution to its principal pension scheme, other pension payments in settling obligations transferred from Viridor and costs incurred in restructuring debt following the Viridor sale.

Following the above, and the payment of our interim and final dividends for full year 2019/20, the Group held a net cash position at 31 March 2021 of £64.3 million (31 March 2020 total Group net debt £3,264.0 million).

### **Efficient long-term financing strategy**

The Group has undertaken a review of the portfolio of Pennon company debt following the sale of Viridor and at the year end was in a net cash position.

During the year the Group has repaid the perpetual capital securities and restructured the remaining Pennon Group company debt, repaying c.£1.1 billion of debt originally drawn to Fund Viridor's investment strategy, to provide an ongoing sustainable portfolio aligned to the Group's requirements.

South West Water's cost of finance, with an effective rate<sup>^</sup> of 2.5% is among the lowest in the industry, continuing to benefit from the use of finance leasing as the main source of funding in the portfolio which provides long maturity at fixed margins, secured at the inception of each lease.

South West Water has a mix of fixed/swapped (£1,350 million, 62%), floating (£270 million, 12%) and index-linked borrowings (£579 million, 26%). South West Water's debt has a maturity of up to 36 years with a weighted average maturity of c.19 years. New debt has been fixed to align to iBoxx indices in line with Ofwat's approach to allowed cost of debt. Where appropriate, derivatives are used to fix the rate on floating rate debt.

---

<sup>^</sup> Measures with this symbol <sup>^</sup> are defined in the Alternative Performance Measures (APMs) as outlined on pages 65 to 69

<sup>33</sup> Total Group interest paid of £80.2 million less Total Group interest received of £4.3 million, less net interest paid relating to discontinued operations of £9.6 million

<sup>^</sup> Measures with this symbol <sup>^</sup> are defined in the Alternative Performance Measures (APMs) as outlined on pages 65 to 69

<sup>34</sup> Transaction costs of £63 million

South West Water's index linked debt is below Ofwat's notional assumption of 33% and is amongst the lowest in the industry. This gives a comparative advantage through the regulatory transition from RPI to CPIH, given the uncertainty and volatility around pricing of the wedge between RPI and CPI. In addition to this, the CPI and CPIH markets have continued to develop over the last year, and following the announcement regarding RPI reform the Group is following these developments and we will seek to issue new index-linked instruments to maintain our position as required, following our first CPI instrument in 2019/20.

The combined South West Water and Bournemouth Water debt to RCV<sup>35</sup> ratio is 64.8%<sup>36</sup> (31 March 2020 62.3%). Gearing at South West Water is expected to fall during this regulatory period with a trajectory towards Ofwat's notional structure of 60% by 2025.

### **Sustainable and robust funding position**

The Group has a strong liquidity and funding position with £3,204 million cash and committed facilities at 31 March 2021. This consists of cash of £2,919 million (including £251 million of restricted funds representing deposits with lessors against lease obligations) and £285 million of undrawn facilities. £2,496 million of the cash holdings are held at the Pennon company level.

Following the sale of Viridor, Pennon has also reduced the number of Revolving Credit Facilities (RCFs), reflecting the reduced ongoing requirement.

Given the current low interest rate environment, the Group's cash is being managed to provide flexibility and liquidity to meet any required cashflow needs whilst ensuring appropriate security and counterparty limits are observed.

South West Water net debt at 31 March 2021 was £2,199 million, slightly lower than the previous year (31 March 2020 £2,227 million). During the year to March 2021, South West Water signed £120 million of new and renewed facilities. Following the continued success of our Sustainable Financing Framework, a new £30 million long funding finance lease and our first green private placement will provide support for our sustainable projects under the Green Loan Principles. Additionally, the renewed facility extends the existing debt maturity providing additional efficient funding for South West Water in the current low rate environment.

Our 2020 Sustainable Financing Impact Report was published in September, detailing the progress we have made in this area and the allocation of funding to our sustainable projects in water and wastewater to support our communities.

---

<sup>35</sup> RCV as published in South West Water's Final Determination (2020-25), recognising the omission of data not included by Ofwat in relation to IFRS16: *Leases*

<sup>36</sup> Based on regulatory capital value (RCV) at 31 March 2021 and South West Water Group net debt including impact of IFRS 16: *Leases*. Regulatory South West Water Limited gearing is 67.0% at 31 March 2021 (64.6% at 31 March 2020)

In preparation for the cessation of LIBOR in December 2021, the Group is following current recommendations from regulators and progressing our transition plans. Having completed our first LIBOR to SONIA amendment for a sustainable RCF in 2020, we are engaging with our banking counterparties to ensure we are well placed for the transition. We have agreed transition language for our facilities to switch to SONIA with a number of our counterparties and are currently progressing with our hedge accounting analysis before finalising the transition.

### **Post Viridor sale debt restructuring**

Immediately prior to the Viridor disposal, the implied Pennon company borrowings, being Group borrowings not relating to South West Water, totalled c.£1.2 billion. The significant majority of these borrowings were originally drawn to fund the investment phase of Viridor.

The restructuring of Pennon company debt has been completed since the disposal, with c.£1.1 billion principal debt repaid to 31 March 2021. The majority of this debt was floating rate and has therefore been repaid at par showing the flexible approach secured when financing Viridor's energy recovery facility investment phase. The swift repayment of this debt has also resulted in minimising the cost of carry on these instruments. There were a limited number of derivative transactions used to maintain our interest rate risk within the treasury policy which would no longer achieve hedge accounting and have therefore been terminated in line with the Group's policy to minimise income statement volatility.

The Group also retired certain fixed rate debt during 2020/21. Given the commitments under these fixed rate agreements make whole costs were applicable. The debt was terminated at a value accreting basis where a discount to the full documented make whole cost was achieved. As part of this restructuring, the short-dated Pennon bond due in 2022 could not be immediately terminated in full, but the launch of a tender process successfully reduced the debt to £30 million, from £100 million, by 31 March 2021. £74.4 million of non-underlying charges have been reflected in the profit from discontinued operations in respect of the costs of debt retirement, including £17.6 million of make whole costs incurred on debt retired during the second half of the financial year.

### **Pensions**

As part of its long-term pension strategy, the Group completed its employee consultation on plans to modernise its ongoing pension arrangements in the first half of the year. The outcome of the consultation resulted in a decision to close Pennon's principal defined benefit scheme to future accrual with effect from 1 July 2021 with all employees transitioning to a new defined contribution scheme offered through a master trust arrangement. This has resulted in a non-underlying curtailment charge of £4.4 million.

At 31 March 2020, the Group's pension schemes showed an aggregate deficit (before deferred tax) of £8.5 million, of which a surplus of £6.6 million related to the Continuing Group and a deficit of £15.1 million related to Viridor. Post the sale of Viridor, the Group surplus at 31 March 2021 is £8.8 million reflecting the following principal movements:

- £12.2 million increase in deficit from adverse movements in financial and other actuarial assumptions (notably, corporate bond yields) increasing the liabilities by c.£72 million being offset by asset outperformance of c.£60 million
- £36.0 million additional contributions to Pennon's principal pension scheme made at the time of the Viridor disposal, over and above the scheduled deficit recovery contributions
- £21.9 million increase in net pension liabilities relating to the transfer and settlement of certain pension obligations in connection with Viridor, and the impact of closing the principal defined benefit scheme to future accrual.

The Group continues to simplify its defined benefit pension arrangements. In March 2021 residual assets and liabilities from the sections of the Citrus pension schemes were transferred into the Group's principal pension scheme, Pennon Group Pension Scheme (PGPS). This completes the consolidation of the defined benefit pension arrangements in to one scheme. A contribution of £6 million was made to PGPS in April 2021 to maintain funding levels following this transfer.

The March 2019 triennial valuation of PGPS resulted in an actuarial valuation deficit of £53.0 million. Agreed deficit recovery contributions of £31.9 million and £2.9 million were made in the year to March 2020, and March 2021 respectively, with an outstanding agreed payment of £0.4 million due in March 2022. Following these recovery payments and additional responsible contributions following the Viridor disposal and scheme consolidation programme, as at 31 March 2021, PGPS is approximately 103% funded under the agreed technical provisions in the 2019 valuation.

In connection with the proposed return of capital to shareholders, a further £17.0 million payment will be made in to PGPS. Following this payment, the Company will have contributed £59.0 million into PGPS, representing approximately 2% of the proceeds, after debt retirements. Adjusting for these additional payments at 31 March 2021 PGPS would be c.106% funded against its technical provisions.

### **Use of residual proceeds**

Following the sale of Viridor and the receipt of £3.7 billion net cash proceeds, the Board has employed a structured approach to capital allocation, ensuring the most efficient and effective use of capital in order to maximise shareholder value.

### *Right-size balance sheet and gearing*

As detailed above, we have effectively rationalised Pennon's debt portfolio in order to lower ongoing interest charges and ensure a sustainable and appropriate level of gearing for the Group and our ring-fenced water business. We are targeting gearing (Net debt to RCV) of <65% at Group level and around 60% in our water business by the end of K7 (2025).

We have also made responsible pension contributions, ensuring appropriate levels of funding for our remaining defined benefit pension scheme, reducing risk going forwards.

#### *Investing for growth in UK water*

We have employed a highly disciplined approach to assessing opportunities for growth to ensure that any acquisition will deliver long term value through EPS accretion, synergistic totex savings and RCV growth. In addition, capital investment in South West Water's Green Recovery Initiative will also support organic RCV growth in the longer term.

Today we announced the acquisition of Bristol Water for a cash consideration of £425 million. Bristol Water is a profitable regulated water only company serving a population of approximately 1.2 million customers in the Bristol region, with an RCV of £555.9 million as at 31 March 2021. This is subject to regulatory approval from the Competition and Markets Authority.

For the year ended 31 March 2021, the acquired businesses had combined unaudited revenues of £118 million, operating profits of £21 million and underlying profit before tax of £9 million. As part of the Acquisition £389 million of net debt as at 31 March 2021 has been assumed by Pennon.

The acquisition is expected to deliver long term value through an RCV increase of c.16%, earnings accretion and synergistic totex savings through the application of our proven integration strategy.

#### *Return of capital to shareholders*

Following the sale of Viridor, the Board has considered the balanced approach of returning £1.9 billion to shareholders, the majority by way of a proposed special dividend. The proposed special dividend of £1.5 billion, represents £3.55 per existing ordinary share. The share buy-back programme of up to £0.4 billion will start after payment of the proposed special dividend has been made and conclude by 30 September 2022. The Board considers that the proposed share buy-back enables some further return of proceeds and provides Pennon with ongoing financial flexibility.

To maintain comparability, so far as possible, of the Company's share price before and after the Special Dividend, Pennon intends to consolidate its Ordinary Share capital on the basis of two New Ordinary Shares in the capital of the Company for every three Existing Ordinary Shares in the capital of the Company (the Share Consolidation). The effect of the Share Consolidation will be that the

existing shares will be replaced by the new shares so as to reduce the number of shares in issue and reflect the amount of cash to be returned to shareholders, thus being economically neutral.

In connection with the proposed return of capital, the Company has committed to contribute an additional £17 million to its remaining defined benefit pension scheme, PGPS.

