PENNON GROUP PLC **23 May 2013**

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2013

Pennon Group announces its unaudited results for the year ended 31 March 2013.

A presentation for City audiences will be held today, Thursday 23 May 2013, at 11am at King Edward Hall, Bank of America Merrill Lynch Financial Centre, 2 King Edward Street, London, EC2. A live webcast of the results presentation will be available at pennon-group.co.uk/investor/presentations and a recording of the presentation will be available thereafter.

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FINANCIAL HIGHLIGHTS

- Profit before tax[1] down 1.1% to £198.2m
    - South West Water up 7.5% to £152.1m
    - Viridor down 36.6% to £36.5m
- Net exceptional charges £176.4m (post tax £140.2m)
- Earnings per share[2] down 9.9% to 42.6p
- Dividend
    - Full year dividend up 7.3% to 28.46p
    - Recommended final dividend per share up 7.7% to 19.70p
- Group capital expenditure up 61% to £439m[3]
- Strong liquidity and funding position
    - £782m[4] new/refinanced facilities since 31 March 2012
    - £1,150m cash and facilities at 31 March 2013[5]
- £300m hybrid capital issuance provides substantial additional funding and strengthens balance sheet
- Group businesses well positioned for the future

(1) Before net exceptional charges. Profit before tax (statutory basis) £21.8m

(2) Before net exceptional charges and deferred tax. Basic earnings per share (statutory basis) 7.4p

(3) Including construction spend on service concession arrangements

(4) Including hybrid capital issuance

(5) Including £143m deposits with Letter of Credit providers and lessors

OPERATIONAL HIGHLIGHTS

- **South West Water:**
  - Strong performance against 2010 – 2015 regulatory contract
    - Well placed to deliver outcomes and outperform assumptions
  - PBT up in spite of atypical weather
  - Average funding cost 4.1%
  - Strong operational performance and high standards of customer service
  - Preparing for PR14
    - Investing c£60m in improving services to customers
    - 'Water Future' launched and 25 year outlook published
    - Research and engagement carried out
    - Draft water resources management plan published

OPERATIONAL HIGHLIGHTS (continued)

- **Viridor:**
  - Strong progress in long term PPP/EfW strategy but significant current headwinds in recycling and ongoing trend decline in landfill affecting 2013 results
    - aggressive action to reduce costs
  - As previously flagged, exceptional charges to reflect the above, now established as
    - £99m asset impairment (primarily landfill) and onerous contracts
    - £90m increased landfill provisions
    - total £150m net of tax
  - Key long term PPP/EFW developments
    - financial close achieved for the Glasgow Design Build Finance Operate project (July 2012) and planning application for the associated Recycling and Renewable Energy Centre approved (January 2013)
    - financial close achieved for the South London Waste Partnership PPP (November 2012) and planning permission achieved (May 2013)
    - planning approval (January 2013) and financial close (February 2013) achieved for the Peterborough PPP; construction to start immediately
    - Dunbar planning enhanced to cover all of Scotland
    - preferred bidder achieved for the South East Wales residual waste PPP (Prosiect Gwyrdd) (March 2013)

Ken Harvey, Chairman said:

“South West Water is continuing its strong performance against the 2010-2015 regulatory contract and is well placed to outperform its assumptions. The company continues to deliver robust operational performance and high standards of customer service, notwithstanding the extreme flooding experienced during 2012/13. South West Water is well prepared for PR14 and legislative changes and is sharing the benefits of K5 outperformance by investing c£60m in further improvements to services to customers.

“It has been a mixed year for Viridor. As previously flagged, trading in Viridor is significantly down on last year with declines in recycling and landfill more than outweighing continued growth in joint ventures; Viridor is continuing to respond aggressively to the near term challenges in recycling and landfill which have necessitated site rationalisations, headcount reductions and exceptional charges in relation to asset impairments and provisions. On the positive side, Viridor has continued to make very strong progress on its growing PPP and EfW pipeline with major new contracts signed for Glasgow, South London and Peterborough; its appointment as preferred bidder for the South East Wales PPP; and an enhancement of Dunbar’s planning permission to cover all of Scotland. These and similar projects are expected to drive the company’s long term profit growth.

“Notwithstanding current challenges, the Group has delivered stable overall profit before tax for the year (before net exceptional charges) and an increase of 7.3% in the dividend, in line with our stated policy of 4% real increases up to the end of the K5 period (March 2015).”

GROUP OVERVIEW

- Revenue down by 2.6% to £1,201m
- Operating profit(1) down by 8.4% to £246m
- Net finance costs(1) down by 25.4% to £53.9m
- Profit before tax(1) down 1.1% to £198m. Profit before tax (statutory basis) £21.8m
- Net exceptional charges £140.2m
- Earnings per share before net exceptional charges and deferred tax down by 9.9% to 42.6p. Basic earnings per share (statutory basis) reduced from 48.1p to 7.4p
- Group capital expenditure(2) up 61% to £439m (2011/12 – £273m)
- Net borrowings £2,009m, a reduction of £96m since 31 March 2012. Gearing, being net borrowings to (equity plus net borrowings), was 65.4% (2011/12 – 71.9%). Net debt includes £438m for EfW plants under construction (Runcorn II, Oxford, Exeter, Cardiff and Glasgow)
- £300m hybrid capital issuance provides substantial additional funding and strengthens balance sheet
- The Group has substantial cash resources and facilities of £1,150m - well placed in current financial market conditions
- South West Water net debt to RCV was 54.9% (31 March 2012 – 56.1%)
- Net interest cover (excluding pensions net interest, IFRIC 12 contract interest receivable, discount unwind on provisions and net exceptional charges) was 4.2 times (2011/12 – 3.6 times)

(1) Before net exceptional charges
(2) Including construction spend on service concession arrangements

DIVIDENDS

The Board has recommended a final dividend of 19.70p, up 7.7%, subject to shareholder approval at the Annual General Meeting. Together with the interim dividend of 8.76p, this will result in a total dividend for the year of 28.46p, an increase of 7.3%[1]. This is in line with the previously announced policy to grow the Group dividend by 4% above inflation per annum up to the end of 2014/15.

The dividend will be paid on 4 October 2013 to shareholders on the register on 9 August 2013. The Company is also offering a scrip dividend alternative. The final date for the receipt of Forms of Election/Mandate in respect of the scrip dividend alternative for the final dividend will be 16 September 2013.

(1) RPI for the twelve months to 31 March 2013 was 3.3%

SOUTH WEST WATER

Against the backdrop of extreme weather events ranging from drought to flooding during 2012/13, South West Water continued to deliver solid operational performance against the K5 regulatory contract alongside further improvements to customer service. This was underpinned by strong financial results – the result of rigorous cost control and continued efficiency delivery.

Financial Highlights

South West Water's operating profit increased by £10.5m (5.1%) to £215.2m.

Revenues rose 5.2% to £498.6m as a result of tariff increases and new connections, offset by an overall reduction in demand and the effects of customers switching to a metered tariff. Approved tariff increases, including the 2.5% K factor, amounted to £38.1m and 5,100 new customer connections contributed £1.5m of additional revenue. 12,800 customers switching from unmeasured to metered charging or assessed charges reduced revenue by £7.8m. Customer demand has fallen by 2.9% from last year, reducing revenues by £8.1m, impacted by the extreme wet weather experienced this year and general economic conditions. 75% of South West Water's domestic customers are now metered.

Operating costs, including depreciation and restructuring costs, increased from £269.3m to £283.4m. However, cost increases (including business rates and pension costs) were £9.3m with cumulative cost increases over K5 continuing to be lower than average RPI for the same period. £3.5m of efficiencies were delivered in the year bringing the cumulative K5 figure to £18.6m. Other cost drivers were:

- Costs from new capital schemes of £6.7m (£1.8m of depreciation and additional asset maintenance costs of £4.9m relating to the increased emphasis on maintenance in the investment programme)
- Private sewer costs increased by £1.5m, reflecting a full year of operational costs
- Bad debt charges equivalent to 1.9% of revenues, marginally higher than last year (up £1.3m)
- Other cost changes of £0.8m predominantly as a result of increased cost of sales and non recurring items.

