

PENNON GROUP PLC

PUBLICATION OF ANNUAL REPORT AND ACCOUNTS 2015
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 at www.morningstar.co.uk/uk/NSM

Annual Report and Accounts 2015
Notice of Annual General Meeting
Form of Proxy

The Annual Report and Accounts 2015 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 2015 Annual General Meeting at Exeter Golf and Country Club, Topsham Road, Countess Wear, Exeter EX2 7AE on Thursday, 30 July 2015 at 11.00am.

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 2015. It should be read in conjunction with the Company's Preliminary Results announcement released on 20 May 2015 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

1 July 2015

APPENDIX

PRINCIPAL RISKS AND UNCERTAINTIES

KEY

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.

Assessed direction of travel of risk level:

| | |
|---|------------|
| ↑ | Increasing |
| ↔ | Unchanged |
| ↓ | Decreasing |

| SOUTH WEST WATER | | | | |
|---|--|---------|---------|-----------|
| LAW AND REGULATION | | | | |
| RISK | MITIGATION | 2013/14 | 2014/15 | DIRECTION |
| Changes in law, regulation or decisions by governmental bodies or regulators. | <p>South West Water's PR14 (2015-2020) business plan was assessed by Ofwat as 'enhanced' with confirmation in the Final Determination in December 2014.</p> <p>South West Water continues to contribute fully to consultations with all regulators and seeks to influence emerging changes through strong relationships with its stakeholders.</p> | Amber | Green | ↓ |
| ECONOMIC CONDITIONS | | | | |
| RISK | MITIGATION | 2013/14 | 2014/15 | DIRECTION |
| Non-recovery of customer debt. | <p>In addition to existing strategies, which are kept under review, South West Water continues to implement new initiatives to improve and secure cash collection. A new strategy for debt collection is being implemented which includes:</p> <ul style="list-style-type: none"> improved processes for managing customer moves targeting previous occupier debt; specific case management and utilising court claims effectively; and increasing the use of charging orders to secure debt. | Green | Green | ↔ |

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|---|--|----------------|----------------|------------------|
| | <p>South West Water is one of the few companies to have implemented a social tariff 'WaterCare'.</p> <p>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.</p> <p>In future, further changes to the benefits and universal credit system, any significant changes to personal taxation policy implemented by UK Government as well as macro-economic trends, such as levels of household income relative to the cost of living, may further affect the ability of customers to pay their bills.</p> | | | |
| OPERATING PERFORMANCE | | | | |
| RISK | MITIGATION | 2013/14 | 2014/15 | DIRECTION |
| Extreme weather and climate change can place pressure on the company's water resources and networks. | <p>South West Water is well placed to cope with extreme incidents. A key mitigation is having detailed contingency plans, sufficient emergency resources and a capital programme that supports ongoing efforts to manage these risks.</p> <p>In the longer term, the impacts of climate change are being considered. The company has plans ready and will adapt the way it conducts its business to respond effectively to the anticipated hotter, drier summers and wetter winters.</p> | Green | Green | ↔ |
| Poor service provided to customers. South West Water could incur a financial penalty under the regulatory regime. | <p>The company has delivered further improvements to customer service demonstrated across a number of measures including improved satisfaction (value for money), reduced written complaints and fewer water quality complaints.</p> <p>South West Water has improved its relative industry measure SIM, resulting in its best ever score in 2014/15. While South West Water's performance continues to improve, the performance in the K5 period has incurred a modest financial penalty (already incorporated in the 2014 Final Determination).</p> <p>Targeted improvements are being made to further improve customer service and the company's relative industry standing during the K6 period 2015-2020.</p> | Amber | Amber | ↔ |
| Non-compliance or occurrence of avoidable health and safety | There are rigorous health and safety policies and procedures in place across South West Water. | Amber | Amber | ↔ |

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|---|--|----------------|----------------|------------------|
| incidents. | <p>Over the past 18 months a significant review of operational sites has been undertaken to provide up to date risk assessments at all wastewater and drinking water treatment sites. A programme of capital improvements has been delivered reducing site risks further.</p> <p>The company has also replaced its lone worker procedures and equipment to utilise recent advancements of technology and functionality. The alarm handling arrangements have also been changed as part of the lone worker system review with this service now being managed by an accredited external provider.</p> <p>Further details on South West Water's approach to minimising the number of health and safety incidents is set out on page 51.</p> | | | |
| <p>Significant operational failure or incident occurrences.</p> <p>This could include contamination of water supplies, pollution events, water resource restrictions and flooding events.</p> | <p>South West Water has established procedures and controls in place, as well as contingency plans and incident management procedures.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> | Amber | Amber | ↔ |
| MARKET | | | | |
| RISK | MITIGATION | 2013/14 | 2014/15 | DIRECTION |
| 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. Strong progress has been made in developing our approach to the retail market opening in 2017 and South West Water's internal project 'market ready' | Amber | Amber | ↔ |

| | | | | |
|--|---|--|--|--|
| | <p>programme is aligned and actively engages in the development of central market operations.</p> <p>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'.</p> <p>In addition, South West Water is participating in discussions for the design of 'Upstream reform'. 'Upstream reform' will involve a mixture of market and regulatory reforms to deliver services to customers, the environment and society effectively and efficiently.</p> | | | |
|--|---|--|--|--|