## Dividends and retained earnings

|  |   | Pre-share consolidation | Post-share consolidation |
|--|---|-------------------------|--------------------------|
| <b>Special Dividend</b>                  |   | 355.00p                 | N/A                      |
| <b>2020/21 – Continuing Group</b>        | Interim dividend                                      | 6.77p                   | 10.15p                   |
|  | Final dividend  | 14.97p                  | 22.46p                   |
|  | <b>Total dividend</b>                                 | <b>21.74p</b>           | <b>32.61p</b>            |
| <b>2021/22 – Increased dividend base</b> | Total dividend  | +2.00p                  | +3.00p                   |
| <b>Annual growth</b>                     | CPIH +2%, sustainable, sector-leading dividend policy |                         |                          |

Following the significant profit on disposal of Viridor, the statutory net profit attributable to ordinary shareholders of £1,762.2 million has been transferred to reserves.

The proposed special dividend of £1.5 billion, which represents £3.55 per existing ordinary share, will be paid from the retained earnings arising from the Viridor disposal.

The Group previously announced its dividend policy for the period 2020-25, stating that the dividend will grow in line with CPIH + 2% per annum. The choice of indexation aligns with the regulatory inflation measure being used for K7. The dividend policy reflects the sector-leading position of the Continuing Group, consistent with sustainable cover.

Based on the current share structure at the year end, the Board recommends the payment of a final dividend of 14.97p per share for the year ended 31 March 2021. Together with the interim dividend of 6.77p per share paid on 1 April 2021 this gives a total dividend for the year of 21.74p. This represents an increase of 3.0% on the implied Continuing Group dividend of 21.11p for 2019/20. Pennon offers shareholders the opportunity to invest their dividend in a Dividend Reinvestment Plan ('DRIP').

Proposed normal dividends totalling £91.8 million are covered 1.9 times<sup>^</sup> by net profit (before non-underlying items and deferred tax) (2019/20 1.4 times). Dividends are charged against retained earnings in the year in which they are paid.

If the share consolidation outlined above is approved by shareholders and progresses as proposed, the final dividend will be re-based to 22.46p per new ordinary share. For comparative purposes the total dividend for 2020/21 of 21.74p will equate to 32.61p post consolidation.

<sup>^</sup> Measures with this symbol <sup>^</sup> are defined in the Alternative Performance Measures (APMs) as outlined on pages 65 to 69

The earnings accretive nature of the Bristol Water acquisition is also expected to deliver further dividend growth for the Group. The Board expects that Bristol Water will deliver dividend growth on a pre-consolidation and post-consolidation basis of 2.0p and 3.0p per share, respectively.

The dividend above, including the expected uplift from Bristol Water, provided regulatory approval for the acquisition is granted, represents the sustainable dividend for the Continuing Group.



## Technical Guidance – Full Year 2021/22

| <b>Pennon Group</b>          |  | <b>2020/21</b> | <b>Change</b> |
|------------------------------|--|----------------|---------------|
| Revenue                      | <ul style="list-style-type: none"> <li>Increased non-household demand and other services as COVID-19 recovery continues</li> <li>SWW household demand trending to more typical pre COVID-19 levels with seasonal demand impacts expected to be prolonged due to staycation impact</li> </ul> | £644.6m        | ▲             |
| Net cash/(debt)              | <ul style="list-style-type: none"> <li>Return of capital to shareholders of up to £1.9bn by 30 September 2022 (£1.5bn special dividend in July 2021)</li> <li>Earnings accretive acquisition</li> </ul>  | £64.3m         | ▼             |
| Current tax rate             | <ul style="list-style-type: none"> <li>Underlying Continuing Group's effective current tax rate lower than UK headline rate of 19% reflecting capital allowances and relief on pension contributions</li> </ul>  | 15.1%          | ▼             |
| <b>South West Water</b>      |  | <b>2020/21</b> | <b>Change</b> |
| Operating costs              | <ul style="list-style-type: none"> <li>Cost reductions reflecting ongoing cost efficiency offset by changes in demand patterns from prolonged seasonal demand impacts of staycations</li> </ul>  | £222.4m        | -             |
| Net interest                 | <ul style="list-style-type: none"> <li>Efficient financing impacted by inflationary increases in charges related to index linked debt</li> </ul>   | £57.7m         | ▲             |
| Capex                        | <ul style="list-style-type: none"> <li>Capital expenditure reflects K7 profile of investment and continued focus on resilience</li> </ul>  | £168.2m        | ▲             |
| RORE                         | <ul style="list-style-type: none"> <li>Outperformance expected to continue</li> </ul>  | 7.8%           | -             |
| RCV                          | <ul style="list-style-type: none"> <li>Increase in line with K7 business plan levels of investment</li> </ul>  | £3,393m        | ▲             |
| <b>Pennon Water Services</b> |  | <b>2020/21</b> | <b>Change</b> |
| Operating costs              | <ul style="list-style-type: none"> <li>Non-household recovery from COVID-19 leading to higher wholesale supply charges</li> </ul>  | £161.4m        | ▲             |
| EBITDA                       | <ul style="list-style-type: none"> <li>Impact of increased non-household demand on margins</li> <li>Focus on continued cost efficiency with strong collections offsetting potential bad debt impact of COVID-19</li> </ul>   | £1.4m          | ▲             |

COVID-19 assumptions are based on our ongoing assessment of the impact of the pandemic.

## **Board Matters**

Gill was first appointed to Pennon's Board on 1 September 2012 and was appointed as Chair at last year's AGM. Gill's tenure as a Non-Executive Director of Pennon will therefore exceed nine years during the current financial year. The Senior Independent Director has therefore led an independent review, noting the general Code requirement, with the support of the Board and, having consulted with shareholders, the Board is satisfied that Gill is a highly regarded leader of the Board. As at the date of the upcoming AGM, Gill will only have been Pennon's Chair for 12 months.

As the Company is currently undergoing a continued period of strategic business review and adjustment which included last year's sale of Viridor, a very significant transaction for the Group, the Board believes that continuity of leadership and strategic direction at this time is especially important to the successful conclusion of these processes. The Board is also keen to ensure that the current work being undertaken to embed new Group governance and control structures following the sale of Viridor continues to be carried out under Gill's stewardship, noting her close involvement in the strategic review throughout its progress. In addition, the Board considered that extension of Gill's tenure as Chair both facilitates effective succession planning and the development and continuation of a diverse Board.

For these reasons, and mindful of the requirements of the UK Code, the Board believes it to be in the best interests of the Company and its shareholders for Gill to remain as Chair for a further limited period of a maximum of three years from July 2021 with a view that she will step down in 2024. This will enable the successful conclusion of the strategic review and the full and effective embedding of suitable and rigorous governance and control structures.

### **Susan Davy**

Group Chief Executive

2 June 2021

## Financial Timetable

|                   |   |
|-------------------|---|
| June 2021         | Annual Report and Accounts published        |
| 22 July 2021      | Annual General Meeting                      |
| 22 July 2021*     | Ordinary shares quoted ex-dividend          |
| 23 July 2021*     | Record date for final dividend              |
| 10 August 2021*   | Final Date for receipt of DRIP applications |
| 2 September 2021* | Final dividend payment date                 |
| September 2021    | Capital Markets Day                         |
| 28 September 2021 | Trading Statement                           |
| 30 November 2021  | Half Year Results 2021/22                   |
| 1 April 2022      | Trading Statement                           |
| 31 May 2022       | Full Year Results 2021/22                   |

\* Subject to obtaining shareholder approval at the 2021 Annual General Meeting.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

### **COVID-19**

As a provider of critical services, the Group has continued to operate resiliently throughout period of COVID-19 to date. Whilst the UK Government has provided a roadmap for the lifting of current restrictions, this is dependent on a number of factors and there is the potential that specific measures could remain or be reintroduced in the medium term. The Group's principal risks have been assessed giving due consideration to the continued potential impact of COVID-19 on the Group's activities as well as our customers, stakeholders and the wider economy.

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

On the 31 December 2020 the UK's transition period from leaving the EU ended and was replaced with a new trade agreement. There has been no significant impact or disruption to the operations and activities of the Group either prior to or following the commencement of this trade agreement.

### **Principal Risks**

Following the completion of the Viridor sale on the 8<sup>th</sup> July 2020, the Board has performed a comprehensive review and reassessment of the Group's principal risks to reflect the refocusing of the Group on its water and wastewater business. This has resulted in a number of changes to the Group's principal risks when compared with previous annual reports. The Board considers the principal risks to be:

#### **Law, Regulation and Finance**

1. Changes in Government Policy
2. Regulatory reform
3. Compliance with laws and regulations
4. Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments
5. Non-compliance or occurrence of avoidable health and safety incidents
6. Failure to pay all pension obligations as they fall due & increased costs to the Group should the defined benefit pension scheme deficit increase

#### **Market and Economic Conditions**

7. Non-recovery of customer debt
8. Macro Economic Risks impacting on inflation, interest rates and power prices

## **Operating Performance**

9. The Group's operations and assets are impacted as a result of climate change and extreme weather events
10. Failure of operational water treatment assets and processes resulting in an inability to produce or supply clean drinking water
11. Failure of operational wastewater assets and processes resulting in an inability to remove and treat wastewater and potential environmental impacts, including pollutions
12. Failure to maintain excellent service or effectively engage with our customers and wider stakeholders
13. Insufficient skills and resources to meet the current and future business needs and deliver the Group's strategic priorities
14. Non-delivery of Regulatory Outcomes and performance commitments

## **Business Systems and Capital Investment**

15. Inefficient or ineffective delivery of capital projects
16. Inadequate technological security results in a breach of the Group's assets, systems and data
17. Failure to fully realise the strategic value arising from the acquisition of Bristol Water

## **CAUTIONARY STATEMENT IN RESPECT OF FORWARD-LOOKING STATEMENTS**

This Report contains forward-looking statements relating to the Pennon Group's operations, performance and financial position based on current expectations of, and assumptions and forecasts made by, Pennon Group management which may constitute "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are identified in this Report by words such as "anticipate", "aim", "believe", "continue", "could", "due", "estimate", "expect", "forecast", "goal", "intend", "may", "outlook", "plan", "probably", "project", "remain", "seek", "should", "target", "will", "would" and related and similar expressions, as well as statements in the future tense. All statements other than of historical fact may be forward-looking statements and represent the Group's belief regarding future events, many of which, by their nature, are inherently uncertain and outside the Group's control. Various known and unknown risks, uncertainties and other factors could lead to substantial differences between the actual future results, financial situation, development or performance of the Group and the estimates and historical results given herein. Important risks, uncertainties and other factors that could cause actual results, performance or achievements of Pennon Group to differ materially from any outcomes or results expressed or implied by such forward-looking statements include, among other things, changes in Government policy; regulatory and legal reform; compliance with laws and regulations; maintaining sufficient finance and funding to meet ongoing commitments; non-compliance or occurrence of avoidable health and safety incidents; tax compliance and contribution; failure to pay all pension obligations as they fall due and increased costs to the Group should the defined benefit pension scheme deficit increase; non-recovery of customer debt; poor operating performance due to extreme weather or climate change; macro-economic risks impacting commodity and power prices and other matters; poor customer service and/or increased competition leading to loss of customer base; business interruption or significant operational failure/incidents; difficulty in recruitment, retention and development of skills; non-delivery of regulatory outcomes and performance commitments; failure or increased cost of capital projects/exposure to contract failures; failure of information technology systems, management and protection, including cyber risks; and all other risks in the Pennon Group Annual Report to be published in June 2021. Such forward looking statements should therefore be construed in light of all risks, uncertainties and other factors, including without limitation those identified above, and undue reliance should not be placed on them. Nothing in this report should be construed as a profit forecast.

