PENNON GROUP PLC

PUBLICATION OF ANNUAL REPORT AND ACCOUNTS 2014
AND NOTICE OF ANNUAL GENERAL MEETING

In compliance with Listing Rule 9.6.1 Pennon Group Plc (the "Company") announces that the following documents have been submitted to the UK Listing Authority electronically via the National Storage Mechanism and will shortly be available for inspection atwww.Hemscott.com/nsm.do

Annual Report and Accounts 2014
Notice of Annual General Meeting
Form of Proxy

The Annual Report and Accounts 2014 and Notice of Annual General Meeting may also be viewed on the Company's website at www.pennon-group.co.uk

The Company will hold its 2014 Annual General Meeting at Exeter Golf and Country Club, Topsham Road, Countess Wear, Exeter EX2 7AE on Thursday, 31 July 2014 at 11.00 a. m.

The following information in the Appendix to this announcement is provided for the purposes of compliance with Disclosure and Transparency Rule 6.3.5 and is as set out in the Company's Annual Report and Accounts 2014. It should be read in conjunction with the Company's Preliminary Results announcement released on 3 June 2014 which included a set of consolidated financial statements, a fair review of the development and performance of the business and the position of the Company and its two main trading subsidiary companies (South West Water Limited and Viridor Limited). Together these constitute the information required by Disclosure and Transparency Rule 6.3.5 to be communicated to the media in full unedited text.

Kenneth D. Woodier
Group Company Secretary

2 July 2014

APPENDIX

PRINCIPAL RISKS AND UNCERTAINTIES

Key

↑	**Increased during year**
↔	**Unchanged during year**
↓	**Reduced during year**

Risk Level	
Green	**Low**
Amber	**Medium**
Red	**High**

The colouring (red, amber, green) is our estimate of the inherent risk level to the Group after mitigation. It is important to note that risks are difficult to estimate with accuracy and therefore may be more or less significant than indicated.

SOUTH WEST WATER		
LAW AND REGULATION		
RISK	**MITIGATION**	**CHANGE**
Changes in law, regulation or decisions by governmental bodies or regulators.	South West Water's PR14 business plan is aligned with the changes in the regulatory framework. South West Water's business plan has been assessed by Ofwat as 'enhanced' and the Draft Determination for 2015-2020 has already been received. This allows the company to begin to implement the strategy for K6 earlier than might otherwise be possible. South West Water continues to contribute fully to consultations with all regulators and seeks to influence emerging changes through strong relationships with our stakeholders.	↓ (Amber)
ECONOMIC CONDITIONS		
RISK	**MITIGATION**	**CHANGE**
Non-recovery of customer debt.	In addition to existing strategies, which are kept under review, South West Water continues to implement new initiatives to improve and secure cash collection through: • use of third party collection agencies • external trace data to track down previous occupiers • continued use of property charging orders. The company has also continued to fund and promote ways to help customers struggling to pay bills (WaterCare, Restart, Fresh Start Fund) which seek to reduce bad debt exposure. South West Water is one of the few companies to have implemented a social tariff following the introduction of the WaterCare tariff from 2013/14. During the year 1,100 customers have benefited from reducing bills to an amount they can better afford to pay. The Government Payment reducing eligible household customer bills by £50 per year has also been effectively implemented and administered during the year. In future changes to benefits and universal credits (particularly the impact of the 'bedroom tax' and limiting	↔ (Green)