VIRIDOR

LAW AND REGULATION


| RISK | MITIGATION | 2013/14 | 2014/15 | DIRECTION |
|---|---|---------|---------|-----------|
| 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 | Amber | ↓ |
| Removal or modification of renewable energy incentives. | Existing investments that qualify for Renewable Obligation Certificates are protected under the 'grandfathering' procedure. | Green | Green | ↑ |

ECONOMIC CONDITIONS

| RISK | MITIGATION | 2013/14 | 2014/15 | DIRECTION |
|---|---|---------|---------|-----------|
| Pressure on margins in the recycling business as a result of local authority austerity, poor input quality and falling commodity prices. | <p>Viridor's Input, Throughput and Output Optimisation (ITOO) programme, which is being applied across its recycling activities, is ensuring the production of high quality materials. Management of the cost base is mitigating the impact on margins of a softening in recycle prices.</p> <p>In the long term, clear regulatory drivers for recycling from the EU and the UK Government, alongside expectations from leading companies, are laying the foundations for a strong, continued demand for recycling services over the next 15 years.</p> | Amber | Amber | ↑ |
| Reduction in waste volumes to landfill due to the long-term trends towards waste minimisation and recycling, and in the overall market from | A central aspect of Viridor's diversified strategy is the growth of stable volumes in the energy recovery business to offset the declining trend in landfill and current challenges in recycling. In addition, Viridor is exploring alternative uses for its landfill assets. There is also evidence of recent rising UK waste volumes as the economic recovery continues. | Amber | Green | ↔ |


| | | | | |
|---|--|----------------|----------------|---|
| energy recovery from waste. | | | | |
| OPERATING PERFORMANCE | | | | |
| RISK | MITIGATION | 2013/14 | 2014/15 | DIRECTION |
| Business interruption, particularly in the growing Energy Recovery Facility (ERF) business, through equipment failure, fire, power outages and campaign groups. | <p>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.</p> <p>Police are consulted regarding campaign groups and the risk of cybercrime is being addressed as part of Project Enterprise (see business systems risk).</p> | Amber | Amber |  |
| Downward pressure on UK wholesale power prices. | <p>Viridor enters into forward sale contracts for a certain proportion of electricity generated from landfill gas power generation.</p> <p>To a certain extent downward pressure on power prices is naturally offset by usage across Viridor and the wider Group.</p> | Amber | Amber |  |
| Non-compliance or occurrence of avoidable health and safety incidents. | 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, awareness campaigns, 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 | Amber |  |
| CAPITAL INVESTMENT | | | | |
| RISK | MITIGATION | 2013/14 | 2014/15 | DIRECTION |
| Failure or increased costs of capital projects and/or joint ventures not achieving predicted revenues or performance. | <p>Increased skilled management resource including the establishment of 'oversight boards' for each of the major projects has added additional rigour to their delivery.</p> <p>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.</p> <p>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.</p> | Red | Amber |  |

| | | | | |
|--|---|----------------|----------------|------------------|
| Exposure to contractor failure to deliver construction progress, increasing costs and potentially requiring lengthy legal action or other redress. | <p>Extensive due diligence and significant protection of back-to-back contracts and/or penalty clauses in contracts to deliver new technologies on time and within budget.</p> <p>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.</p> | Amber | Amber | ↓ |
| COMPETITIVE PRESSURES | | | | |
| RISK | MITIGATION | 2013/14 | 2014/15 | DIRECTION |
| Reduced customer base, increased competition affecting prices or reduced demand for services. | <p>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 sustainable competitive advantage in the business in which it operates; this is designed to protect long-term shareholder returns.</p> <p>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.</p> | Amber | Amber | ↑ |
| Potential overcapacity in the UK ERF 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 £82.60 per tonne in April 2015, Viridor's large-scale ERFs will remain one of the low-cost ways of disposing of residual waste. | Amber | Amber | ↔ |
| Overcapacity in parts of Europe could impact the UK ERF market. UK waste could be converted into solid recovered fuel (SRF) or refuse derived fuel (RDF) and exported under Environment Agency licence for disposal in Europe. | <p>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 ERFs.</p> <p>Nevertheless, amounts of SRF and RDF may continue to be exported, especially if UK ERF capacity remains insufficient.</p> | Amber | Amber | ↔ |
| BUSINESS SYSTEMS | | | | |
| RISK | MITIGATION | 2013/14 | 2014/15 | DIRECTION |

| | | | | |
|--|--|--------------|--------------|---|
| 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 | Amber |  |
|--|--|--------------|--------------|---|