Any forward-looking statements are made only as of the date of this document and no representation, assurance, guarantee or warranty is given in relation to them including as to their accuracy, completeness, or the basis on which they are made. The Group accepts no obligation to revise or

update publicly these forward-looking statements or adjust them as a result of new information or for future events or developments, except to the extent legally required.

## **UNSOLICITED COMMUNICATIONS WITH SHAREHOLDERS**

A number of companies, including Pennon Group plc, continue to be aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters which imply a connection to the company concerned. If shareholders have any concerns about any contact they have received, then please refer to the Financial Conduct Authority's website [www.fca.org.uk/scamsmart](http://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 2021**

|   | Notes | Before non-<br>underlying<br>items<br>2021<br>£m | Non-<br>underlying<br>items<br>(note 4)<br>2021<br>£m | Total<br>2021<br>£m | Before non-<br>underlying<br>items<br>2020<br>£m | Non-<br>underlying<br>items<br>(note 4)<br>2020<br>£m | Total<br>2020<br>£m |
|---|-------|--|---|---------------------|--|---|---------------------|
| <b>Continuing operations</b>  |       |  |   |                     |  |   |                     |
| <b>Revenue</b>  | 3     | <b>644.6</b>                                     | <b>(20.5)</b>   | <b>624.1</b>        | 636.7  | -   | 636.7               |
| <b>Operating costs</b>  |       |  |   |                     |  |   |                     |
| Employment costs  |       | (75.0)   | (4.4)   | (79.4)              | (70.0)   | -   | (70.0)              |
| Raw materials and consumables used                                      |       | (18.1)   | -   | (18.1)              | (14.9)   | -   | (14.9)              |
| Other operating expenses  |       | (216.8)  | -   | (216.8)             | (186.5)  | (7.9)   | (194.4)             |
| <b>Earnings before interest, tax,<br/>depreciation and amortisation</b> | 3     | <b>334.7</b>                                     | <b>(24.9)</b>   | <b>309.8</b>        | 365.3  | (7.9)   | 357.4               |
| Depreciation and amortisation   |       | (119.4)  | -   | (119.4)             | (119.8)  | -   | (119.8)             |
| <b>Operating Profit</b>   | 3     | <b>215.3</b>                                     | <b>(24.9)</b>   | <b>190.4</b>        | 245.5  | (7.9)   | 237.6               |
| Finance income  | 5     | 4.2  | -   | 4.2                 | 4.1  | -   | 4.1                 |
| Finance costs   | 5     | (62.5)   | -   | (62.5)              | (66.6)   | 18.0  | (48.6)              |
| <b>Net finance costs</b>  | 5     | <b>(58.3)</b>                                    | -   | <b>(58.3)</b>       | (62.5)   | 18.0  | (44.5)              |
| <b>Profit before tax</b>  | 3     | <b>157.0</b>                                     | <b>(24.9)</b>   | <b>132.1</b>        | 183.0  | 10.1  | 193.1               |
| Taxation  | 6     | (29.6)   | 4.8   | (24.8)              | (38.4)   | (32.2)  | (70.6)              |
| <b>Profit for the year from<br/>continuing operations</b>               |       | <b>127.4</b>                                     | <b>(20.1)</b>   | <b>107.3</b>        | 144.6  | (22.1)  | 122.5               |
| <b>Discontinued operations</b>  |       |  |   |                     |  |   |                     |
| Profit for the year from<br>discontinued operations                     | 14    | 35.5   | 1,619.2   | 1,654.7             | 91.0   | (7.2)   | 83.8                |
| <b>Profit for the year</b>  |       | <b>162.9</b>                                     | <b>1,599.1</b>  | <b>1,762.0</b>      | 235.6  | (29.3)  | 206.3               |
| <b>Attributable to:</b>   |       |  |   |                     |  |   |                     |
| Ordinary shareholders of the parent                                     |       |  |   | 1,762.2             |  |   | 200.4               |
| Non-controlling interests   |       |  |   | (0.2)               |  |   | (1.1)               |
| Perpetual capital security holders                                      |       |  |   | -                   |  |   | 7.0                 |
| <b>Earnings per ordinary share</b><br>(pence per share)                 | 7     |  |   |                     |  |   |                     |
| <b>From continuing operations</b>                                       |       |  |   |                     |  |   |                     |
| - Basic   |       |  |   | 25.5                |  |   | 27.7                |
| - Diluted   |       |  |   | 25.4                |  |   | 27.6                |
| <b>From continuing and discontinued<br/>operations</b>                  |       |  |   |                     |  |   |                     |
| - Basic   |       |  |   | 418.5               |  |   | 47.7                |
| - Diluted   |       |  |   | 416.9               |  |   | 47.5                |



PENNON GROUP PLC

Consolidated statement of comprehensive income for the year ended 31 March 2021

|  | Before non-<br>underlying<br>items<br>2021<br>£m | Non-<br>underlying<br>items<br>(note 4)<br>2021<br>£m | Total<br>2021<br>£m | Before non-<br>underlying<br>items<br>2020<br>£m | Non-<br>underlying<br>items<br>(note 4)<br>2020<br>£m | Total<br>2020<br>£m |
|--|--|---|---------------------|--|---|---------------------|
| <b>Profit for the year</b>   | <b>162.9</b>                                     | <b>1,599.1</b>  | <b>1,762.0</b>      | 235.6  | (29.3)  | 206.3               |
| <b>Other comprehensive income / (loss)</b>                           |  |   |                     |  |   |                     |
| <i>Items that will not be reclassified to profit or loss</i>         |  |   |                     |  |   |                     |
| Remeasurement of defined benefit obligations                         | (28.8)   | -   | (28.8)              | 17.7   | -   | 17.7                |
| Income tax on items that will not be reclassified                    | 5.5  | -   | 5.5                 | 0.1  | -   | 0.1                 |
| Total items that will not be reclassified to profit or loss          | (23.3)   | -   | (23.3)              | 17.8   | -   | 17.8                |
| <i>Items that may be reclassified subsequently to profit or loss</i> |  |   |                     |  |   |                     |
| Share of other comprehensive income from joint ventures              | -  | -   | -                   | 0.2  | -   | 0.2                 |
| Cash flow hedges   | 13.5   | -   | 13.5                | (14.3)   | -   | (14.3)              |
| Income tax on items that may be reclassified                         | (2.4)  | -   | (2.4)               | 3.1  | -   | 3.1                 |
| Total items that may be reclassified subsequently to profit or loss  | 11.1   | -   | 11.1                | (11.0)   | -   | (11.0)              |
| <b>Other comprehensive income / (loss) for the year net of tax</b>   | <b>(12.2)</b>                                    | <b>-</b>  | <b>(12.2)</b>       | 6.8  | -   | 6.8                 |
| <b>Total comprehensive income for the year</b>                       | <b>150.7</b>                                     | <b>1,599.1</b>  | <b>1,749.8</b>      | 252.4  | (29.3)  | 213.1               |
| <b>Total comprehensive income attributable to:</b>                   |  |   |                     |  |   |                     |
| Ordinary shareholders of the parent                                  |  |   | 1,750.0             |  |   | 207.2               |
| Non-controlling interests  |  |   | (0.2)               |  |   | (1.1)               |
| Perpetual capital security holders                                   |  |   | -                   |  |   | 7.0                 |

**PENNON GROUP PLC**

**Consolidated balance sheet at 31 March 2021**

|   | Notes | 2021<br>£m       | 2020<br>£m       |
|---|-------|------------------|------------------|
| <b>ASSETS</b>   |       |                  |                  |
| <b>Non-current assets</b>   |       |                  |                  |
| Goodwill  |       | 42.3             | 42.3             |
| Other intangible assets   |       | 1.2              | 1.2              |
| Property, plant and equipment   |       | 3,221.0          | 3,171.8          |
| Derivative financial instruments                                      |       | 3.8              | 4.1              |
| Retirement benefit obligations  |       | 8.8              | 6.6              |
|   |       | <b>3,277.1</b>   | <b>3,226.0</b>   |
| <b>Current assets</b>   |       |                  |                  |
| Inventories   |       | 5.4              | 4.9              |
| Trade and other receivables   |       | 216.8            | 185.8            |
| Current tax receivable  |       | 0.1              | 1.9              |
| Derivative financial instruments                                      |       | 1.3              | 2.7              |
| Cash and cash deposits  | 12    | 2,919.3          | 665.9            |
|   |       | <b>3,142.9</b>   | <b>861.2</b>     |
| <b>Assets held for sale</b>   |       | -                | 2,675.3          |
|   |       | <b>3,142.9</b>   | <b>3,536.5</b>   |
| <b>LIABILITIES</b>  |       |                  |                  |
| <b>Current liabilities</b>  |       |                  |                  |
| Borrowings  | 12    | (88.3)           | (59.9)           |
| Financial liabilities at fair value through profit                    |       | (2.8)            | (1.5)            |
| Derivative financial instruments                                      |       | (6.3)            | (7.1)            |
| Trade and other payables  |       | (126.1)          | (115.3)          |
| Provisions  |       | (0.3)            | (0.6)            |
|   |       | <b>(223.8)</b>   | <b>(184.4)</b>   |
| <b>Liabilities associated with assets classified as held for sale</b> |       | -                | (756.3)          |
| <b>Net current assets</b>   |       | <b>2,919.1</b>   | <b>2,595.8</b>   |
| <b>Non-current liabilities</b>  |       |                  |                  |
| Borrowings  | 12    | (2,766.7)        | (3,654.9)        |
| Other non-current liabilities   |       | (128.3)          | (122.9)          |
| Financial liabilities at fair value through profit                    |       | (39.4)           | (43.1)           |
| Derivative financial instruments                                      |       | (17.4)           | (27.2)           |
| Deferred tax liabilities  |       | (259.6)          | (261.6)          |
|   |       | <b>(3,211.4)</b> | <b>(4,109.7)</b> |
| <b>Net assets</b>   |       | <b>2,984.8</b>   | <b>1,712.1</b>   |
| <b>Shareholders' equity</b>   |       |                  |                  |
| Share capital   | 9     | 171.8            | 171.3            |
| Share premium account   |       | 232.1            | 227.0            |
| Capital redemption reserve  |       | 144.2            | 144.2            |
| Retained earnings and other reserves                                  |       | 2,436.8          | 872.8            |
| <b>Total shareholders' equity</b>                                     |       | <b>2,984.9</b>   | <b>1,415.3</b>   |
| Non-controlling interests   |       | (0.1)            | 0.1              |
| Perpetual capital securities  | 10    | -                | 296.7            |
| <b>Total equity</b>   |       | <b>2,984.8</b>   | <b>1,712.1</b>   |