	the total level of benefits available) may further affect the ability of some customers to pay their bills.	
OPERATING PERFORMANCE		
RISK	**MITIGATION**	**CHANGE**
Extreme weather and climate change can place pressure on the company's water resources and networks.	Despite recent extreme weather, service to customers has been maintained and the business continues to be well placed to manage such situations. Key mitigation is having detailed contingency plans, sufficient emergency resources and a capital programme that supports ongoing efforts to manage these risks. In the longer term, the impact of climate change is being considered. The company has plans in place and will adapt the way it conducts its business to respond effectively to the anticipated hotter, drier summers and wetter winters.	↔ (Green)
Poor service provided to customers. South West Water could incur a financial penalty under Ofwat's Service Incentive Mechanism (SIM) for below average customer service performance.	The company has delivered further improvements in customer service resulting in its best ever SIM score and South West Water's best ever score in the last quarter of 2013/14. While South West Water's performance continues to improve, a financial penalty would be incurred by the company under Ofwat's SIM for a below average customer service performance.	↔ (Amber)
Non-compliance or occurrence of avoidable health and safety incident.	There are rigorous health and safety policies and procedures in place across South West Water. Senior management and Executive Director visits are undertaken during the year across a number of the company's sites and a behavioural safety programme launched in 2012 badged 'TAP' has continued to be publicised. The number of accidents reportable under RIDDOR (Reporting for Injuries, Diseases and Dangerous Occurrences Regulations) for 2013 continued to fall with three incidents[(1)] reported in the year compared to seven in 2012. South West Water continually reviews health and safety standards and makes improvements as necessary to best working practice. Continuous training is being provided to ensure that appropriate health and safety working practices are	↑ (Amber)

	embedded in the business, and the accident review panel continues to complete thorough investigations of root causes and ensure a consistent approach to RIDDOR management is adopted. (1) This does not include the tragic fatality of a waste water team member at a waste water site.	
Significant operational failure or incident occurs This could include: contamination of water supplies, pollution events, water resource restrictions and flooding events.	South West Water has established procedures and controls in place, as well as contingency plans and incident management procedures. South West Water has a number of schemes in place to maintain water resources (such as pumped storage for certain reservoirs) and promotes conservation measures and customer water efficiency measures. South West Water also considers the longer term resource situation. It prepares a new Water Resources Management Plan every five years and reviews it annually for a range of climate change and demand scenarios. In recent years South West Water has worked in partnership with other representatives to identify a wide range of factors that can cause and exacerbate flooding events. The company has identified targeted capital investments to reduce the risk to specific customers in key affected areas and, working alongside lead local flood authorities, other partner agencies, developers and environmental groups, is identifying best practice management of extreme rainfall and flooding.	⟷ (Amber)
MARKET		
RISK	**MITIGATION**	**CHANGE**
Uncertainty arising from market reform.	As part of the risk management and business strategic planning processes, the company continues to evaluate developments and proposals for competition. With the introduction of retail competition from 2017, South West Water is fully engaged in Defra's 'Open Water' project, which is managing the development of the central market. South West Water is prepared for the development of retail competition for non-household customers during the next regulatory period and has developed enhanced services which it offers to commercial customers through 'Source for Business'. South West Water is participating in discussions for the design of Upstream reform.	⟷ (Amber)
VIRIDOR		
LAW AND REGULATION		

RISK	MITIGATION	CHANGE
Changes in law, regulation or decisions by governmental bodies or regulation.	Viridor operates within regulatory EU and UK established frameworks. It engages at all levels and contributes fully to any consultations on possible changes to the regulatory policy, legislation and framework.	↔ (Amber)
Removal or modification of renewable energy incentives.	Existing investments that qualify for renewable obligation certificates are protected under the 'grandfathering' procedure.	↑ (Green)
ECONOMIC CONDITIONS		
RISK	**MITIGATION**	**CHANGE**
Reduced waste volumes to landfill and in the overall market, due to the long-term trend towards waste minimisation, recycling and energy from waste (EfW).	Viridor regularly conducts detailed forward-looking market assessments. It has a diversified strategy focused on growing stable volumes in recycling and EfW where margins per tonne are much higher than in landfill. Viridor is exploring alternative uses for its landfill assets.	↔ (Amber)
OPERATING PERFORMANCE		
RISK	**MITIGATION**	**CHANGE**
Business interruption, particularly in the growing EfW business, through equipment failure, fire, power outages and campaign groups.	Equipment failure is being managed by more sophisticated planned preventative maintenance regimes with improved stocks and stores controls. The risk from local disruption is alleviated by good public liaison and communications. Police are consulted regarding campaign groups and the risk of cybercrime is being addressed as part of Project Enterprise (see business systems risk).	↔ (Amber)
Downward pressure on UK wholesale power prices.	Viridor enters into forward sale contracts for a certain proportion of electricity generated from landfill gas power generation. To a certain extent downward pressure on power prices is naturally offset by usage across Viridor and the wider Group.	↑ (Amber)
Non-compliance or occurrence of avoidable health and safety incident.	Viridor has rigorous compliance systems, health and safety policies and procedures in place. Professionally qualified and highly experienced health and safety advisers are in place for every region, reporting to the Head of Compliance. Continual training, toolbox talks and briefings focus on key topics. Formal health and safety qualifications are required for line managers, senior managers and Directors. Risk assessments are undertaken at every appropriate level. Safe operating procedures are subject to audit and review.	↔ (Amber)