GROUP

FINANCE AND FUNDING

| RISK | MITIGATION | 2013/14 | 2014/15 | DIRECTION |
|---|---|----------------|----------------|---|
| The Group may be unable to raise sufficient funds to finance its activities or such funds may be only available at higher cost. | <p>The Company has robust treasury policies in place.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> | Amber | Amber |  |

| | | | | |
|---|---|--|--|--|
| Unfavourable outcome from Competition and Markets Authority (CMA) review of our acquisition of Bournemouth Water. | Robust case being made to CMA setting out anticipated net benefits for customers from the merger. | The acquisition of Bournemouth Water was post year-end | | |
|---|---|--|--|--|

PENSIONS

| RISK | MITIGATION | 2013/14 | 2014/15 | DIRECTION |
|--|---|----------------|----------------|---|
| Pension costs may increase due to higher costs for future service and growing deficits in relation to past service in the defined benefit schemes. | <p>All defined benefit schemes (apart from the Greater Manchester Waste PFI scheme) have been closed to new entrants since April 2008.</p> <p>Employee and employer contributions are kept under review and a formal actuarial valuation is being undertaken as at 31 March 2013.</p> <p>Pension trustees keep investment policies under review and</p> | Green | Green |  |

| | | | | |
|--|--|--|--|--|
| | 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 2015 and page numbers referred to are those in the Annual Report 2015.)

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 56 and 57, confirms that, to the best of his or her knowledge:

- i) The financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) 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.
- ii) The strategic report (pages 4 to 51) and the Directors' report (pages 53 to 95) include a fair review of the development and performance of the business during the year and the position of the Company and the Group at the year end, together with a description of the principal risks and uncertainties they face.

- iii) Following receipt of advice from the Audit Committee, that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the shareholders to assess the Group's performance, business model and strategy.

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 45 to the Financial Statements set out in the Annual Report 2015.)

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

| | 2015 £m | 2014 £m |
|---|------------|------------|
| Sales of goods and services | | |
| Viridor Laing (Greater Manchester) Limited | 99.0 | 104.6 |
| INEOS Runcorn (TPS) Limited | 5.6 | – |
| Purchase of goods and services | | |
| Lakeside Energy from Waste Limited | 12.6 | 9.2 |
| INEOS Runcorn (TPS) Limited | 1.1 | – |
| Dividends received | | |
| Lakeside Energy from Waste Holdings Limited | 6.0 | 8.5 |

Year-end balances

| | 2015 £m | 2014 £m |
|--|------------|------------|
| Receivables due from related parties | | |
| Viridor Laing (Greater Manchester) Limited (loan balance) | 57.2 | 50.7 |
| Lakeside Energy from Waste Limited (loan balance) | 9.3 | 9.5 |
| INEOS Runcorn (TPS) Limited (loan balance) | 31.4 | 28.0 |
| | 97.9 | 88.2 |
| Viridor Laing (Greater Manchester) Limited (trading balance) | 12.8 | 18.1 |
| Lakeside Energy from Waste Limited (trading balance) | 1.0 | 0.9 |
| INEOS Runcorn (TPS) Limited (trading balance) | 5.6 | – |
| | 19.4 | 19.0 |
| Payables due to related parties | | |
| Lakeside Energy for Waste Limited (trading balance) | 1.1 | 1.5 |
| INEOS Runcorn (TPS) Limited (trading balance) | 0.1 | – |

The £97.9 million (2014 £88.2 million) receivable relates to loans to related parties included within receivables and due for repayment in instalments between 2015 and 2033. Interest is charged at an average of 13.0% (2014 13.0%).

Company

The following transactions with subsidiary undertakings occurred in the year:

| | 2015 £m | 2014 £m |
|---|------------|------------|
| Sales of goods and services (management fees) | 9.5 | 9.7 |
| Purchase of goods and services (support services) | 0.5 | 0.5 |
| Interest receivable | 35.6 | 34.9 |
| Interest payable | 0.1 | 0.1 |
| Dividends received | 311.6 | 162.1 |

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

| | 2015 £m | 2014 £m |
|---|------------|------------|
| Receivables due from subsidiary undertakings | | |
| Loans | 936.6 | 834.1 |
| Trading balances | 8.5 | 9.6 |

Interest on £70.5 million of the loans has been charged at a fixed rate of 4.5%, on £332.5 million at a fixed rate of 6.0% and on £0.5 million at a fixed rate of 1.4% (2014 £128.7 million at 4.5% and £288.4 million at 6.0%). Interest on £403.1 million of the loans is charged at 12 month LIBOR +1.5%. These loans are due for repayment in instalments over the period 2015 to 2041.

Interest on £130.0 million of the loans has been charged at 1-month LIBOR + 1.0%. This loan will be repaid in 2015/16.

During the year there were no provisions (2014 nil) in respect of loans to subsidiaries not expected to be repaid.

| | 2015 £m | 2014 £m |
|--|------------|------------|
| Payables due to subsidiary undertakings | | |
| Loans | 283.2 | 283.2 |
| Trading balances | 14.6 | 14.4 |

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

1 July 2015

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End transmission