**PENNON GROUP PLC**
**Consolidated statement of changes in equity for the year ended 31 March 2021**

|  | Share capital<br>(note 9)<br>£m | Share premium<br>account<br>£m | Capital<br>redemption<br>reserve<br>£m | Retained<br>earnings<br>and other<br>reserves<br>£m | Non-<br>controlling<br>interests<br>£m | Perpetual<br>capital<br>securities<br>(note 10)<br>£m | Total equity<br>£m |
|--|---------------------------------|--------------------------------|--|---|--|---|--------------------|
| At 1 April 2019  | 171.1                           | 223.6                          | 144.2                                  | 843.0   | 1.2                                    | 296.7   | 1,679.8            |
| Opening adjustment on adoption of IFRS 16  | -                               | -                              | -                                      | (8.0)   | -                                      | -   | (8.0)              |
| At 1 April 2019 (adjusted for IFRS 16)   | 171.1                           | 223.6                          | 144.2                                  | 835.0   | 1.2                                    | 296.7   | 1,671.8            |
| Profit for the year  | -                               | -                              | -                                      | 200.4   | (1.1)                                  | 7.0   | 206.3              |
| Other comprehensive income for the year  | -                               | -                              | -                                      | 6.8   | -                                      | -   | 6.8                |
| Total comprehensive income for the year  | -                               | -                              | -                                      | 207.2   | (1.1)                                  | 7.0   | 213.1              |
| <i>Transactions with equity shareholders:</i>  |                                 |                                |  |   |  |   |                    |
| Dividends paid   | -                               | -                              | -                                      | (172.6)   | -                                      | -   | (172.6)            |
| Adjustments in respect of share-based payments (net of tax)                                | -                               | -                              | -                                      | 4.8   | -                                      | -   | 4.8                |
| Distributions due to perpetual capital security holders                                    | -                               | -                              | -                                      | -   | -                                      | (8.6)   | (8.6)              |
| Current tax relief on distributions to perpetual capital security holders                  | -                               | -                              | -                                      | -   | -                                      | 1.6   | 1.6                |
| Own shares acquired by the Pennon Employee Share Trust in respect of share options granted | -                               | -                              | -                                      | (1.6)   | -                                      | -   | (1.6)              |
| Proceeds from shares issued under the Sharesave Scheme                                     | 0.2                             | 3.4                            | -                                      | -   | -                                      | -   | 3.6                |
| Total transactions with equity shareholders  | 0.2                             | 3.4                            | -                                      | (169.4)   | -                                      | (7.0)   | (172.8)            |
| At 31 March 2020   | 171.3                           | 227.0                          | 144.2                                  | 872.8   | 0.1                                    | 296.7   | 1,712.1            |
|  | Share capital<br>(note 9)<br>£m | Share premium<br>account<br>£m | Capital<br>redemption<br>reserve<br>£m | Retained<br>earnings<br>and other<br>reserves<br>£m | Non-<br>controlling<br>interests<br>£m | Perpetual<br>capital<br>securities<br>(note 10)<br>£m | Total equity<br>£m |
| At 1 April 2020  | 171.3                           | 227.0                          | 144.2                                  | 872.8   | 0.1                                    | 296.7   | 1,712.1            |
| Profit for the year  | -                               | -                              | -                                      | 1,762.2   | (0.2)                                  | -   | 1,762.0            |
| Other comprehensive income for the year  | -                               | -                              | -                                      | (12.2)  | -                                      | -   | (12.2)             |
| Total comprehensive income for the year  | -                               | -                              | -                                      | 1,750.0   | (0.2)                                  | -   | 1,749.8            |
| <i>Transactions with equity shareholders:</i>  |                                 |                                |  |   |  |   |                    |
| Dividends paid   | -                               | -                              | -                                      | (184.3)   | -                                      | -   | (184.3)            |
| Adjustments in respect of share-based payments (net of tax)                                | -                               | -                              | -                                      | 2.2   | -                                      | -   | 2.2                |
| Redemption of perpetual capital securities   | -                               | -                              | -                                      | (3.3)   | -                                      | (296.7)   | (300.0)            |
| Own shares acquired by the Pennon Employee Share Trust in respect of share options granted | -                               | -                              | -                                      | (1.2)   | -                                      | -   | (1.2)              |
| Deferred tax recognised directly in equity   | -                               | -                              | -                                      | 0.6   | -                                      | -   | 0.6                |
| Proceeds from shares issued under the Sharesave Scheme                                     | 0.5                             | 5.1                            | -                                      | -   | -                                      | -   | 5.6                |
| Total transactions with equity shareholders  | 0.5                             | 5.1                            | -                                      | (186.0)   | -                                      | (296.7)   | (477.1)            |
| <b>At 31 March 2021</b>  | <b>171.8</b>                    | <b>232.1</b>                   | <b>144.2</b>                           | <b>2,436.8</b>                                      | <b>(0.1)</b>                           | <b>-</b>  | <b>2,984.8</b>     |

**PENNON GROUP PLC**

**Consolidated statement of cash flows for the year ended 31 March 2021**

|  | Notes | 2021<br>£m            | 2020<br>£m          |
|--|-------|-----------------------|---------------------|
| <b>Cash flows from operating activities</b>                                      |       |                       |                     |
| Cash generated from operations   | 11    | 298.1                 | 516.3               |
| Interest paid  |       | (80.2)                | (97.7)              |
| Tax paid   |       | (7.4)                 | (52.6)              |
| Net cash generated from operating activities                                     |       | <u>210.5</u>          | <u>366.0</u>        |
| <b>Cash flows from investing activities</b>                                      |       |                       |                     |
| Interest received  |       | 4.3                   | 3.4                 |
| Dividends received   |       | -                     | 6.0                 |
| Loan repayments received from joint ventures                                     |       | 4.0                   | 13.4                |
| Deposit of restricted cash   |       | (23.6)                | (23.3)              |
| Purchase of property, plant and equipment  |       | (190.1)               | (332.8)             |
| Purchase of intangible assets  |       | (0.2)                 | (0.6)               |
| Proceeds on disposal of subsidiaries, net of cash disposed and transaction costs |       | 3,628.5               | -                   |
| Proceeds from sale of property, plant and equipment                              |       | 0.4                   | 10.6                |
| Net cash received from / (used in) investing activities                          |       | <u>3,423.3</u>        | <u>(323.3)</u>      |
| <b>Cash flows from financing activities</b>                                      |       |                       |                     |
| Proceeds from issuance of ordinary shares  |       | 5.6                   | 3.6                 |
| Proceeds from derivatives early settlement                                       |       | -                     | 87.2                |
| Purchase of ordinary shares by the Pennon Employee Share Trust                   |       | (1.2)                 | (1.6)               |
| Proceeds from new borrowing  |       | 330.0                 | 268.2               |
| Repayment of borrowings  |       | (1,265.4)             | (84.8)              |
| Cash inflows from lease financing arrangements                                   | 11    | 15.0                  | 115.0               |
| Lease principal repayments   |       | (28.4)                | (142.8)             |
| Dividends paid   | 8     | (184.3)               | (172.6)             |
| Perpetual capital securities periodic return                                     |       | (8.6)                 | (8.6)               |
| Redemption of perpetual capital securities                                       |       | (300.0)               | -                   |
| Net cash (used in) / received from financing activities                          |       | <u>(1,437.3)</u>      | <u>63.6</u>         |
| <b>Net increase in cash and cash equivalents</b>                                 |       | <b>2,196.5</b>        | <b>106.3</b>        |
| Cash and cash equivalents at beginning of year                                   | 12    | 472.0                 | 365.7               |
| <b>Cash and cash equivalents at end of year</b>                                  | 12    | <u><u>2,668.5</u></u> | <u><u>472.0</u></u> |

## PENNON GROUP PLC

### Notes

#### 1. General information

Pennon Group plc is a company registered in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 63. Pennon Group's continuing business is operated through two principal subsidiaries. South West Water Limited includes the integrated 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. 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. On 8 July 2020 Pennon completed the sale of Viridor Limited (the 'Disposal Group'), a recycling, energy recovery and waste management business. In accordance with IFRS 5 'Non-current assets held for sale and discontinued operations', the net results for the Disposal Group are presented within discontinued operations in the Group income statement. The balance sheet as at 31 March 2021 shows the financial position of the Continuing Group only. At 31 March 2020 the assets and liabilities of Viridor were presented as assets and liabilities held for sale in the consolidated balance sheet. The effect of the disposal on the financial position of the Group is detailed in note 14.

The financial information for the years ended 31 March 2021 and 31 March 2020 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 2021, including the financial statements from which this financial information is derived, will be delivered to the Registrar of Companies after the AGM on 22 July 2021. The independent auditor's report on the 2021 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 2020 were approved by the Board of Directors on 3 June 2020 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 2021 were approved by the Board of Directors on 2 June 2021.

#### 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 2019 Annual Report and Accounts) and in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The accounting policies adopted are consistent with those followed in the preparation of the Group's 2021 Annual Report and Accounts which have not changed significantly from those adopted in the Group's 2020 Annual Report and Accounts (which are available on the Company website [www.pennon-group.co.uk](http://www.pennon-group.co.uk)).

The going concern basis has been adopted in preparing these financial statements. At 31 March 2021 the Group has access to undrawn committed funds and cash and cash deposits totalling £3.2 billion (£3.0 billion excluding restricted cash). Having considered the Group's strong funding position, the planned use of the residual proceeds from the Viridor disposal after the retirement of debt and prudent financial projections, which take into account a range of possible impacts, as described in this report, from the COVID-19 pandemic, the Directors have a reasonable expectation that the Group has adequate resource to continue in operational existence for the period of at least 12 months from the date of the approval of the financial statements and that there are no material uncertainties to disclose. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

#### 3. Segmental information

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

Following the disposal of Viridor, the Continuing Group is organised into two operating segments. The water business comprises the regulated water and wastewater services undertaken by South West Water. The non-household retail business reflects the services provided by Pennon Water Services. The comparative period segmental information has been restated to remove Viridor. Information about the income, expenses, cash flows, net assets and profit recognised on disposal of the Viridor business is provided in note 14.