South West Water's programme of organisational restructuring was weighted towards the beginning of K5. Ongoing operational and organisational changes have continued during 2012/13 with costs of £0.5m (2011/12 - £2.5m).

Net finance costs (before exceptional items) of £63.1m were level with the prior year as a result of lower RPI on index linked facilities net of new borrowings and other interest rate changes.

Profit before tax and exceptional items increased by 7.5% to £152.1m.

During the year South West Water terminated a lease facility which resulted in an exceptional gain from a consent fee of £12.5m. Profit before tax after the exceptional items was £164.6m.

Capital expenditure in the year was £116.5m compared to £130.8m in 2011/12. Regulatory net capital expenditure(1) was £136.9m. The focus for the programme remains weighted towards the maintenance of our existing assets, increasing the resilience of our infrastructure and delivering environmental improvements. Investments during the year included:

- improvements at waste water works targeting compliance
- innovative investments to reduce flooding for those customers previously highlighted as at risk
- a programme of sewer rehabilitation and clean water network improvements targeting reliability
- water quality and security of supply and
- improvements to the recently adopted private sewers.

South West Water is continuing with asset enhancements enabling changed operational ways of working through the PUROS(2) programme. The robustness of our networks and assets is illustrated by our achieving OFWAT's 'stable serviceability' status across all four areas.

Regulatory capital value at 31 March 2013 was £2,916m and growth over the year exceeded growth in net borrowings.

(1) capital expenditure including infrastructure renewals expenditure less grants and contributions
(2) PUROS – Phased Utilisation of Remote Operating Systems

Efficiencies

South West Water remains ahead of target in delivering the required operating cost efficiencies over K5.

The company is front end loading delivery of the required 2.8%(1) p.a average operating cost efficiencies with an average 4.1% per annum delivered in the first three years of this K period. This ongoing targeted savings programme has delivered £3.5m of efficiencies in 2012/13, bringing the K5 total to date of £18.6m. This is being achieved through South West Water's ongoing improvement programmes with specific initiatives this year in the areas of

- Operational ways of working – integration of customer services management and asset improvements through our PUROS programme
- Energy procurement and usage – energy efficiency schemes alongside additional power generation through renewable sources
- Rationalising administration and support services
- Right-sourcing and innovative contracting – continued tendering to achieve the 'right price'.

South West Water continues to deliver capital projects in line with Ofwat, Drinking Water Inspectorate and Environment Agency expectations. Expenditure for the K5 period to date is lower than the Capital Incentive Scheme baseline(2) and is targeted to achieve 5% outperformance of the Final Determination K5 capital programme(3).

(1) average over K5 (2010-2015)

(2) based on current published Construction Output Price Index (COPI)

(3) using 2009 Final Determination estimates of COPI

Operational Highlights

As re-affirmed in the company's recently published 25 Year Outlook, the 'Pure Water, Pure Service, Pure Environment' strategy is the cornerstone of South West Water's operations, targeting robust operational performance and high standards of customer service underpinned by strong financial results.

Pure Water

The delivery of a high level of water quality is fundamental to South West Water's business and compliance with the tough standards set by the Drinking Water Inspectorate of 99.97% was achieved this year. A significant proportion of the company's 2012/13 capital programme was focused on this area of the business. The company aims to maintain these standards into the next financial year and beyond.#

Against the backdrop of extreme weather events during 2012/13, South West Water successfully managed its water resources to enable a continued secure supply of water for the region, despite the initial period of drought. The extreme wet weather that followed resulted in reservoir storage levels subsequently reaching near full capacity (99.93%). The wet weather also tested the resilience of South West Water's drinking water assets – the flood defences at

Pynes Water Treatment Works, which serves Exeter, ensured it was protected during the flooding in December 2012 even though the adjacent railway main line was closed. South West Water's performance in minimising leakage remained on target. The company beat its 2012/13 and rolling three year average target. Leakage targets have been met every year since their introduction. South West Water is confident that no water restrictions will need to be put in place during 2013/14.

Work continues on South West Water's innovative catchment management programme known as 'Upstream Thinking'. Designed to improve raw water quality and natural water storage in the landscape through improvements to agricultural land and moorland areas, the project remains on track to deliver the required activities for K5. The actions delivered by the programme to date have been

- Over 300 hectares of land restored
- Working with farms across the catchments, supporting investments on 161 farms
- 17 studies/investigations completed on further catchments to inform future investments at PR14.

The project has been recognised for leading the way in business sustainability and for its positive environmental impact. In 2012 it won the 'Large Business Award' at the ICAEW Finance for the Future Awards and the 'Environmental Award' at the Utility Industry Achievement Awards.

Pure Service

South West Water's delivery of tangible improvements in customer service is reflected in a reduced level of customer complaints. The improving trend has seen South West Water's customer service score (as measured by the Service Improvement Mechanism (SIM)) increase by 88% from the opening 2010/11 position for the K5 period.

The number of written complaints has halved during K5 and the number of escalated complaints has been reduced by 84%. The results reflect both improvements made at an operational level and steps taken to improve customer experience through the introduction of a Customer Management System in June 2012. Furthermore, to meet the changing needs of its customers, South West Water has continued to expand its web-based offerings. These now include 'My Account' online, social media activity and smartphone apps.#

The cost of bad debts increased in 2012/13 although the charge, as a proportion of revenue at 1.9%, is comparable with the previous year. South West Water continues to fund and promote ways to help customers who struggle to pay their debt through initiatives such as our Restart programme which incentivises customers into regular payment plans. In addition, South West Water is one of the few companies to have implemented a social tariff. From 2013/14, the WaterCare tariff is expected to assist around 10,000 households in the region by reducing their bills to an amount they can better afford to pay. The reduced charges are based on assessing the income of qualifying customers.

Pure Environment

South West Water's investment in raising the standard of the waste water it returns to the environment was reflected in 2012/13 in its best ever waste water treatment compliance scores(1). This can be attributed to a programme of targeted improvements at 98 operational sites over the past eighteen months.

The wettest year on record inevitably resulted in an increase in operational incidents. The number of internal sewer floodings increased on the previous year with a high proportion caused by the sewer system becoming overloaded by the sheer volume of water. South West Water took proactive steps to manage the flooding incidents, establishing flooding surgeries held in the worst affected areas. Future investments have been identified to mitigate the risk of flooding in 11 of the areas impacted this year.

Despite the extreme weather and its associated run-off and floodings, 133 out of 146 bathing waters (91%) achieved the European mandatory standard (good status) and 88 bathing waters (60%) achieved the guideline standard (excellent status) for the 2012 bathing season. South West Water is committed to delivering sustainable environmental improvements to the region's bathing waters. In 2012/13 investments in this area included investments in storm tanks, filtration and cleaning processes at two key sites.

The impact of flooding and extreme wet weather increased the total number of pollution incidents compared with the previous year. However, while there was a rise in the number of minor incidents (Category 3), there were fewer serious incidents overall (Category 1-2) in 2012/13: 4 (2011/12: 16). South West Water continues to invest in the maintenance and improvements necessary to reduce the risk of pollution and it is our aim to ensure that there are no harmful pollution incidents.

2012 was the first year that Ofwat published its Key Performance Indicators. Customer service, reliability and availability of supply measures all continued to achieve 'green' status in 2013.

(1) Population Equivalent Sanitary Compliance 2012/13: 99.98%. Numeric Compliance 2012/13: 97.1%

Political and Regulatory Developments

Government Payment

The Government's commitment to fund a reduction in eligible household customer bills in the region by £50 from 2013/14 was welcomed by South West Water, its customers and a number of stakeholder groups. The implementation of this reduction is now under way for 2013/14 charges. The bill reduction will directly benefit eligible household customers and will be passed straight through to them, having no impact on the regulatory and financial structure of the business.

Draft Water Bill

The Draft Water Bill focuses on facilitating market reform and competition and sets out a clear direction for evolutionary change within the industry. The retention of investor and customer confidence is noted as being key; sentiments which are echoed in DEFRA's Strategic Policy Statement to Ofwat published in March 2013.