CAPITAL INVESTMENT		
RISK	**MITIGATION**	**CHANGE**
Failure or increased costs of capital projects and/or joint ventures not achieving predicted revenues or performance.	Increased skilled management resource including the establishment of 'oversight boards' for each of the major projects has added additional rigour to their delivery. Wherever possible back-to-back agreements with, and guarantees from, suppliers are entered into which provide a significant degree of protection. Viridor's experienced and dedicated project/contract teams carry out detailed due diligence on all projects, suppliers, technologies and acquisitions prior to commencement. There is also regular monthly reporting on performance on major contracts and post project appraisals are carried out, which all assist in being able to improve future performance.	↓ (Red)
Exposure to contractor failure to deliver construction progress, increasing costs and potentially requiring lengthy legal action or other redress.	Extensive due diligence and significant protection of back-to-back contracts and/or penalty clauses in contracts to deliver new technologies on time and on budget. Viridor, through its Capital Projects and Engineering Director, proactively manages its contractors. It has enhanced its team, both from internal and external resources, to reflect the increased scale of its capital programme.	↓ (Amber)
COMPETITIVE PRESSURES		
RISK	**MITIGATION**	**CHANGE**
Reduced customer base, increased competition affecting prices or reduced demand for services.	Viridor provides recycling and waste management services which are locally delivered services from locally managed facilities and a significant proportion of its revenue is contracted over the medium or long-term. In general terms Viridor's strategy is to establish a long-term sustainable competitive advantage in the business in which it operates; this is designed to protect long-term shareholder returns. With regard to major competitive projects being pursued there are barriers to entry due to planning permissions being difficult to obtain and significant investment requirements. Viridor believes there is competitive shake-out taking place among marginal competitors, which will in due course benefit Viridor.	↔ (Amber)
Potential overcapacity in the UK EfW market could impact demand for Viridor's new plants.	Viridor has fully evaluated projected demand and competing capacity for each of its planned facilities and is confident that they can be filled profitably. As landfill tax reached £80 per tonne in April 2014, large-scale energy from waste facilities of the type Viridor is building will be one of the low-cost ways of disposing of residual waste.	↔ (Amber)

Overcapacity in parts of Europe could impact the UK EfW market. UK waste could be converted into solid recovered fuel (SRF) or refuse derived fuel (RDF) and exported under EA licence for disposal in Europe.	The costs of producing SRF and RDF to the required quality and of shipping it to Europe are broadly at the cost of landfill tax. Disposal and generation of the associated renewable energy in ERFs in the UK is generally lower cost (and better for the UK economy). Despite the availability of export, Viridor is successfully winning new contracts for its ERF plants. Nevertheless amounts of SRF and RDF may continue to be exported especially if UK ERF capacity remains insufficient.	↔ (Amber)
BUSINESS SYSTEMS		
RISK	**MITIGATION**	**CHANGE**
Some of Viridor's IT systems require replacement, development or upgrading to meet the growing requirements of the business.	Project Enterprise, charged with developing a fully scalable Enterprise Resource Planning (ERP) type platform is now well advanced and involves external consultancy as required, with a focus on best practice and minimising implementation risk.	↔ (Amber)
GROUP		
FINANCE AND FUNDING		
RISK	**MITIGATION**	**CHANGE**
The Group may be unable to raise sufficient funds to finance its activities or such funds may be only available at higher cost.	The Company has robust treasury policies in place. The Group had £1.3 billion of cash and facilities as at 31 March 2014 including around £0.6 billion of new and refinanced facilities sourced during the year. Policies include always having pre-funded at least one year's estimated cash flow through cash and/or committed facilities and ensuring no more than 20% of net borrowings mature in any one year. In addition in respect of South West Water, the economic regulator has a statutory duty to ensure that it is able to finance its functions in the normal course of business. The Group has to date obtained funding at lower effective average interest rates compared with many other companies in its sector and is well placed to meet the funding requirements of both South West Water and Viridor in the foreseeable future.	↔ (Amber)
PENSIONS		
RISK	**MITIGATION**	**CHANGE**
Pension costs may increase due to higher costs for future service and growing deficits in relation to past service in the defined benefit schemes.	All defined benefit schemes (apart from the Greater Manchester Waste PFI scheme) have been closed to new entrants since April 2008. Employee and employer contributions are kept under review and a formal actuarial valuation is being undertaken as at 31 March 2013.	↓ (Green)