**PENNON GROUP PLC**

**Notes (continued)**

**3. Segmental information (continued)**

|   | <b>2021</b>   | <b>2020</b> |
|---|---------------|-------------|
|   | <b>£m</b>     | <b>£m</b>   |
| <b>Revenue from continuing operations</b>   |               |             |
| Water   | <b>563.0</b>  | 570.3       |
| Non-household retail  | <b>162.8</b>  | 173.5       |
| Other   | <b>5.6</b>    | 10.1        |
| Less intra-segment trading  | <b>(86.8)</b> | (117.2)     |
| Total underlying revenue  | <b>644.6</b>  | 636.7       |
| Water non-underlying revenue (note 4)   | <b>(20.5)</b> | -           |
|   | <b>624.1</b>  | 636.7       |
| <b>Segment result</b>   |               |             |
| <b>Operating profit before depreciation, amortisation and non-underlying items (EBITDA)</b> |               |             |
| Water   | <b>340.6</b>  | 364.2       |
| Non-household retail  | <b>1.4</b>    | 1.9         |
| Other   | <b>(7.3)</b>  | (0.8)       |
|   | <b>334.7</b>  | 365.3       |
| <b>Operating profit before non-underlying items</b>   |               |             |
| Water   | <b>222.3</b>  | 245.4       |
| Non-household retail  | <b>0.7</b>    | 1.2         |
| Other   | <b>(7.7)</b>  | (1.1)       |
|   | <b>215.3</b>  | 245.5       |
| <b>Profit before tax before non-underlying items</b>  |               |             |
| Water   | <b>164.6</b>  | 174.0       |
| Non-household retail  | <b>(1.0)</b>  | (0.4)       |
| Other   | <b>(6.6)</b>  | 9.4         |
|   | <b>157.0</b>  | 183.0       |
| <b>Profit before tax</b>  |               |             |
| Water   | <b>140.6</b>  | 189.0       |
| Non-household retail  | <b>(1.0)</b>  | (5.4)       |
| Other   | <b>(7.5)</b>  | 9.5         |
|   | <b>132.1</b>  | 193.1       |

Intra-segment trading between different segments is under normal market based commercial terms and conditions. Intra-segment revenue of the other segment is reflected as a cost.

**PENNON GROUP PLC**

**Notes (continued)**

**4. 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. The presentation of results is consistent with internal performance monitoring.

|   | <b>2021</b>   | 2020   |
|---|---------------|--------|
|   | <b>£m</b>     | £m     |
| <b>Revenue</b>  |               |        |
| WaterShare+ (1)   | <b>(20.5)</b> | -      |
| <b>Operating Costs</b>  |               |        |
| Pension curtailment charge (2)                                      | <b>(4.4)</b>  | -      |
| COVID-19 provision for expected credit losses (3)                   | -             | (7.9)  |
| <b>Earnings before interest, tax, depreciation and amortisation</b> | <b>(24.9)</b> | (7.9)  |
| <b>Net finance costs</b>  |               |        |
| Remeasurement of fair value movement in derivatives (4)             | -             | 18.0   |
| Net tax credit / (charge) arising on non-underlying items above     | <b>4.8</b>    | (1.9)  |
| Deferred tax change in rate (5)                                     | -             | (30.3) |
| <b>Net non-underlying charge</b>                                    | <b>(20.1)</b> | (22.1) |

- (1) In September 2020, the Group offered its WaterShare+ scheme to its customers whereby customers could choose to accept a credit on their bill or take shares in Pennon Group plc. The value of the rebate equates to £20 per customer and the total value of £20.5 million (2020 nil) has been recognised in full as a non-underlying reduction to revenue. £19.3 million of the WaterShare+ credits were taken as credits on customers' bills, with the balance of £1.2 million being taken as shares in Pennon Group plc. This item is non-underlying in nature given its individual size and its non-recurring nature.
- (2) The Group completed its employee consultation to modernise its ongoing pension arrangements. The outcome of the consultation resulted in a decision to close the Pennon's principal defined benefit pension scheme to future accrual with effect from 30 June 2021. This resulted in a curtailment charge of £4.4 million (2020 nil).
- (3) In response to the COVID-19 pandemic a detailed expected credit loss review was undertaken in 2020. Economic and credit conditions were worsening, however the UK government continued to implement economic measures to support the wider economy. As a result of the review, a Group provision of £7.9 million was recognised in 2020. The charge is considered non-underlying due to its size and nature.
- (4) In 2020 a gain of £18.0 million was recognised relating to derivative fair value movements associated with derivatives that were not designated as being party to an accounting hedge relationship. These instruments were early settled as the instruments no longer met the Group's accounting hedging requirements, and this locked in the mark to market gain.
- (5) Following the Chancellor's Budget on 11 March 2020, the UK headline corporation tax rate remained at 19%. It was previously set to reduce to 17% from 1 April 2020 and that change was cancelled. All deferred tax assets and liabilities at 31 March 2020 were therefore recalculated to crystallise at 19%, resulting in a non-underlying deferred tax charge in 2020 of £30.3 million. The change was substantively enacted on 17 March 2020.

**PENNON GROUP PLC**
**Notes (continued)**
**5. Net finance costs**

|  | Finance costs<br>£m | 2021<br>Finance income<br>£m | Total<br>£m   | Finance costs<br>£m | 2020<br>Finance income<br>£m | Total<br>£m   |
|--|---------------------|------------------------------|---------------|---------------------|------------------------------|---------------|
| <b>Cost of servicing debt</b>  |                     |                              |               |                     |                              |               |
| Bank borrowings and overdrafts   | (32.6)              | -                            | (32.6)        | (28.1)              | -                            | (28.1)        |
| Interest element of lease payments   | (25.7)              | -                            | (25.7)        | (35.6)              | -                            | (35.6)        |
| Other finance costs  | (3.5)               | -                            | (3.5)         | (2.7)               | -                            | (2.7)         |
| Interest receivable  | -                   | 4.2                          | 4.2           | -                   | 4.1                          | 4.1           |
|  | <b>(61.8)</b>       | <b>4.2</b>                   | <b>(57.6)</b> | <b>(66.4)</b>       | <b>4.1</b>                   | <b>(62.3)</b> |
| <b>Notional interest</b>   |                     |                              |               |                     |                              |               |
| Retirement benefit obligations   | (0.7)               | -                            | (0.7)         | (0.2)               | -                            | (0.2)         |
| <b>Net finance costs before non-underlying items</b>   | <b>(62.5)</b>       | <b>4.2</b>                   | <b>(58.3)</b> | <b>(66.6)</b>       | <b>4.1</b>                   | <b>(62.5)</b> |
| <b>Non-underlying items (note 4)</b>   |                     |                              |               |                     |                              |               |
| Fair value remeasurement of non-designated derivative financial instruments, providing commercial hedges | -                   | -                            | -             | 18.0                | -                            | 18.0          |
| <b>Net finance costs after non-underlying items</b>  | <b>(62.5)</b>       | <b>4.2</b>                   | <b>(58.3)</b> | <b>(48.6)</b>       | <b>4.1</b>                   | <b>(44.5)</b> |

In addition to the above, finance costs of £0.9 million (2020 £2.0 million) have been capitalised on qualifying assets included in property, plant and equipment.

Excluded from the amounts above are net finance costs relating to discontinued operations of £89.7 million (2020 £26.2 million), consisting of finance income of £6.0 million (2020 £22.5 million) and finance costs of £95.7 million (2020 £48.7 million) (see note 14).

**6. Taxation**

|                                    | Before non-underlying items<br>2021<br>£m | Non-underlying items<br>(note 4)<br>2021<br>£m | Total<br>2021<br>£m | Before non-underlying items<br>2020<br>£m | Non-underlying items<br>(note 4)<br>2020<br>£m | Total<br>2020<br>£m |
|------------------------------------|---|--|---------------------|---|--|---------------------|
| <b>Analysis of charge</b>          |   |  |                     |   |  |                     |
| Current tax charge                 | 23.0                                      | (3.9)  | 19.1                | 28.3                                      | 15.5   | 43.8                |
| Deferred tax charge / (credit)     | 6.6                                       | (0.9)  | 5.7                 | 10.1                                      | 16.7   | 26.8                |
| Tax charge / (credit) for the year | <b>29.6</b>                               | <b>(4.8)</b>                                   | <b>24.8</b>         | <b>38.4</b>                               | <b>32.2</b>                                    | <b>70.6</b>         |

UK corporation tax is calculated at 19% (2020 19%) of the estimated assessable profit for the year.

UK corporation tax is stated after a credit relating to prior year current tax of £0.7 million (2020 credit of £0.3 million) and a prior year deferred tax charge of £0.3 million (2020 £3.5 million charge).



**PENNON GROUP PLC**
**Notes (continued)**
**7. 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 period, 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:

|   | <b>2021</b>  | 2020  |
|---|--------------|-------|
| <b>Number of shares</b> (millions)                              |              |       |
| <b>For basic earnings per share</b>                             | <b>421.1</b> | 420.2 |
| Effect of dilutive potential ordinary shares from share options | <b>1.6</b>   | 1.9   |
| <b>For diluted earnings per share</b>                           | <b>422.7</b> | 422.1 |

*Basic and diluted earnings per ordinary share*

Earnings per ordinary share before non-underlying items, deferred tax and adjusted to annualise depreciation and amortisation in the Disposal Group as the Directors believe this measure provides a more useful year on year comparison of business trends and performance. Deferred tax is excluded as the Directors believe it reflects a distortive effect of changes in corporation tax rates and the level of long-term capital investment. Following the announcement on 18 March 2020 of the proposed sale of Viridor, the assets and liabilities of the Disposal Group were transferred to assets held for sale and in accordance with IFRS 5, the property plant and equipment and intangible assets were not depreciated or amortised from that date. In 2020 the Directors believed that to aid comparison of earnings with 2019, it was appropriate to reflect a full year's depreciation and amortisation consistent with all other revenues and costs recognised for the full year in the Disposal Group. No such adjustment was appropriate in 2021. Earnings per share have been calculated as follows:

| <b>Continuing and discontinued operations</b>                      | <b>2021</b>                        |                           |                      | <b>2020</b>                        |                           |                      |
|--|------------------------------------|---------------------------|----------------------|------------------------------------|---------------------------|----------------------|
|  | <b>Profit<br/>after tax<br/>£m</b> | <b>Earnings per share</b> |                      | <b>Profit<br/>after tax<br/>£m</b> | <b>Earnings per share</b> |                      |
|  |                                    | <b>Basic<br/>p</b>        | <b>Diluted<br/>p</b> |                                    | <b>Basic<br/>p</b>        | <b>Diluted<br/>p</b> |
| Statutory earnings   | <b>1,762.2</b>                     | <b>418.5</b>              | <b>416.9</b>         | 200.4                              | 47.7                      | 47.5                 |
| Deferred tax before non-underlying items                           | <b>14.2</b>                        | <b>3.4</b>                | <b>3.4</b>           | 33.2                               | 7.9                       | 7.8                  |
| Non-underlying items (net of tax)                                  | <b>(1,599.1)</b>                   | <b>(379.8)</b>            | <b>(378.4)</b>       | 29.3                               | 6.9                       | 6.9                  |
| Non-controlling interests' share of non-underlying items           | -                                  | -                         | -                    | (1.0)                              | (0.2)                     | (0.2)                |
| Adjustment for full year depreciation charge in the Disposal Group | -                                  | -                         | -                    | (2.6)                              | (0.6)                     | (0.6)                |
| <b>Adjusted earnings</b>   | <b>177.3</b>                       | <b>42.1</b>               | <b>41.9</b>          | 259.3                              | 61.7                      | 61.4                 |

| <b>Continuing operations</b>                             | <b>2021</b>                        |                           |                      | <b>2020</b>                        |                           |                      |
|--|------------------------------------|---------------------------|----------------------|------------------------------------|---------------------------|----------------------|
|  | <b>Profit<br/>after tax<br/>£m</b> | <b>Earnings per share</b> |                      | <b>Profit<br/>after tax<br/>£m</b> | <b>Earnings per share</b> |                      |
|  |                                    | <b>Basic<br/>p</b>        | <b>Diluted<br/>p</b> |                                    | <b>Basic<br/>p</b>        | <b>Diluted<br/>p</b> |
| Statutory earnings                                       | <b>107.5</b>                       | <b>25.5</b>               | <b>25.4</b>          | 116.6                              | 27.7                      | 27.6                 |
| Deferred tax before non-underlying items                 | <b>6.6</b>                         | <b>1.6</b>                | <b>1.6</b>           | 10.1                               | 2.4                       | 2.4                  |
| Non-underlying items (net of tax)                        | <b>20.1</b>                        | <b>4.8</b>                | <b>4.7</b>           | 22.1                               | 5.3                       | 5.2                  |
| Non-controlling interests' share of non-underlying items | -                                  | -                         | -                    | (1.0)                              | (0.2)                     | (0.2)                |
| <b>Adjusted earnings</b>                                 | <b>134.2</b>                       | <b>31.9</b>               | <b>31.7</b>          | 147.8                              | 35.2                      | 35.0                 |