South West Water supports, and is prepared for, further market development. With the initial focus for reform in the business customer market, the company has expanded its services for business customers. Through 'Source for Business' a range of specialist advice and support measures are now available with dedicated account managers for individual clients. Water and energy audits, effluent management, laboratory services and project management are among the services offered.

Preparing for PR14

The recent lecture by Ofwat's Chairman at the Royal Academy of Engineering highlighted a number of priorities for PR14: customers, water resources, financing, evolutionary reform, a fair outcome from the 2014 price review and governance of the sector. A key theme echoed in the recent Ofwat Business Planning Expectations Consultation is the need to include fair proposals to share 'pain and gain' with customers.

In previous K periods, South West Water has historically shared the benefits of financial outperformance with customers through re-investment of efficiency and accelerating capital expenditure. The strong operational and financial outperformance to date in K5 allows financial benefits to be shared now with customers.

South West Water is therefore investing c£60m in improving services to customers

- upgrading assets in key bathing waters by accelerating capital investment
- maintaining and enhancing customers private sewers since October 2011
- tackling customer affordability through debt initiatives.

South West Water has initiated the Change Protocol process for recognition of the capital investment in K6. It will not be seeking an Interim Determination of K (IDoK) and as such these improvements are being delivered at no extra cost to customers in K5.

Ahead of the next Price Review in 2014 (PR14) South West Water has taken a proactive approach to customer engagement, and is currently focusing on significant customer and stakeholder engagement and research to gauge priorities for investment in the 2015-2020 period. In order to keep customers' priorities central to the business planning process, the company has created a 'WaterFuture' customer challenge panel which comprises representatives from various regulatory, stakeholder and consumer groups. Their involvement will help to ensure that South West Water's final business plan reflects a sound understanding of customer and stakeholder opinion, and that the proposals for the K6 (2015-2020) period are economically, socially and environmentally sustainable.

In December 2012, the company published its 25-year vision designed to provide a context to the 2015-2020 Business Plan. Published online and widely distributed to customers and stakeholder groups, the material was created in two formats – 'What's in the Pipeline 2015-2040' (a consumer-orientated overview) and 'WaterFuture: Our Vision 2015-2040' (an extended version for audiences requiring more specific detail).

The 25-year vision reflects the results of the research to date on customer and stakeholder priorities. It outlines the company's core long term aims to

- deliver a reliable supply of safe, clean drinking water
- provide responsive and cost-effective services that meet customers' needs
- protect the natural environment through sustainable actions and initiatives
- make resilient business decisions and investments.

This long term vision also explores the key investment drivers for the 2015-2020 period. These are

- responding to changes in legislation, including improvements to protect key bathing waters in the region and meeting the required standards of the Water Framework Directive

- the importance of ensuring assets and networks can cope with the challenges of extreme weather and climate change
- the need to maintain and replace assets, where necessary, to prevent fault or failure
- the need for a holistic approach to the prevention of pollution and sewer flooding
- future supply and demand needs (this includes the relocation of North Plymouth Water Treatment Works).

South West Water's Business Plan for the period (2015-2020) will be submitted to Ofwat in December 2013.

South West Water Outlook

South West Water continues to focus on efficient service delivery, improvements in service to customers and the satisfaction of its regulatory and legislative obligations. It is on track to outperform the K5 regulatory contract. The company's operational and financial performance remained strong despite the extreme weather events of 2012/13 impacting on aspects of its operations, with significant improvements and innovations delivered in many areas of the business.

South West Water is preparing for PR14 and is actively engaged in the development of Ofwat's regulatory reform agenda by responding to the methodology for price setting. The company is well positioned for the Government's legislative changes.

VIRIDOR

Overview

Viridor's strategy is to transform waste, adding value through recycling and renewable energy generation.

From 2007/08 until the first half of 2011/12, the fast growth in profits from recycling had more than offset the decline in annual landfill profits. As noted previously, however, recyclate prices have fallen back sharply from the peak reached in the first half of 2011/12 reflecting world economic conditions including weakness in the Eurozone economies and uncertainty about the speed of growth in China. Viridor had predicted a price fall but the scale of it, particularly in the second and third quarters of the financial year, was even greater than the company had expected. Viridor responded swiftly to this with an aggressive restructuring programme particularly in its recycling business and in 2012/13 closed/mothballed 6 facilities and made 152 redundancies. This and other items generated savings of about £13m across all recycling costs which were enough to offset about 35% of the price decline. In tandem with the significant downturn in recycling profits, UK landfill volumes continue to decline, as predicted, in line with the ongoing trend and a weak UK economy. Recycling revenues per tonne have recovered a little from their lows of October to December 2012. However, they remain significantly below first half 2011/12 levels.

On the positive side, in 2012/13 Viridor has continued to make very strong progress on its strategic expansion into the Energy from Waste (EfW) and Public Private Partnership (PPP) market. EfW will represent the low cost solution for disposing of residual waste (which is currently landfilled) when landfill tax reaches £80 per tonne in April 2014. It will also be one of the UK's lowest cost and most effective sources of base load, distributed renewable energy at a time when the UK is facing an increasing energy shortage and projected long term energy price rises. During the year major new contracts were signed for South London, Glasgow and Peterborough and Viridor was appointed as preferred bidder for the South East Wales PPP. In addition, Dunbar planning has been enhanced to cover all of Scotland. A new capital projects and engineering director has been appointed to lead the delivery of the programme.

PPP and EfW projects already enhance the bottom line and committed projects are expected to contribute more than £100m to Viridor's EBITDA within four years.

Financial Highlights

Revenue was down 7.5% to £704m.

Before exceptional charges Viridor's earnings before interest, tax, depreciation and amortisation (EBITDA) for the year decreased by £32.4m (29.4%) to £77.9m. PBIT fell £32.9m to £30.8m. PBIT plus joint ventures decreased by £29.3m (39.0%) to £45.9m as the increased contribution from joint ventures was more than offset by the decline in landfill and recycling.

Profit before tax and exceptional charges decreased £21.1m to £36.5m, including the benefit of reduced interest from intra group funding.

Capital expenditure for the year, including construction spend on service concession arrangements and investment in joint ventures, was £323m (2011/12 - £143m) of which £291m was for Viridor growth projects (largely EfW) with the balance being maintenance of existing assets.

Exceptional Charges

We announced in our Interim Management Statement of 14 February that, as a result of the continued weakness in recyclate prices and the continuing reduction in landfill volumes, we were reviewing the carrying values of some of Viridor's assets. We have also been re-assessing the expected costs of environmental provisions. These reviews have now been completed.

In response to the substantial fall in recyclate prices, in 2012/13 Viridor has rationalised its recycling and associated operations as described above. In addition, in response to landfill trends and its own EfW development programme (including EfW plants at its Ardley, Beddington and Dunbar landfills), Viridor has reviewed its long term site lives and post 2020 expects to have a network of 3 strategically located landfills compared to 21 at present. Of the current 61.5m m^3 of landfill void, it is expected that c39m m^3 (including Ardley, Beddington and Dunbar) will no longer be filled. At the same time, the company has reviewed its landfill aftercare and restoration provisioning costs to reflect revised final land forms and has made a re-assessment of the aftercare period (increased from 30 to 60 years) based upon independent external advice.

An exceptional impairment charge of £78m has been recognised to write-down the carrying values of fixed assets, primarily in landfill activities, to reflect reducing landfill volumes and our expectations on recyclate prices. The impairment charge has no cash impact. In addition, £21m has been provided against onerous contracts and other items.

A further exceptional charge of £90m has been recognised for environmental provisions, primarily landfill aftercare costs, where we have extended the expected period of aftercare to 60 years (2012 30 years) and have also re-assessed costs in line with most recent experience of closed sites. This exceptional charge also has no immediate cash impact and reflects the present value of costs expected to be incurred at individual sites over the 60 year period following closure. The exceptional charges above are partially offset by a £39m tax credit.

Operational Highlights

UK context

The UK is required under the EU Landfill Directive to reduce the amount of biodegradable municipal waste going to landfill sites. This is being achieved by a major increase in recycling, with residual waste increasingly being used for energy recovery. The latter is a form of biomass and is a significant source of renewable energy already accounting for approaching 2% of total UK electricity production. Viridor believes that up to 6% of electricity could come from waste sources by 2020.