	Pension trustees keep investment policies under review and use professional investment advisers to seek to maximise investment returns at an appropriate level of risk.	

DIRECTORS' RESPONSIBILITIES STATEMENTS

(This statement is extracted from the governance section of the Annual Report 2014 and page numbers referred to are those in the Annual Report 2014.)

The Directors are responsible for preparing the Annual Report, the Directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

In preparing these financial statements the Directors are required to:

• select suitable accounting policies and then apply them consistently

• make judgements and accounting estimates which are reasonable and prudent

• state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

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

Each of the Directors, whose names and functions are listed on pages 52 and 53, confirms that, to the best of his or her knowledge:

a. The financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group and of the Company, and

b. The Directors' report contained on pages 54 and 55 includes a fair review of the development and performance of the business and position of the Company and the Group, together with a description of the principal risks and uncertainties they face.

The Directors are responsible for the maintenance and integrity of the Company's website **www.pennon-group.co.uk** Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

RELATED PARTY TRANSACTIONS

(The following is Note 46 to the Financial Statements set out in the Annual Report 2014.)

During the year Group companies entered into the following transactions with joint ventures and associate related parties who are not members of the Group:

	2014 £m	2013 £m
Sales of goods and services		
Viridor Laing (Greater Manchester) Limited	**104.6**	83.0
Purchase of goods and services		
Lakeside Energy from Waste Limited	**9.2**	10.9
Dividends received		
Lakeside Energy from Waste Holdings Limited	**8.5**	8.5

Year-end balances

	2014 £m	2013 £m
Receivables due from related parties		
Viridor Laing (Greater Manchester) Holdings Limited (loan balance)	**50.7**	45.4
Lakeside Energy from Waste Holdings Limited (loan balance)	**9.5**	9.7
INEOS Runcorn (TPS) Holdings Limited (loan balance)	**28.0**	25.0
	88.2	80.1
Viridor Laing (Greater Manchester) Limited (trading balance)	**18.1**	9.6
Lakeside Energy from Waste Limited (trading balance)	**0.9**	1.2
	19.0	10.8
Payables due to related parties		
Lakeside Energy for Waste Limited (trading balance)	**1.5**	0.2

The £88.2 million (2013 £80.1 million) receivable relates to loans to related parties included within receivables and due for repayment in instalments between 2014 and 2033. Interest is charged at an average of 13.0% (2013 13.0%).

Company

The following transactions with subsidiary undertakings occurred in the year:

	2014 £m	2013 £m
Sales of goods and services (management fees)	**9.7**	9.3
Purchase of goods and services (support services)	**0.5**	0.5
Interest receivable	**34.9**	25.2
Interest payable	**0.1**	-
Dividends received	**162.1**	177.6

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

Year-end balances

	2014 £m	2013 £m
Receivables due from subsidiary undertakings		
Loans	**834.1**	628.2
Trading balances	**9.6**	8.8

Interest on £128.7 million of the loans has been charged at a fixed rate of 4.5% and on £288.4 million at a fixed rate of 6.0% (2013 £128.7 million, 4.5% and £199.4 million, 6.0%).

Interest on the balance of the loans is charged at 12 month LIBOR +1.5%. The loans are due for repayment in instalments over the period 2015 to 2019. During the year there were no provisions (2013 nil) in respect of loans to subsidiaries not expected to be repaid.

	2014 £m	2013 £m
Payables due to subsidiary undertakings		
Loans	**283.2**	281.2
Trading balances	**14.1**	14.4

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

2 July 2014

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End transmission