**PENNON GROUP PLC**

**Notes (continued)**

**8. Dividends**

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

|   | <b>2021</b>  | 2020  |
|---|--------------|-------|
|   | <b>£m</b>    | £m    |
| Interim dividend paid for the year ended<br>31 March 2020: 13.66p (2019 12.84p) per share | <b>57.5</b>  | 54.0  |
| Final dividend paid for the year ended<br>31 March 2020: 30.11p (2019 28.22p) per share   | <b>126.8</b> | 118.6 |
|   | <b>184.3</b> | 172.6 |
| <b>Proposed dividends</b>   |              |       |
| Interim dividend paid for the year ended<br>31 March 2021: 6.77p (2020 13.66p) per share  | <b>28.6</b>  | 57.5  |
| Final dividend paid for the year ended<br>31 March 2021: 14.97p (2020 30.11p) per share   | <b>63.2</b>  | 126.8 |
|   | <b>91.8</b>  | 184.3 |

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

The proposed interim dividend for 2021 was paid on 1 April 2021 and the proposed final dividend is subject to approval by shareholders at the Annual General Meeting.

**PENNON GROUP PLC**

**Notes (continued)**

**9. Share capital**

**Allotted, called up and fully paid**

|  | Number of shares |                    | £m           |
|--|------------------|--------------------|--------------|
|  | Treasury shares  | Ordinary shares    |              |
| At 1 April 2019 ordinary shares of 40.7p each  | 8,443            | 420,520,598        | 171.1        |
| For consideration of £3.6m, shares issued in respect of the Company's Sharesave Scheme | -                | 515,959            | 0.2          |
| At 31 March 2020 ordinary shares of 40.7p each   | 8,443            | 421,036,557        | 171.3        |
| For consideration of £5.6m, shares issued in respect of the Company's Sharesave Scheme | -                | 1,083,624          | 0.5          |
| <b>At 31 March 2021 ordinary shares of 40.7p each</b>                                  | <b>8,443</b>     | <b>422,120,181</b> | <b>171.8</b> |

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

**10. Perpetual capital securities**

|   | 2021<br>£m | 2020<br>£m |
|---|------------|------------|
| GBP 300m 2.875% perpetual subordinated capital securities | -          | 296.7      |
|   | -          | 296.7      |

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

The Company had the option to defer periodic returns on any relevant payment date, as long as a dividend on the Ordinary Shares had not been paid or declared in the previous 12 months. Deferred periodic returns were to be satisfied only on redemption or payment of dividend on Ordinary Shares, all of which only occur at the sole discretion of the Company. As the Company paid a dividend in the 12 months prior to the periodic return date of 22 May 2020, a periodic return of £8.6 million was recognised as a financial liability in 2020.

The securities were fully redeemed during 2021 by a cash payment of £300 million.

**PENNON GROUP PLC**
**Notes (continued)**
**11. Cash flow from operating activities**

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

|   | 2021<br>£m   | 2020<br>£m   |
|---|--------------|--------------|
| <b>Cash generated from operations</b>   |              |              |
| Profit for the year   | 1,762.0      | 206.3        |
| Adjustments for:  |              |              |
| Share-based payments  | 3.1          | 3.4          |
| Profit on disposal of property, plant and equipment                           | (0.1)        | (2.5)        |
| Profit on sale of discontinued operations                                     | (1,682.7)    | -            |
| Depreciation charge   | 119.2        | 197.2        |
| Amortisation of intangible assets   | 0.2          | 4.7          |
| Continuing Group:   |              |              |
| - non-underlying pension items (note 4)                                       | 4.4          | -            |
| - non-underlying remeasurement of fair value movement in derivatives (note 4) | -            | (18.0)       |
| - non-underlying increase in customer debt provisions (note 4)                | -            | 7.9          |
| Discontinued operations:  |              |              |
| - non-underlying pension items (note 14)                                      | (5.6)        | -            |
| - non-underlying restructuring costs and share scheme charges (note 14)       | 6.8          | -            |
| - non-underlying debt retirement costs (note 14)                              | 74.4         | -            |
| - non-underlying increase in customer debt provisions (note 14)               | -            | 1.1          |
| - non-underlying past service credit (note 14)                                | -            | (4.9)        |
| Share of post-tax profit from joint ventures                                  | (4.3)        | (14.8)       |
| Finance income (before non-underlying items)                                  | (10.1)       | (26.6)       |
| Finance costs (before non-underlying items)                                   | 83.7         | 115.3        |
| Taxation charge   | 20.5         | 95.2         |
| Changes in working capital:   |              |              |
| Increase in inventories   | (4.0)        | (6.0)        |
| (Increase) / decrease in trade and other receivables                          | (42.4)       | 32.6         |
| Increase in service concession arrangements receivable                        | (3.8)        | (17.4)       |
| Increase / (decrease) in trade and other payables                             | 27.4         | (19.2)       |
| Decrease in retirement benefit obligations from contributions                 | (47.3)       | (30.8)       |
| Decrease in provisions  | (3.3)        | (7.2)        |
| Cash generated from operations  | <u>298.1</u> | <u>516.3</u> |
| Cash generated from operations comprises:-                                    |              |              |
| Cash generated from discontinued operations                                   | 28.7         | 177.6        |
| Cash generated from the Continuing Group                                      | 269.4        | 338.7        |
| Cash generated from operations  | <u>298.1</u> | <u>516.3</u> |
|   | 2021         | 2020         |
|   | £m           | £m           |
| <b>Total interest paid</b>  |              |              |
| Interest paid in operating activities   | 80.2         | 97.7         |
| Interest paid in investing activities   | -            | 10.6         |
| Total interest paid   | <u>80.2</u>  | <u>108.3</u> |

**PENNON GROUP PLC**

**Notes (continued)**

**11. Cash flow from operating activities (continued)**

The above includes the entire Group, including cash flows relating to the discontinued operations business. Disaggregated information relating to the discontinued business is provided in note 14.

During the year, the Group completed a number of sale and leaseback transactions in respect of its infrastructure assets as part of its ongoing finance arrangements. Cash proceeds of £15.0 million (2020 £115.0 million) were received and a gain of nil (2020 nil) was recognised. These assets are primarily being leased back over an initial 10-year lease term at market rentals.

**12. Net borrowings**

|                                     | 2021<br>£m       | 2020<br>£m |
|-------------------------------------|------------------|------------|
| <b>Cash and cash deposits</b>       | <b>2,919.3</b>   | 665.9      |
| <i>Borrowings – current</i>         |                  |            |
| Bank and other loans                | (7.7)            | (7.6)      |
| Other current borrowings            | (32.4)           | (33.1)     |
| Lease obligations                   | (48.2)           | (19.2)     |
| <b>Total current borrowings</b>     | <b>(88.3)</b>    | (59.9)     |
| <i>Borrowings – non-current</i>     |                  |            |
| Bank and other loans                | (1,170.7)        | (1,894.8)  |
| Other non-current borrowings        | (205.0)          | (340.8)    |
| Lease obligations                   | (1,391.0)        | (1,419.3)  |
| <b>Total non-current borrowings</b> | <b>(2,766.7)</b> | (3,654.9)  |
| <b>Total net borrowings</b>         | <b>64.3</b>      | (3,048.9)  |
| Net borrowings in Disposal Group    | -                | (215.1)    |
| <b>Total Group net borrowings</b>   | <b>64.3</b>      | (3,264.0)  |

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

|   | 2021<br>£m     | 2020<br>£m |
|---|----------------|------------|
| Cash and cash deposits as above   | 2,919.3        | 665.9      |
| Cash and cash deposits held in Disposal Group                             | -              | 33.3       |
| Less: deposits with a maturity of three months or more (restricted funds) | (250.8)        | (227.2)    |
|   | <b>2,668.5</b> | 472.0      |

**13. Contingencies**

**Contingent liabilities**

|                   | 2021<br>£m | 2020<br>£m |
|-------------------|------------|------------|
| Performance bonds | -          | 197.1      |

Guarantees in respect of performance bonds in 2020 related to the Disposal Group and have been transferred on completion of the sale.

**PENNON GROUP PLC**
**Notes (continued)**
**13. Contingencies (continued)**
*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. In previous accounting periods, there were matters where it was uncertain that these conditions had been met in respect of discontinued operations. Following the disposal these uncertainties do not impact the Continuing Group.

**14. Discontinued operations and non-current assets held for sale**

On 18 March 2020, the Group entered into a formal sale agreement to dispose of Viridor Limited to Planets UK Bidco Limited (Bidco), a newly formed company established by funds advised by Kohlberg Kravis Roberts & Co. L.P. (KKR). The Viridor business which represented the entirety of the waste operating segment was classified as a discontinued operation at that date. Consequently, Viridor has not been presented as an operating segment in the segment note. The sale completed on 8 July 2020 and the results of the discontinued operation and the effect of the disposal on the financial position of the Group were as follows:

|   | Before non-<br>underlying<br>items<br>2021<br>£m | Non-<br>underlying<br>items<br>(see below)<br>2021<br>£m | Total<br>2021<br>£m | Before non-<br>underlying<br>items<br>(see below)<br>2020<br>£m | Non-underlying<br>items<br>2020<br>£m | Total<br>2020<br>£m |
|---|--|--|---------------------|---|---------------------------------------|---------------------|
| Discontinued operations   |  |  |                     |   |                                       |                     |
| <b>Revenue</b>  | <b>192.2</b>                                     | -  | <b>192.2</b>        | 753.2   | -                                     | 753.2               |
| Operating costs   |  |  |                     |   |                                       |                     |
| Employment costs  | (34.4)   | 0.5  | (33.9)              | (130.4)   | 4.9                                   | (125.5)             |
| Raw materials and consumables used                                      | (22.4)   | -  | (22.4)              | (87.2)  | -                                     | (87.2)              |
| Other operating expenses  | (81.1)   | (1.7)  | (82.8)              | (337.5)   | (1.1)                                 | (338.6)             |
| <b>Earnings before interest, tax,<br/>depreciation and amortisation</b> | <b>54.3</b>                                      | <b>(1.2)</b>   | <b>53.1</b>         | 198.1   | 3.8                                   | 201.9               |
| Depreciation and amortisation   | -  | -  | -                   | (82.1)  | -                                     | (82.1)              |
| <b>Operating profit</b>   | <b>54.3</b>                                      | <b>(1.2)</b>   | <b>53.1</b>         | 116.0   | 3.8                                   | 119.8               |
| Finance income  | 6.0  | -  | 6.0                 | 22.5  | -                                     | 22.5                |
| Finance costs   | (21.3)   | (74.4)   | (95.7)              | (48.7)  | -                                     | (48.7)              |
| Net finance costs   | (15.3)   | (74.4)   | (89.7)              | (26.2)  | -                                     | (26.2)              |
| Share of post-tax profit from joint ventures                            | 4.3  | -  | 4.3                 | 14.8  | -                                     | 14.8                |
| <b>Profit/(loss) before tax</b>   | <b>43.3</b>                                      | <b>(75.6)</b>  | <b>(32.3)</b>       | 104.6   | 3.8                                   | 108.4               |
| Taxation (charge)/credit  | (7.8)  | 12.1   | 4.3                 | (13.6)  | (11.0)                                | (24.6)              |
| <b>Profit/(loss) from operating<br/>activities, net of tax</b>          | <b>35.5</b>                                      | <b>(63.5)</b>  | <b>(28.0)</b>       | 91.0  | (7.2)                                 | 83.8                |
| Gain on sale of discontinued operation                                  | -  | 1,682.7  | 1,682.7             | -   | -                                     | -                   |
| <b>Profit from discontinued<br/>operations, net of tax</b>              | <b>35.5</b>                                      | <b>1,619.2</b>   | <b>1,654.7</b>      | 91.0  | (7.2)                                 | 83.8                |