The Government's main mechanism for diverting waste from landfill and incentivising recycling and EfW facilities is landfill tax. The Government has reconfirmed the continuation of the increase in landfill tax of £8 a year from £72 per tonne currently to £80 per tonne from 1 April 2014. This increase will enhance further the long term economics of recycling and energy recovery. In addition, recyclate costs are typically significantly lower than the cost of using virgin materials for manufacturers.

Viridor's clearly stated strategy is to add value by focusing on recycling and waste based renewable energy. Viridor has substantially increased its recycling business over the past 5 years to c2m tonnes per annum. The next phase of its strategy involves substantial growth in EfW capacity. Viridor is targeting 15% EfW market share (including joint ventures) by 2020 with a network of strategic facilities in operation, under construction or planned. At present there is about 6m tonnes of EfW capacity in the UK and Viridor estimates there will be demand for c20m tonnes in 2020, although it believes that there is likely to be a significant capacity shortfall.

Recycling

The recycling market in the UK is reaching maturity and is affected by world commodity prices. Difficult trading conditions currently are resulting in a competitive shake out taking place and Viridor is well positioned to benefit from this.

During the year recycling volumes traded increased by 5.6% to 1.9m tonnes (71,000 tonnes from acquisitions). The average recycling revenue of £99 per tonne from gate fees and recyclate sales in 2011/12 was significantly down on last year's figure of £118 per tonne which benefitted particularly from last year's strong first half. Recyclate revenues per tonne have recovered a little from their lows of October to December 2012 but remain significantly below first half 2011/12 levels.

A judicial review confirms DEFRA's interpretation of EU recycling rules and supports commingled collection and centralised MRFs, which is the Viridor model. Viridor now has the largest Materials Recycling Facilities (MRFs) capacity in the UK.

Contracts and collection

Profits in "Contracts & Other" were stable overall across the 16 municipal contracts around the UK (the more significant ones include Lancashire, Glasgow, Lakeside, Manchester, Somerset, W Sussex PFI and Bedfordshire (last full year)) and the Thames Water contract. Profits in the collection business were down reflecting reduced volumes and price pressure due to current market conditions. Viridor's collection fleet plays an increasing role in feeding the company's recycling and EfW plants.

Renewable Energy

Energy can be recovered from waste in two ways, either via gas (notably landfill gas and anaerobic digestion) or combustion (in EfW plants and similar facilities, some of which may be a part of Combined Heat and Power (CHP) schemes). Energy recovery from waste currently accounts for approaching 30% of total UK renewable energy (20% from landfill gas and the balance from combustion). As noted above, this equates to approaching 2% of total UK electricity production (from both renewable and non-renewable sources).

Viridor's landfill gas power generation output increased by a further 7% to 618 Gigawatt hours (GWh) (2011/12 576GWh) reflecting intensive management focus and is now at its peak. Average prices fell slightly, reflecting the reduced Renewables Obligation Buyout Recycle (ROBOR) fund payment element of ROC prices. Total landfill gas power generation operational capacity remained unchanged at 107MW (excluding 3MW capacity at sub-contract sites in Suffolk). The proportion of operational capacity eligible for ROCs remained at 74%, with the remaining 26% being on (lower priced) NFFO contracts. These NFFO contracts end in tranches, after which the capacity for all Viridor's sites will transfer to ROCs (about 60% will move across during 2013/14 with the balance during the period up to 2016/17).

As well as the 107MW of landfill gas capacity, Viridor has a further c30MW of renewable energy capacity across its share of the Lakeside EfW, the Bolton EfW facility and the Greater Manchester Anaerobic Digestion (AD) operations.

In addition to the above operational projects, Viridor is pursuing a number of other EfW opportunities to provide a long term alternative to landfill disposal of residual waste as noted above. These will also provide significant amounts of renewable energy. Six EfWs are already under construction on fixed price contracts - Runcorn I and II, Cardiff, Exeter, Ardley and Glasgow; and one is due to start imminently (Peterborough). The Runcorn plants are around nine months behind original plan, but have contractual protection, including via liquidated damages; Cardiff, Exeter and Ardley are currently on schedule and Glasgow has just commenced. Viridor and its partners have a total operational, under construction and committed capacity of 2.5m tonnes of which 1.3m tonnes is backed by long term base load municipal contracts. It has a further 0.6m tonnes of capacity with planning permission but not yet committed.

Since the start of 2012/13 Viridor has made significant further progress in developing its pipeline of long term PPP and EfW projects

- financial close achieved for the Glasgow Design Build Finance Operate project (July 2012) and planning application for the associated Recycling and Renewable Energy Centre approved (January 2013)
- financial close achieved for the South London Waste Partnership PPP (November 2012) and planning permission achieved (May 2013)
- planning approval (January 2013) and financial close (February 2013) achieved for the Peterborough PPP: construction to start imminently
- preferred bidder status achieved for the South East Wales residual waste project (Prosiect Gwyrdd) (March 2013)
- Dunbar planning enhanced to cover all of Scotland (October 2012)
- Runcorn I, II, Exeter, Ardley, Cardiff and Glasgow plants all under construction.

Joint Ventures

Total joint ventures' contribution (comprising both Lakeside and VLGM) which consists of interest on shareholder loans and share of profit after tax, rose 31% to £15.1m (2011/12 - £11.5m).

(a) Lakeside

Lakeside, the first of Viridor's EfW projects, continues to perform very strongly and is ahead of original expectations in terms of both waste inputs and energy output. 2012/13 contribution was £7.2m (2011/12 £5.1m); interest receivable on shareholder loans was unchanged at £1.4m; and share of profit after tax was £5.8m (up £2.1m on the previous year reflecting strong volume of waste inputs and electricity generation).

(b) Viridor Laing (Greater Manchester)

The 25 year Greater Manchester Waste PFI contract (being delivered through VLGM) is the UK's largest ever combined waste and renewable energy project. The company is a joint venture between Viridor and John Laing Infrastructure. As part of the VLGM contract, a separate contractor was mandated to construct 43 facilities. Operation of the associated facilities (both existing facilities and those which are to be developed) is being carried out on a sub-contract basis by Viridor. At 31 March 2013, 41 of the 43 facilities planned had been formally taken over by Viridor.

As reported previously, solid recovered fuel produced from the waste will be used to generate heat and power at a plant being built at Runcorn in Cheshire. Phase I is being built primarily for the Greater Manchester Waste PFI contract in TPSCo, a joint venture between Ineos, John Laing Infrastructure and Viridor. Phase II is 100% owned by Viridor and will be available for the market generally, as steeply rising landfill tax drives residual waste disposal away from landfill towards recycling and EfW.

As reported at the half year, delays in takeover of 3 of the MBT plants in the VLGM contract were impacting the VLGM joint venture credit agreements. Two of these plants have now been taken over and one is still being progressed.

This ongoing delay and delay in completing the Runcorn I EfW facility could again have the potential to impact the VLGM and also the TPSCo credit agreements. As noted above, Runcorn is around 9 months behind schedule, but TPSCo and Viridor have contractual protection, including via liquidated damages. Viridor is continuing commercial discussions with its joint venture partners and the contractors to resolve the construction issues and protect its and TPSCo's financial position. At this point in time, based on available information, the Group does not expect this matter to have a material impact on the completion and operation of the Greater Manchester PFI or TPSCo.

Interest receivable on shareholder loans from the VLGM joint venture was £7.9m, up £1.8m due to increased average balance of shareholder loans (loans fully drawn during 2011/12). Share of profit after tax from VLGM on an IFRIC 12 basis was £nil, down £0.3m (£4.4m profit UK GAAP, down £0.2m).

Landfill

As noted above, the landfill market is being replaced by recycling and EfW as local capacity becomes available, in line with Government policies. Reflecting this trend, Viridor's landfill disposal volumes decreased by 0.4m tonnes (12.7%) to 2.7m tonnes in 2012/13, in line with the market more generally. Average gate fees increased by 8.1% to £25 per tonne but costs also increased by 8.1%, reflecting the impact of reduced volumes on fixed costs. Consented landfill void reduced from 65.4m m^3 at 31 March 2012 to 61.5m m^3 at 31 March 2013, reflecting usage during the period.