Attributable to:

Ordinary shareholders of the parent

1,654.7
83.8
**Non-underlying items**

Non-underlying items in 2021 represent employment costs (restructuring, accelerated share scheme charges and a settlement gain on transfer of pension liabilities), other operating restructuring costs and finance costs relating to debt retirements, together with the related taxation credit.

**PENNON GROUP PLC**

**Notes (continued)**

**14. Discontinued operations and non-current assets held for sale (continued)**

Non-underlying items in 2020 represent a past service pension credit of £4.9 million from employees transferring from active to deferred status upon cessation of the Viridor Greater Manchester contract and an expense from COVID-19 provision for expected credit losses of £1.1 million. The non-underlying taxation credit represents the taxation impact of the above items, together with the impact of a change in the tax rate used to calculate deferred tax balances. Further background to the COVID-19 expected credit losses and the change in the deferred tax rate are disclosed in note 4.

|   | 2021<br>£m    | 2020<br>£m   |
|---|---------------|--------------|
| <b>Cash flows used in discontinued operations</b>                       |               |              |
| Cash generated from operations  | 28.7          | 177.6        |
| Interest paid   | (17.6)        | (39.4)       |
| Tax paid  | (4.4)         | 10.9         |
| Cash flows from operating activities after interest and tax paid        | <u>6.7</u>    | 149.1        |
| Cash flows from investing activities                                    | (24.0)        | (133.0)      |
| Cash flows from financing activities, net of intercompany               | (79.2)        | (23.1)       |
| <b>Net cash flows from discontinued operations, net of intercompany</b> | <u>(96.5)</u> | <u>(7.0)</u> |

**Effect of disposal of the financial position of the Group**

The net assets relating to the Disposal Group at the date of disposal and the gain on disposal are shown below.

|   | £m             |
|---|----------------|
| <b>Net assets disposed of and gain on disposal</b>                            |                |
| Goodwill  | 340.8          |
| Other intangible assets   | 86.9           |
| Property, plant and equipment   | 1,619.2        |
| Other non-current assets  | 266.7          |
| Investments in joint ventures   | 64.4           |
| Inventories   | 33.4           |
| Trade and other receivables   | 298.7          |
| Current tax asset   | 0.6            |
| Cash and cash deposits  | 61.7           |
| <b>Total assets</b>   | <u>2,772.4</u> |
| Borrowings  | (240.7)        |
| Trade and other payables  | (157.7)        |
| Provisions  | (236.8)        |
| Other non-current liabilities   | (12.7)         |
| Retirement benefit obligations  | 1.5            |
| Deferred tax liabilities  | (109.4)        |
| <b>Total liabilities</b>  | <u>(755.8)</u> |
| <b>Net assets disposed of</b>   | <u>2,016.6</u> |
| Consideration received in cash, net of transaction costs                      | 3,690.2        |
| Deferred consideration  | 9.2            |
| <b>Gain on sale before income tax and reclassification of reserves</b>        | <u>1,682.8</u> |
| Items previously recognised in equity recycled to the income statement        | (0.1)          |
| <b>Gain on sale of discontinued operation</b>                                 | <u>1,682.7</u> |
| <b>Net cash inflow arising on disposal</b>                                    |                |
| Consideration received in cash and cash equivalents, net of transaction costs | 3,690.2        |
| Less cash and cash deposits disposed of                                       | (61.7)         |
|   | <u>3,628.5</u> |

## PENNON GROUP PLC

### Notes (continued)

#### 14. Discontinued operations and non-current assets held for sale (continued)

##### Deferred consideration

Under the sale agreement deferred consideration may be receivable in future. The fair value of the amount expected to be received at 31 March 2021 has been estimated at £9.2 million and this amount is expected to be received in the first half of the financial year ended 31 March 2022. The receipt of further deferred consideration remains possible, albeit the likelihood is judged as not probable and has therefore not been recognised in the financial statements.

##### Taxation on the discontinued operations

The gain on sale of discontinued operations qualified for Substantial Shareholding Exemption and consequently was not subject to corporation tax. The taxation charge from discontinued operations of £7.8 million (2020 £13.6 million charge), includes a deferred tax charge of £7.6 million (2020 £23.1 million charge).

#### 15. Post balance sheet events

On 2 June 2021, the Company approved the acquisition of 100% of the issued share capital of Bristol Water Holdings UK Limited, including its subsidiaries (together, the Bristol Water Group), from its indirect shareholders: (a) infrastructure funds advised by iCON Infrastructure LLP and (b) ITOCHU Corporation, for an equity value of £425 million and an enterprise value of £814 million including £389 million of assumed debt. Bristol Water Holdings UK Limited is the holding company for Bristol Water plc and possesses a 30% share in Water 2 Business Limited, a joint venture with Wessex Water. Bristol Water Group has Gross assets of £709 million and Net assets of £162 million as at 31 March 2021, based on the unaudited consolidated balance sheet. For the year ended 31 March 2021, the unaudited consolidated results for Bristol Water Group recorded combined revenues of £118 million, operating profits of £21 million and underlying profit before tax of £9 million. Bristol Water plc is a regulated water only company serving a population of approximately 1.2 million customers in the Bristol region, with a regulatory capital value (RCV) of £555.9 million as at 31 March 2021. No information has been presented on the fair value of assets and liabilities acquired and the separable intangibles arising on acquisition as required by IFRS 3 as management has not had sufficient time to reasonably conclude on this, given the timing of the acquisition.

On the same date the Company approved the acquisition of Bristol Water Group, it also determined that the remaining c.£1.9 billion net proceeds from the sale of Viridor should be returned to shareholders. The proposed return of capital to shareholders will be by way of a proposed special dividend of £1.5 billion, representing £3.55 per existing ordinary share and a share buy-back programme of up to £0.4 billion which will start after payment of the proposed special dividend. To maintain comparability, so far as possible, of the Company's share price before and after the Special Dividend, Pennon intends to consolidate its Ordinary Share capital on the basis of two New Ordinary Shares in the capital of the Company for every three Existing Ordinary Shares in the capital of the Company (the Share Consolidation). In connection with the proposed return of capital, the Company has committed to contribute an additional £17 million to its remaining defined benefit pension scheme, Pennon Group Pension Scheme.

Pennon Group plc  
Registered office:  
Peninsula House  
Rydon Lane  
Exeter  
Devon  
EX2 7HR  
[pennon-group.co.uk](http://pennon-group.co.uk)

Registered in England: 2366640



**PENNON GROUP PLC**
**Alternative performance measures**

Alternative performance measures (APMs) are financial measures used in this report that are not defined by International Financial Reporting Standards (IFRS). The Directors believe that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group as well as enhancing the comparability of information between reporting periods.

As the Group defines the APMs they might not be directly comparable to other companies' APMs. They are not intended to be a substitute for, or superior to, IFRS measurements. The following APMs have been amended from those presented previously to reflect the changing nature of the Group following the sale of Viridor:

- The APM for Adjusted EBITDA (adjusted earnings before interest, tax, depreciation and amortisation) has been removed as this measure was used to adjust for the impact of Viridor's share of EBITDA from its joint ventures and finance income on service concession arrangements. Following the disposal of Viridor these adjustments to properly assess performance are no longer required
- Return on capital employed for South West Water has been presented for 2021 to provide a more meaningful comparison of Group performance due to the Group holding a net cash position at 31 March 2021
- The Total Group Effective interest rate has been replaced as this measure does not provide comparability as the Group is in a net cash position at 31 March 2021. The more relevant measure of the Group's management of interest rates is in respect of South West Water Limited, which is in a net borrowing position. The calculations have therefore been presented for this entity
- Other measures have been updated to reflect continuing operations, rather than Total Group measures to ensure a meaningful comparison.

**(i) Underlying earnings**

Underlying earnings are presented alongside statutory results as the Directors believe they provide a more useful comparison on business trends and performance. Note 4 in the financial statements provides more detail on non-underlying items, and a reconciliation of underlying earnings for the current year and prior year is as follows:

| Underlying earnings reconciliation<br>31 March 2021 | Non-underlying items |                   |  | Statutory<br>results<br>£m | Earnings<br>per share<br>p |
|---|----------------------|-------------------|--|----------------------------|----------------------------|
|   | Underlying<br>£m     | WaterShare+<br>£m | Pension<br>curtailment<br>charge<br>£m |                            |                            |
| EBITDA  | 334.7                | (20.5)            | (4.4)                                  | 309.8                      |                            |
| Operating profit                                    | 215.3                | (20.5)            | (4.4)                                  | 190.4                      |                            |
| Profit before tax                                   | 157.0                | (20.5)            | (4.4)                                  | 132.1                      |                            |
| Taxation  | (29.6)               | 3.9               | 0.9                                    | (24.8)                     |                            |
| Profit after tax from continuing operations         |                      |                   |  | 107.3                      |                            |
| Profit after tax from<br>discontinued operations    |                      |                   |  | 1,654.7                    |                            |
| Profit after tax (PAT)                              |                      |                   |  | 1,762.0                    |                            |
| Non-controlling interests                           |                      |                   |  | 0.2                        |                            |
| PAT attributable to shareholders                    |                      |                   |  | 1,762.2                    | 418.5                      |
| Deferred tax before non-underlying items            |                      |                   |  | 14.2                       | 3.4                        |
| Non-underlying items post tax                       |                      |                   |  | (1,599.1)                  | (379.8)                    |
| Underlying earnings                                 |                      |                   |  | 177.3                      | 42.1                       |

**PENNON GROUP PLC**

**Alternative performance measures (continued)**

**(i) Underlying earnings (continued)**

| Underlying earnings reconciliation<br>31 March 2020            | Non-underlying items |  |   |   | Statutory results<br>£m | Earnings per share<br>p |
|--|----------------------|--|---|---|-------------------------|-------------------------|
|  | Underlying<br>£m     | COVID-19<br>provision for<br>expected<br>credit losses<br>£m | Re-<br>measurement<br>of fair value<br>movement in<br>derivatives<br>£m | Deferred<br>tax change<br>in rate<br>£m |                         |                         |
| EBITDA   | 356.3                | (7.9)  | -   | -                                       | 357.4                   |                         |
| Operating profit   | 245.5                | (7.9)  | -   | -                                       | 237.6                   |                         |
| Profit before tax  | 183.0                | (7.9)  | 18.0  | -                                       | 193.1                   |                         |
| Taxation   | (38.4)               | 1.5  | (3.4)   | (30.3)                                  | (70.6)                  |                         |
| Profit after tax from continuing operations                    |                      |  |   |   | 122.5                   |                         |
| Profit after tax from discontinued operations                  |                      |  |   |   | 83.8                    |                         |
| Profit after tax (PAT)   |                      |  |   |   | 206.3                   |                         |
| PAT attributable to perpetual capital holders                  |                      |  |   |   | (7.0)                   |                         |
| Non-controlling interests                                      |                      |  |   |   | 1.1                     |                         |
| PAT attributable to shareholders                               |                      |  |   |   | 200.4                   | 47.7                    |
| Deferred tax before non-underlying items                       |                      |  |   |   | 33.2                    | 7.9                     |
| Non-underlying items post tax                                  |                      |  |   |   | 29.3                    | 6.9                     |
| Non-controlling interests' share of non-underlying items       |                      |  |   |   | (1.0)                   | (0.2)                   |
| Adjustment for full year depreciation charge in Disposal Group |                      |  |   |   | (2.6)                   | (0.6)                   |
| Underlying earnings  |                      |  |   |   | 259.3                   | 61.7                    |

**(ii) EBITDA**

EBITDA (earnings before interest, tax, depreciation and amortisation) is used to assess and monitor operational underlying performance.

**(iii) South West Water Limited effective interest rate**

A measure of the mean average interest rate payable on South West Water Limited's net debt, which excludes interest costs not directly associated with South West Water Limited net debt. This measure is presented to assess and monitor the relative cost of financing for South West Water Limited.

|   | 2021<br>£m  | 2020<br>£m  |
|---|-------------|-------------|
| Net finance costs after non-underlying items                        | 56.5        | 53.1        |
| Non-underlying net finance costs                                    | -           | 18.0        |
| Adjustment for prior period interest credit <sup>(1)</sup>          | -           | (1.2)       |
| Net interest on retirement benefit obligations                      | (0.4)       | (0.2)       |
| Capitalised interest  | 0.9         | 2.0         |
| <b>Net finance costs for effective interest rate calculation</b>    | <b>57.0</b> | <b>74.1</b> |
| Opening net debt  | 2,307.2     | 2,062.5     |
| Closing net debt  | 2,273.5     | 2,307.2     |
| Average net debt (opening net debt + closing net debt divided by 2) | 2,290.4     | 2,184.9     |
| <b>Effective interest rate (%)</b>                                  | <b>2.5</b>  | <b>3.4</b>  |

(1) Adjustment for the annualised impact of the 2040 derivative settlement on underlying net interest charge in FY 2019/20

**PENNON GROUP PLC**

**Alternative performance measures (continued)**

**(iv) Continuing operations interest cover**

Underlying net finance costs (excluding pensions net interest cost) divided by operating profit before non-underlying items.

|   | <b>2021</b>  | 2020<br>(restated) |
|---|--------------|--------------------|
|   | <b>£m</b>    | £m                 |
| Net finance costs after non-underlying items            | <b>58.3</b>  | 44.5               |
| Add back: non-underlying net finance credit             | -            | 18.0               |
| Net interest on retirement benefit obligations          | <b>(0.7)</b> | (0.2)              |
| <b>Net finance costs for interest cover calculation</b> | <b>57.6</b>  | 62.3               |
| Operating profit before non-underlying items            | <b>215.3</b> | 245.5              |
| <b>Interest cover (times)</b>                           | <b>3.7</b>   | 3.9                |

**(v) Total Group dividend cover**

Proposed dividends divided by profit for the year before non-underlying items and deferred tax

|  | <b>2021</b>      | 2020  |
|--|------------------|-------|
|  | <b>£m</b>        | £m    |
| Proposed dividends   | <b>91.8</b>      | 184.3 |
| Profit for the year attributable to ordinary shareholders          | <b>1,762.2</b>   | 200.4 |
| Deferred tax charge before non-underlying items                    | <b>14.2</b>      | 33.2  |
| Non-underlying items after tax in profit for the year              | <b>(1,599.1)</b> | 29.3  |
| Non-controlling interests' share of non-underlying items           | -                | (1.0) |
| Adjustment for full year depreciation charge in the Disposal Group | -                | (2.6) |
| <b>Adjusted profit for dividend cover calculations</b>             | <b>177.3</b>     | 259.3 |
| <b>Dividend cover (times)</b>                                      | <b>1.9</b>       | 1.4   |

**(vi) Continuing operations capital investment**

Property, plant and equipment additions. The measure is presented to assess and monitor the total capital investment by the Group.

|  | <b>2021</b>  | 2020<br>(restated) |
|--|--------------|--------------------|
|  | <b>£m</b>    | £m                 |
| Property, plant and equipment additions to property, plant and equipment | <b>168.4</b> | 161.0              |
| Intangible additions to property, plant and equipment                    | <b>0.2</b>   | 0.6                |
| <b>Capital investment</b>  | <b>168.6</b> | 161.6              |

**(vii) Continuing operations capital payments**

Payments for property, plant and equipment (PPE) additions net of proceeds from sale of PPE. The measure is presented to assess and monitor the net cash spend on PPE.

|  | <b>2021</b>   | 2020    |
|--|---------------|---------|
|  | <b>£m</b>     | £m      |
| Cash flow statements: purchase of property, plant and equipment            | <b>190.1</b>  | 332.8   |
| Cash flow statements: purchase of intangible assets                        | <b>0.2</b>    | 0.6     |
| Cash flow statements: proceeds from sale of property, plant and equipment  | <b>(0.4)</b>  | (10.6)  |
| IFRIC 12 additions to non-current assets – service concession arrangements | -             | 17.1    |
| <b>Capital payments relating to the Total Group</b>                        | <b>189.9</b>  | 339.9   |
| Capital payments relating to discontinued operations                       | <b>(32.3)</b> | (176.1) |
| <b>Capital payments relating to continuing operations</b>                  | <b>157.6</b>  | 163.8   |

**PENNON GROUP PLC**

**Alternative performance measures (continued)**

**(viii) Return on capital employed**

The total of underlying operating profit, joint venture profit after tax and joint venture interest receivable divided by capital employed (net debt plus total equity invested). An average value for this metric is part of the long-term incentive plan for Directors. Return on capital employed for South West Water has been presented for 2021 to provide a more meaningful comparison of Group performance due to the Group holding a net cash position at 31 March 2021.

|  | <b>2021<sup>(1)</sup></b> | 2020    |
|--|---------------------------|---------|
|  | <b>£m</b>                 | £m      |
| Underlying operating profit  | <b>222.3</b>              | 361.5   |
| Underlying joint venture profit after tax                          | -                         | 14.8    |
| Joint venture interest receivable                                  | -                         | 5.3     |
| <b>Adjusted profit for return on capital employed calculation</b>  | <b>222.3</b>              | 381.6   |
| Values at year end:  |                           |         |
| Net debt   | <b>2,198.6</b>            | 3,264.0 |
| Share capital  | <b>250.9</b>              | 171.3   |
| Share premium account  | -                         | 227.0   |
| Capital redemption reserve   | -                         | 144.2   |
| Perpetual capital securities                                       | -                         | 296.7   |
| <b>Capital employed for return on capital employed calculation</b> | <b>2,449.5</b>            | 4,103.2 |
| Return on capital employed   | <b>9.1%</b>               | 9.3%    |

(1) Return on capital employed for South West Water has been presented for 2021 to provide a more meaningful comparison of Group performance due to the Group holding a net cash position at 31 March 2021.

**(ix) Continuing operations operational cash inflows and other movements**

Cash generated from operations before pension contributions and other movements.

|   | <b>2021</b>   | 2020    |
|---|---------------|---------|
|   | <b>£m</b>     | £m      |
| Cash generated from operations per cash flow statements                       | <b>298.1</b>  | 516.3   |
| Remove: cash generated from discontinued operations                           | <b>(29.7)</b> | (177.6) |
| <b>Cash generated from operations from the Continuing Group</b>               | <b>269.4</b>  | 338.7   |
| Other movements <sup>(1)</sup>  | <b>(3.6)</b>  | 0.2     |
| Other taxes <sup>(2)</sup>  | <b>80.8</b>   | 70.7    |
| Pension contributions   | <b>50.2</b>   | 39.8    |
| <b>Operational cash inflows and other movements from the Continuing Group</b> | <b>396.8</b>  | 449.4   |

(1) Other movements reflect operational movements not related to operating cash flows, such as proceeds from share issues and share trust purchases for the employee share schemes.

(2) Other taxes include business rates, employers national insurance, fuel excise duty, carbon reduction commitment, environmental payments and climate change levy.

**Alternative performance measures (continued)****(x) Return on Regulated Equity (RoRE)**

This is a key regulatory metric which represents the returns to shareholders expressed as a percentage of regulated equity.

Returns are made up of a base return (set by Ofwat, the water business regulator, at c.3.9% for 2020-25) plus totex outperformance, financing outperformance and ODI outperformance. Returns are calculated post tax and post sharing (only a proportion of returns are attributed to shareholders and shown within RoRE). The three different types of return calculated and added to the base return are:

- Totex outperformance – totex is defined below and outperformance is the difference between actual reported results for the regulated business compared to the Final Determination (Ofwat published document at the start of a regulatory period), in a constant price base
- Financing outperformance – is based on the difference between a company's actual effective interest rate compared with Ofwat's allowed cost of debt
- ODI outperformance – the net reward or penalty a company earns based on a number of different key performance indicators, again set in the Final Determination

Regulated equity is a notional proportion of regulated capital value (RCV which is set by Ofwat at the start of every five-year regulatory period, adjusted for actual inflation). For 2020-25, the notional equity proportion is 40.0%.

Further information on this metric can be found in South West Water's annual performance report and regulatory reporting, published in July each year. The most recent can be found at: [www.southwestwater.co.uk/about-us/how-are-we-performing](http://www.southwestwater.co.uk/about-us/how-are-we-performing).

**(xi) Totex**

Operating costs and capital expenditure of the regulated water and wastewater business (based on the Regulated Accounting Guidelines).

**(xii) Outcome Delivery Incentive (ODI)**

ODIs are designed to incentivise companies to deliver improvements to service and outcomes based on customers' priorities and preferences. If a company exceeds these targets a reward can be earned through future higher revenues. If a company fails to meet them, they can incur a penalty through lower future allowed revenues.