Outlook for Viridor

Viridor has successfully transformed itself over the last decade from having been predominantly a landfill operator to be one of the country's leading recycling, renewable energy and waste management companies. Viridor continues to face near term headwinds in recycling and the on-going trend decline in landfill and, although recyclate revenues per tonne have recovered a little from their lows of October to December 2012, they remain significantly below first half 2011/12 levels. We remain cautious about the prospects for further recovery in the short term. On the positive side, strong progress has been made on the PPP/EfW pipeline this year and projects are already making a significant contribution to Viridor's bottom line. The growing pipeline of current and future projects is expected to drive the company's long term profit growth.

GROUP FINANCIAL POSITION

The Group funding strategy utilises a mix of fixed, floating and index-linked rate borrowings. A substantial portion of debt is finance leasing which provides a long maturity profile and secured credit margins.

The Group has fixed, or put in place swaps to fix, the interest rate on at least 50% of South West Water's net debt for the entire K5 period. The average rate achieved on fixed rate debt is 3.4%. In addition, £382m of South West Water's debt is index-linked at an overall real rate of 1.7%. Pennon Group's average interest rate for the year to 31 March 2013 was 3.5% and South West Water's was 4.1%.

The Group had a strong liquidity and funding position as at 31 March 2013 and is well placed in current financial market conditions

- £635m cash balances (SWW £240m, including £143m restricted cash)
- £515m undrawn facilities

During the twelve months to 31 March 2013 the Group raised or renewed £782m facilities

- £304m term loans and revolving credit facilities renewed
- £178m new term loans and RCFs
- £300m hybrid capital issuance

In addition, a further £50m of facilities have been renewed since 31 March 2013.

The Group's average debt maturity is 22 years.

PENSIONS

The Group's defined benefit pension schemes had a deficit (net of deferred tax) under IAS 19 at 31 March 2013 of c£85m (£110m gross).

The net deficit represents c4% of current market capitalisation.

Schemes' assets increased from £517m to £580m from favourable investment performance and schemes' liabilities increased from £616m to £690m, reflecting a reduction in the long term net discount rate of 0.53%, principally from lower AA bond yields.

The revision to IAS 19, to be implemented in 2013/14, is expected to result in a net finance cost in 2013/14 of c£4m (2012/13 credit of £4m). A further c£1m is expected to be charged to operating profit to recognise administration costs. Pension liabilities will reduce by c£10m as at 31 March 2013 as a result of the change.

South West Water's pension cash contributions remain within the allowance in Ofwat's Final Determination for K5.

The next actuarial valuation will be based on the March 2013 position. The deficit is expected to be higher than IAS 19 due to the lower gilt rates used to discount liabilities.

TAXATION

The corporation tax charge for the year (excluding exceptional items) was £43.3m (2011/12 - £30.9m) giving an effective current tax rate of 22% (2011/12 – 15%). The increased rate reflects the absence of 2011/12's pension deficit recovery contribution and a reduced release of prior years' tax provisions, net of the 2% reduction in the corporation tax rate.

Deferred tax for the year (excluding exceptional items) was a credit of £12.2m (2011/12 credit - £2.8m) and includes a credit of £13.6m from the impact of the 1% reduction in the rate of corporation tax from April 2013 (2011/12 credit of £26.4m).

The tax credit on the exceptional items of £176.4m amounted to £36.2m of which £15.6m relates to corporation tax.

BOARD MATTERS

The Board announced in March that Colin Drummond intends to retire as Chief Executive of Viridor and as an Executive Director of Pennon Group Plc. Colin has agreed to take up the position of non-executive Chairman of Viridor once a successor has been appointed, which is expected to be by the end of September 2013. The Board would like to take this opportunity to express its gratitude to Colin for his significant contribution to the success of Viridor and Pennon following 20 years as Chief Executive of Viridor and its predecessor company. Under his leadership Viridor has become one of the largest and best respected recycling, renewable energy and waste management businesses in the UK and the Board wishes him well for the future.

STRATEGY AND PROSPECTS

The Board's priority continues to be the creation of shareholder value through its strategic focus on water and sewerage services; and recycling, renewable energy and waste management.

South West Water is continuing its strong performance with robust operational delivery and high standards of customer service and financial performance.

Viridor is leading the way in exploiting opportunities arising from the Government's landfill diversion, recycling and renewable energy targets. Recyclate revenues per tonne have recovered a little from their lows of October to December 2012 but remain significantly below first half 2011/12 levels and we remain cautious about the prospects for further recovery in the short term. On the positive side, this year Viridor has continued to make very strong progress on its growing PPP and EfW pipeline. These and similar projects are expected to drive its long term profit growth.

The Group's businesses remain well positioned in current market conditions and the Group's strong liquidity and funding position it well for future growth.

Ken Harvey
Chairman
23 May 2013

FINANCIAL TIMETABLE FOR THE YEAR ENDED 31 MARCH 2013

23 May 2013	2012/13 Preliminary Results
Early July 2013	Annual Report & accounts published
1 August 2013	Annual General Meeting
7 August 2013 *	Ordinary shares quoted ex-dividend
9 August 2013 *	Record date for final cash dividend
Mid August 2013	Interim Management Statement
16 September 2013 *	Scrip election date for final dividend
4 October 2013 *	Final cash dividend paid and Scrip shares issued

* These dates are provisional and, in the case of the final dividend, subject to obtaining shareholder approval at the 2013 Annual General Meeting.

Pennon Group's Half Year Results will be announced on 28 November 2013.

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. Words such as "anticipates", "aims", "believes", "continue", "could", "due", "estimates", "expects", "forecasts", "goal", "intends", "may", "plans", "project", "seeks", "should", "targets", "will" and related and similar expressions, as well as statements in the future tense, identify forward-looking statements in this Report. 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. Undue reliance should not be placed on forward-looking statements which are made only as of the date of this document. 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 law, regulation or decisions by governmental bodies or regulators; general business and economic conditions in the UK and globally; the availability and cost of finance; poor operating performance or a failure or interruption of the Group's operating systems or the inability to carry out network operations or damage to infrastructure; failure or increased costs of capital projects or acquisitions or joint ventures not achieving predicted revenues or performance;

reduced customer base, increased competition affecting prices or reduced demand for services; and information technology and business continuity systems and processes failing. These and other risks will be described in greater detail in the Pennon Group Annual Report to be published at the beginning of July 2013. Such forward looking statements should therefore be construed in light of such risks, uncertainties and other factors and undue reliance should not be placed on them. Nothing in this report should be construed as a profit forecast.

Any forward-looking statements are made only as of the date of this document and no representation, assurance, guarantee or warranty is given in relation to them including as to their accuracy, completeness, or the basis on which they are made. The Group accepts no obligation publicly to revise or update 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 phone calls or correspondence concerning investment matters which imply a connection to the company concerned. These are typically from overseas based ‘brokers’ who target UK shareholders offering to buy their shares. Shareholders are advised to be wary of any unsolicited advice, offers to buy shares or offers of free reports on the Company. 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 2013

	Note	(Unaudited) Before exceptional items 2013 £m	(Unaudited) Exceptional items (note 5) 2013 £m	Total 2013 £m	2012 £m
Revenue	4	**1,201.1**	**-**	**1,201.1**	1,233.1
Operating costs					
Manpower costs		**(158.6)**	**-**	**(158.6)**	(155.4)
Raw materials and consumables used		**(125.2)**	**-**	**(125.2)**	(133.9)
Other operating expenses		**(521.8)**	**(104.9)**	**(626.7)**	(528.0)
Depreciation, amortisation and impairment		**(149.2)**	**(84.0)**	**(233.2)**	(147.0)
Operating profit	4	**246.3**	**(188.9)**	**57.4**	268.8
Finance income	6	**127.6**	**15.4**	**143.0**	119.3
Finance costs	6	**(181.5)**	**(2.9)**	**(184.4)**	(191.6)
Net finance costs	6	**(53.9)**	**12.5**	**(41.4)**	(72.3)
Share of post-tax profit from joint ventures		**5.8**	**-**	**5.8**	4.0
Profit before tax	4	**198.2**	**(176.4)**	**21.8**	200.5
Taxation (charge)/credit	7	**(31.1)**	**36.2**	**5.1**	(28.1)
Profit for the year		**167.1**	**(140.2)**	**26.9**	172.4
Profit attributable to ordinary shareholders' equity		**167.1**	**(140.2)**	**26.9**	172.4
Earnings per share (pence per share)	8				
- Basic				**7.4**	48.1
- Diluted				**7.4**	47.8

PENNON GROUP PLC

Consolidated statement of comprehensive income for the year ended 31 March 2013

	(Unaudited)			
	Before exceptional items 2013 £m	**Exceptional items (note 5) 2013 £m**	**Total 2013 £m**	2012 £m
Profit for the year	**167.1**	**(140.2)**	**26.9**	172.4
Other comprehensive loss				
Actuarial losses on defined benefit pension schemes	**(15.1)**	**-**	**(15.1)**	(51.7)
Cash flow hedges	**(0.9)**	**2.9**	**2.0**	(24.7)
Share of other comprehensive gain/(loss) from joint ventures	**2.7**	**-**	**2.7**	(5.4)
Tax credit/(charge) on items taken directly to or transferred from equity	**2.7**	**(0.7)**	**2.0**	16.0
Other comprehensive (loss)/gain for the year net of tax	**(10.6)**	**2.2**	**(8.4)**	(65.8)
Total comprehensive income for the year	**156.5**	**(138.0)**	**18.5**	106.6
Total comprehensive income attributable to ordinary shareholders' equity	**156.5**	**(138.0)**	**18.5**	106.6

PENNON GROUP PLC

Consolidated balance sheet at 31 March 2013

	Note	**(Unaudited) 2013 £m**	2012 (Restated note 3) £m
ASSETS			
Non-current assets			
Goodwill		**339.0**	326.5
Other intangible assets		**12.5**	22.0
Property, plant and equipment		**3,279.6**	3,083.6
Other non-current assets		**183.3**	138.4
Derivative financial instruments		**31.0**	21.9
Investments in joint ventures		**0.1**	0.1
		3,845.5	3,592.5
Current assets			
Inventories		**10.5**	9.0
Trade and other receivables		**267.7**	238.5
Derivative financial instruments		**10.5**	9.7
Financial assets at fair value through profit		**1.2**	0.5
Cash and cash deposits	13	**634.5**	425.3
		924.4	683.0
LIABILITIES			
Current liabilities			
Borrowings	13	**(138.6)**	(325.5)
Derivative financial instruments		**(21.7)**	(16.6)
Trade and other payables		**(277.2)**	(242.5)
Current tax liabilities		**(67.0)**	(60.3)
Provisions		**(40.6)**	(26.3)
		(545.1)	(671.2)
Net current assets		**379.3**	11.8
Non-current liabilities			
Borrowings	13	**(2,504.6)**	(2,204.4)
Other non-current liabilities		**(77.9)**	(76.9)
Financial liabilities at fair value through profit		**(23.0)**	(16.7)
Derivative financial instruments		**(31.5)**	(32.0)
Retirement benefit obligations		**(109.7)**	(98.6)
Deferred tax liabilities		**(243.1)**	(277.3)
Provisions		**(170.7)**	(76.3)
		(3,160.5)	(2,782.2)
Net assets		**1,064.3**	822.1
Equity			
Share capital	10	**149.2**	148.2
Share premium account		**7.0**	8.0
Capital redemption reserve		**144.2**	144.2
Retained earnings and other reserves		**469.1**	521.7
Total ordinary shareholders' equity		**769.5**	822.1
Perpetual capital securities	11	**294.8**	-
Total equity		**1,064.3**	822.1

PENNON GROUP PLC

Consolidated statement of changes in equity for the year ended 31 March 2013

	Share capital (note 10) £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Perpetual capital securities (note 11) £m	Total equity £m
At 1 April 2011	147.0	9.2	144.2	479.1	-	779.5
Profit for the year	-	-	-	172.4	-	172.4
Other comprehensive loss for the year	-	-	-	(65.8)	-	(65.8)
Total comprehensive income for the year	-	-	-	106.6	-	106.6
Transactions with equity shareholders						
Dividends paid	-	-	-	(88.2)	-	(88.2)
Adjustment for shares issued under the scrip dividend alternative	1.2	(1.2)	-	19.1	-	19.1
Adjustment in respect of share-based payments	-	-	-	3.5	-	3.5
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	-	(0.3)	-	(0.3)
Proceeds from treasury shares re-issued	-	-	-	1.9	-	1.9
	1.2	(1.2)	-	(64.0)	-	(64.0)
At 31 March 2012	148.2	8.0	144.2	521.7	-	822.1
						Unaudited
Profit for the year	-	-	-	26.9	-	26.9
Other comprehensive loss for the year	-	-	-	(8.4)	-	(8.4)
Total comprehensive income for the year	-	-	-	18.5	-	18.5
Transactions with equity shareholders						
Dividends paid	-	-	-	(96.0)	-	(96.0)
Adjustment for shares issued under the scrip dividend alternative	1.0	(1.0)	-	18.1	-	18.1
Adjustment in respect of share-based payments	-	-	-	3.1	-	3.1
Issue of perpetual capital securities	-	-	-	-	294.8	294.8
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	-	(0.9)	-	(0.9)
Proceeds from treasury shares re-issued	-	-	-	4.6	-	4.6
	1.0	(1.0)	-	(71.1)	294.8	223.7
At 31 March 2013	**149.2**	**7.0**	**144.2**	**469.1**	**294.8**	**1,064.3**

PENNON GROUP PLC

Consolidated statement of cash flows for the year ended 31 March 2013

	Note	**2013 (Unaudited) £m**	2012 £m
Cash flows from operating activities			
Cash generated from operations	12	**341.1**	324.7
Interest paid		**(75.8)**	(74.5)
Tax paid		**(18.5)**	(41.4)
Net cash generated from operating activities		**246.8**	208.8
Cash flows from investing activities			
Interest received		**26.0**	13.2
Acquisition of subsidiary undertakings (net of cash acquired)		**(14.8)**	(29.2)
Loans advanced to joint ventures		**-**	(13.4)
Loan repayments received from joint ventures		**0.3**	3.6
Dividends received from joint ventures		**8.5**	-
Purchase of property, plant and equipment		**(397.2)**	(262.2)
Proceeds from sale of property, plant and equipment		**4.5**	4.6
Net cash used in investing activities		**(372.7)**	(283.4)
Cash flows from financing activities			
Proceeds from treasury shares re-issued	10	**4.6**	1.9
Proceeds from issue of perpetual capital securities	11	**294.8**	-
Purchase of ordinary shares by the Pennon Employee Share Trust		**(0.9)**	(0.3)
Deposit of restricted funds		**(21.0)**	(0.1)
Proceeds from new borrowing		**409.9**	25.0
Repayment of borrowings		**(267.2)**	(71.0)
Finance lease sale and leaseback		**85.0**	79.5
Finance lease principal repayments		**(103.1)**	(14.0)
Dividends paid		**(77.9)**	(69.1)
Net cash generated from/ (used in) financing activities		**324.2**	(48.1)
Net increase/(decrease) in cash and cash equivalents		**198.3**	(122.7)
Cash and cash equivalents at beginning of year	13	**292.2**	414.9
Cash and cash equivalents at end of year	13	**490.5**	292.2

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 42. Pennon Group's business is operated through two main subsidiaries. South West Water Limited holds the water and sewerage appointments for Devon, Cornwall and parts of Dorset and Somerset. Viridor Limited's business is recycling, renewable energy and waste management.

The financial information for the years ended 31 March 2013 and 31 March 2012 does not constitute full financial statements within the meaning of section 434 of the Companies Act 2006. The full financial statements for 31 March 2012 were approved by the Board of Directors on 18 June 2012 and have been delivered to the Registrar of Companies. The independent auditors' report on these financial statements was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

2. Basis of preparation and accounting policies

The accounting policies adopted in this unaudited financial information are consistent with those applied and set out in the Pennon Group Plc Annual Report and Accounts for the year ended 31 March 2012 (which are available on the Company website www.pennon-group.co.uk) and in addition include :

Perpetual capital securities
Perpetual capital securities are issued securities that qualify for recognition as equity. Accordingly any periodic returns are accounted for as dividends and recognised directly in equity at the time the Company becomes obligated to pay the periodic return. This reflects the nature of the periodic returns being only made at the Company's discretion.

The accounting policies are in accordance with all International Financial Reporting Standards (IFRS) and interpretations of the IFRS Interpretations Committee applicable for the year ended 31 March 2013 in issue which have been adopted by the European Union.

3. Restatement of prior year acquisitions

At 31 March 2012 the accounting for the following acquisitions was provisional:

- JWS Churngold Limited (renamed Viridor Waste (Lancashire) Limited)
- Veolia's trade waste collection interests in Cornwall and North Devon
- Community Waste Holdings Limited (renamed Viridor (Community Recycling MKH) Limited)

Completion of the accounting for the acquisitions has resulted in a decrease to goodwill of £0.6m, an increase to other intangible assets of £4.5m, an increase in property, plant and equipment of £0.8m, an increase in trade and other receivables of £0.1m, an increase in current tax payable of £0.6m, an increase in deferred tax of £3.5m and an increase of £0.7m in provisions.

4. **Operating segments**

Operating segments are reported in a manner consistent with internal reporting provided to the Chief Operating Decision-Maker, which has been identified as the Pennon Group Plc Board.

	2013 (Unaudited) £m	2012 £m
Revenue		
Water and sewerage	**498.6**	474.0
Waste management	**703.8**	761.1
Other	**10.8**	9.8
Less intra-segment trading *	**(12.1)**	(11.8)
	1,201.1	1,233.1
Segment result		
Operating profit before depreciation, amortisation and exceptional items (EBITDA)		
Water and sewerage	**317.5**	305.2
Waste management	**77.9**	110.3
Other	**0.1**	0.3
	395.5	415.8
Operating profit before exceptional items		
Water and sewerage	**215.2**	204.7
Waste management	**30.8**	63.7
Other	**0.3**	0.4
	246.3	268.8
Profit before tax and exceptional items		
Water and sewerage	**152.1**	141.5
Waste management	**36.5**	57.6
Other	**9.6**	1.4
	198.2	200.5
Profit/(loss) before tax		
Water and sewerage	**164.6**	141.5
Waste management	**(152.4)**	57.6
Other	**9.6**	1.4
	21.8	200.5

* Intra-segment trading between and to other segments by the water and sewerage and waste management segments is under normal commercial terms and conditions that would also be available to unrelated third parties. Intra-segment revenue of the other segment is at cost.

Factors such as seasonal weather patterns can affect sales volumes, income and costs in both the water and sewerage and waste management segments.

Geographic analysis of revenue based on location of customers

	2013 (unaudited) £m	2012 £m
UK	**1,142.1**	1,162.4
Rest of European Union	**11.2**	13.3
China	**39.7**	51.0
Rest of World	**8.1**	6.4
	1,201.1	1,233.1

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

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Notes (continued)

5. **Exceptional items**

Exceptional items are those that in the Directors' view are required to be separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance.

	2013 (Unaudited) £m	2012 £m
Operating costs		
Impairment of property, plant and equipment (a)	**(78.2)**	-
Environmental and landfill restoration provisions (b)	**(90.1)**	-
Onerous contracts and other (c)	**(20.6)**	-
Operating loss	**(188.9)**	-
Net finance costs		
Receipt on transfer and subsequent termination of lease (d)	**15.4**	-
Fair value loss on associated interest rate swap transferred from equity on termination of lease (d)	**(2.9)**	-
	12.5	-
Loss before tax	**(176.4)**	-
Tax credit arising on exceptional items (e)	**36.2**	-
Loss for the year	**(140.2)**	-

(a) The impairment charge relates to write-down of the carrying values of fixed assets in landfill and recycling activities reflecting reduced landfill volumes and recyclate prices. The impairment charge is net of a credit arising from the reassessment of landfill site residual values linked to gas production at landfill sites post-closure.

(b) Environmental control and aftercare costs are incurred during the operational life of each landfill site and for a considerable period thereafter. The period of aftercare post-closure and the level of costs expected are uncertain and can vary significantly from site to site. Key factors are the type of waste, the speed at which it decomposes, the volume of leachate requiring treatment and regulatory requirements specific to the site. The amounts expected to be incurred have been re-assessed, re-estimated and aligned to the revised landfill site operating lives established from the anticipated decline in landfill activity described above. The revised provision reflects a change in the estimate of the aftercare period to 60 years after site closure (2012 30 years) to align with updated technical assessment using independent external advice.

(c) Onerous contracts principally arise from long term contractual obligations to purchase materials for recycling at input prices which lead to an expected loss after reflecting directly attributable and unavoidable costs of processing.

(d) South West Water Limited received a consent fee related to the transfer and subsequent termination of a lease arising from the sale of a finance lease between financial institutions.

(e) The total tax credit on exceptional items is below the current rate of corporation tax (24%) due to tax relief not being available on ineligible expenditure on which no deferred tax has previously been accounted for (principally land and buildings).

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Notes (continued)

6. **Net finance costs**

	2013 (Unaudited)			2012		
	Finance cost £m	**Finance income £m**	**Total £m**	Finance cost £m	Finance income £m	Total £m
Cost of servicing debt						
Bank borrowings and overdrafts	**(40.0)**	**-**	**(40.0)**	(50.0)	-	(50.0)
Interest element of finance lease rentals	**(39.8)**	**-**	**(39.8)**	(38.8)	-	(38.8)
Other finance costs	**(5.4)**	**-**	**(5.4)**	(5.5)	-	(5.5)
Interest receivable	**-**	**5.8**	**5.8**	-	6.2	6.2
Interest receivable on shareholder loans to joint ventures	**-**	**9.3**	**9.3**	-	7.5	7.5
	(85.2)	**15.1**	**(70.1)**	(94.3)	13.7	(80.6)
Other finance income						
Investment income received	**-**	**66.8**	**66.8**	-	67.3	67.3
Fair value losses on derivative financial instruments providing commercial hedges	**(63.4)**	**-**	**(63.4)**	(63.9)	-	(63.9)
	(63.4)	**66.8**	**3.4**	(63.9)	67.3	3.4
Notional interest						
Interest receivable on service concession arrangements	**-**	**6.0**	**6.0**	-	3.3	3.3
Retirement benefit obligations	**(28.6)**	**32.3**	**3.7**	(29.1)	32.7	3.6
Unwinding of discounts on provisions	**(4.3)**	**-**	**(4.3)**	(4.3)	-	(4.3)
	(32.9)	**38.3**	**5.4**	(33.4)	36.0	2.6
Net gains on non-designated derivative financial instruments hedging interest rate risk	**-**	**7.4**	**7.4**	-	2.3	2.3
Net finance costs before exceptional items	**(181.5)**	**127.6**	**(53.9)**	(191.6)	119.3	(72.3)
Exceptional items (note 5)	**(2.9)**	**15.4**	**12.5**	-	-	-
	(184.4)	**143.0**	**(41.4)**	(191.6)	119.3	(72.3)

In addition to the above, finance costs of £13.6m (2012 £3.0m) have been capitalised on qualifying assets included in property, plant and equipment.

Other finance income represents enhanced yields from investment income received on deposits held partially offset by fair value losses on derivative financial instruments which provided commercial hedges against these short term structured deposits. These transactions commenced and matured during the year.

Notes (continued)

7. **Taxation**

	(Unaudited) Before exceptional items 2013 £m	Exceptional items (note 5) 2013 £m	Total 2013 £m	Total 2012 £m
Analysis of (credit)/charge :				
UK corporation tax	**43.3**	**(15.6)**	**27.7**	30.9
Deferred tax – other	**1.4**	**(21.5)**	**(20.1)**	23.6
Deferred tax arising on change of rate of corporation tax	**(13.6)**	**0.9**	**(12.7)**	(26.4)
Total deferred tax credit	**(12.2)**	**(20.6)**	**(32.8)**	(2.8)
	31.1	**(36.2)**	**(5.1)**	28.1

UK corporation tax is calculated at 24% (2012 26%) of the estimated assessable profit for the year.

UK corporation tax is stated after release of prior year credits of £13.0m (2012 £16.2m).

Deferred tax before exceptional items includes a non-recurring credit of £13.6m reflecting the reduction in the rate of UK corporation tax from 24% to 23% effective from 1 April 2013.

The effective current tax rate before exceptional items for the year was 22% and after the deferred tax credit was16%.

Tax on amounts included in the consolidated statement of comprehensive income, or directly in equity, is included in those statements respectively.

8. **Basic and diluted earnings per share**

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in the employee share trust which are treated as cancelled. For diluted earnings per share the weighted average number of ordinary shares is adjusted to include all dilutive potential ordinary shares.

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

Number of shares (millions)	**2013 (Unaudited)**	2012
For basic earnings per share	**363.6**	358.7
Effect of dilutive potential ordinary shares from share options	**2.2**	2.2
For diluted earnings per share	**365.8**	360.9

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Notes (continued)

8. **Basic and diluted earnings per share (continued)**

Basic and diluted earnings per share before exceptional items and deferred tax

Earnings per share before exceptional items and deferred tax are presented to provide a more useful comparison on business trends and performance. Earnings per share have been calculated:

	2013 (Unaudited)			2012		
	Profit after tax	**Earnings per share Basic**	**Earnings per share Diluted**	Profit after tax	Earnings per share Basic	Earnings per share Diluted
	£m	**p**	**p**	£m	p	p
Statutory earnings per share	**26.9**	**7.4**	**7.4**	172.4	48.1	47.8
Deferred tax before exceptional items	**(12.2)**	**(3.4)**	**(3.3)**	(2.8)	(0.8)	(0.8)
Exceptional items (net of tax)	**140.2**	**38.6**	**38.2**	-	-	-
Earnings per share before exceptional items and deferred tax	**154.9**	**42.6**	**42.3**	169.6	47.3	47.0

9. **Dividends**

Amounts recognised as distributions to equity holders in the year :

	2013 (Unaudited) £m	2012 £m
Interim dividend paid for the year ended 31 March 2012 : 8.22p (2011 7.50p) per share	**29.7**	26.8
Final dividend paid for the year ended 31 March 2012 : 18.30p (2011 17.15p) per share	**66.3**	61.4
	96.0	88.2
Proposed dividends		
Proposed interim dividend for the year ended 31 March 2013 : 8.76p (2012 8.22p) per share	**31.9**	29.7
Proposed final dividend for the year ended 31 March 2013 : 19.70p (2012 18.30p) per share	**71.9**	66.3
	103.8	96.0

The proposed interim and final dividends have not been included as liabilities in these financial statements. The proposed interim dividend for 2013 was paid on 4 April 2013 and the proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 1 August 2013.

If approved at the Annual General Meeting the final dividend of 19.70p per share will be paid on 4 October 2013 to shareholders on the register on 9 August 2013.

10. **Share capital**

Allotted, called up and fully paid

	Number of shares		
	Treasury shares	Ordinary shares	£m
At 1 April 2011 Ordinary shares of 40.7p each	4,309,567	356,970,298	147.0
Shares issued under the scrip dividend alternative	-	2,941,306	1.2
Shares re-issued under the Company's Performance and Co-investment Plan	(246,793)	246,793	-
For consideration of £0.3m, shares re-issued to the Pennon Employee Share Trust	(44,667)	44,667	-
For consideration of £1.6m, shares re-issued under the Company's Sharesave Scheme	(385,402)	385,402	-
At 31 March 2012 ordinary shares of 40.7p each	3,632,705	360,588,466	148.2
			Unaudited
Shares issued under the scrip dividend alternative	-	2,542,187	1.0
Shares re-issued under the Company's Performance and Co-investment Plan	(493,217)	493,217	-
For consideration of £0.9m, shares re-issued to the Pennon Employee Share Trust	(113,957)	113,957	-
For consideration of £3.3m, shares re-issued under the Company's Sharesave Scheme	(843,280)	843,280	-
For consideration of £0.4m, shares re-issued under the Executive Share Option Scheme	(76,415)	76,415	
At 31 March 2013 ordinary shares of 40.7p each	**2,105,836**	**364,657,522**	**149.2**

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

Notes (continued)

11. Perpetual capital securities

	2013 (Unaudited) £m	2012 £m
GBP 300m 6.75% perpetual subordinated capital securities	**294.8**	-

On 8 March 2013 the Company issued £300m perpetual capital securities. They have no fixed redemption date but the Company may, at its sole discretion, redeem all, but not part, of these securities at their principal amount on 8 March 2018 or any subsequent periodic return payment date after this.

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

Interest will accrue on any deferred periodic returns.

12. Cash flow from operating activities

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

Cash generated from operations	2013 (Unaudited) £m	2012 £m
Profit for the year	**26.9**	172.4
Adjustments for:		
Share-based payments	**3.6**	3.6
Profit on disposal of property, plant and equipment	**(1.8)**	(2.8)
Depreciation charge	**145.5**	145.6
Amortisation of intangible assets	**3.7**	1.4
Exceptional impairment of property, plant and equipment	**69.8**	-
Exceptional provision charge	**111.5**	-
Other non cash exceptional charges	**7.6**	-
Share of post-tax profit from joint ventures	**(5.8)**	(4.0)
Finance income	**(143.0)**	(119.3)
Finance costs	**184.4**	191.6
Taxation (credit)/charge	**(5.1)**	28.1
Changes in working capital *(excluding the effect of the acquisition of subsidiaries) :*		
Increase in inventories	**(1.5)**	(1.7)
Increase in trade and other receivables	**(27.7)**	(9.4)
Increase in service concession arrangements receivable	**(31.3)**	(17.9)
Increase/(decrease) in trade and other payables	**11.8**	(13.2)
Decrease in retirement benefit obligations	**(0.3)**	(35.3)
Decrease in provisions	**(7.2)**	(14.4)
Cash generated from operations	**341.1**	324.7

13. Net borrowings

	2013 (Unaudited) £m	2012 £m
Cash and cash deposits	**634.5**	425.3
Borrowings – current		
Bank overdrafts	**(0.4)**	(10.5)
Other current borrowings	**(97.0)**	(274.3)
Finance lease obligations	**(41.2)**	(40.7)
Total current borrowings	**(138.6)**	(325.5)
Borrowings – non-current		
Bank and other loans	**(1,072.5)**	(729.4)
Other non-current borrowings	**(210.4)**	(231.5)
Finance lease obligations	**(1,221.7)**	(1,243.5)
Total non-current borrowings	**(2,504.6)**	(2,204.4)
Total net borrowings	**(2,008.7)**	(2,104.6)

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

	2013 (Unaudited) £m	2012 £m
Cash and cash deposits as above	**634.5**	425.3
Bank overdrafts as above	**(0.4)**	(10.5)
	634.1	414.8
Less : deposits with a maturity of three months or more (restricted funds)	**(143.6)**	(122.6)
	490.5	292.2

14. Acquisitions

On 5 July 2012 the entire issued share capital of JWT Holdings Limited (renamed Viridor Waste (Atherton) Limited) was acquired by Viridor Waste Management Limited for a cash consideration of £6.6m. The acquisition has been accounted for using the acquisition method. Provisional goodwill arising of £4.8m has been capitalised.

On 8 October 2012 Viridor Waste Management Limited acquired the entire issued share capital of Pulp Friction Limited (renamed Viridor (Erith) Limited) and the trade and assets of SBS Paper LLP, a related business, for a cash consideration of £8.5m. The acquisition has been accounted for using the acquisition method. Provisional goodwill arising of £7.7m has been capitalised.

The provisional goodwill arising on these acquisitions is attributed to the profitability of the acquired business and the anticipated future operating synergies arising from the combination.