

PENNON GROUP PLC

PUBLICATION OF ANNUAL REPORT AND ACCOUNTS 2011 AND NOTICE OF ANNUAL GENERAL MEETING

In compliance with LR 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.Hemscott.com/nsm.do

Annual Report and Accounts 2011
Notice of Annual General Meeting
Form of Proxy

The Annual Report and Accounts 2011 and Notice of Annual General Meeting may also be viewed on the Company's website at:-
pennon-group.co.uk/pennon/en/investor/freports/Annual_Report_2011.pdf and
pennon-group.co.uk/pennon/en/investor/shareholdersservices/agm

The Company will hold its 2011 Annual General Meeting at Sandy Park Conference Centre, Sandy Park Way, Exeter, Devon EX2 7NN on Thursday, 28 July 2011 at 11.00 a.m.

The following information in the Appendix to this announcement is provided for the purposes of compliance with DTR 6.3.5 and is as set out in the Company's Annual Report and Accounts 2011. It should be read in conjunction with the Company's Preliminary Results announcement released on 24 May 2011 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 DTR 6.3.5 to be communicated to the media in unedited full text.

APPENDIX

DIRECTORS' RESPONSIBILITIES STATEMENTS (from pages 43 and 44 of the Governance Section of the Annual Report)

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 36 and 37 of the Annual Report and Accounts 2011, confirms that, to the best of their knowledge:

- a) the financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, 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 1 to 33 of the Annual Report and Accounts 2011 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 pennon-group.co.uk Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PRINCIPAL RISKS AND UNCERTAINTIES (from pages 24 – 27 of the Business Review in the Annual Report)

The following risks and uncertainties have been identified from Pennon Group's risk management process as potentially having a material adverse effect on its business, financial condition, results of operations and reputation. They are managed as described below but are not wholly within Pennon Group's total control and may still result in a material adverse impact on the Group. Factors besides those listed could also have a material adverse effect on the Group.

RISK AND IMPACT	COMMENTARY AND MITIGATION	CHANGE
LAW AND REGULATORY Changes in law, regulation or decisions by governmental bodies or regulators could have a material adverse effect on our financial results or operations	<p>There is a wide range of laws and regulations and policy decisions of government and regulators which could have a materially adverse effect on the results of operations of both South West Water and Viridor. Examples include:</p> <ul style="list-style-type: none"> • in compliance with EU legislation, the UK has landfill diversion, recycling and recovery targets. These, together with the impact of waste recycling regulations, higher producer responsibility obligations and pre-treatment requirements, coupled with rising landfill tax, will continue further to reduce landfill volumes, profits and possibly (over time) landfill asset values within Viridor (whilst at the same time being supportive of 	↑






Viridor's recycling and renewable energy activities).

- the development of greater competition in the water industry could reduce South West Water's revenues. As part of its risk management and business strategic planning processes the company evaluates developments and proposals for competition which could also provide opportunities for business expansion. Legislation will be required for any further extension of competition in the water and sewerage services markets. The company evaluates proposals for regulatory reform and contributes fully to consultations and other forms of dialogue with regulators and stakeholders in order to effectively communicate its views. ↑
- higher standards of environmental protection and quality standards could increase costs for both South West Water and Viridor. Specifically for South West Water such costs are met through the five-year regulatory price review mechanism but not all changes may be funded immediately or at all. Within Viridor, higher costs are sometimes, but not always, recovered through contractual arrangements with waste authorities. ↔
- changes in the Renewable Obligation Certificate (ROC) pricing mechanism could significantly reduce revenues for Viridor. The Government has however made a strong commitment to renewables which is key to meeting the UK's long-term carbon reduction strategy and in particular to the grandfathering of existing Non Fossil Fuel Obligation (NFFO) contracts. ↓
- the planning regime may have the effect of restricting the development of future waste treatment facilities by Viridor. Whilst Viridor has plans for further new treatment facilities it has been successful in obtaining planning permission for EfW plants at some key sites over the past year. Nevertheless this is an ongoing material risk to the future growth of Viridor and realisation of its strategy. ↔
- in 2008 the Government announced its intention to transfer an element of sewers and pumping stations currently owned by private individuals and businesses to sewerage undertakers. Whilst legislation has not yet been quite finalised, it is anticipated that the transfer will occur in the autumn of 2011 and there will be additional costs for South West Water which should be recoverable through the regulatory price review mechanism. ↑
- climate change and resulting increased regulatory standards required could increase costs for South West Water. The company has plans ready and will adapt the way it conducts its business to respond effectively to the hotter, drier summers and wetter winters which are anticipated. ↔
- the five-year regulatory price review for South West Water assumes operating cost savings. The company has a track record, and remains confident, of delivering the assumed operating cost savings in the current regulatory period. A major restructuring programme is currently being implemented to contribute towards the additional efficiencies required. ↔

CONDITIONS


Economic conditions could materially affect the Group's revenues and profitability

Whilst the Group does have some exposure to reduced economic activity and inflation/deflation, South West Water's revenues are economically regulated through the price review mechanism and Viridor has a diversified revenue stream which includes exports to fast-growing developing economies. Examples of areas of impact are:

- in Viridor overall volumes of waste and other materials supplied have reduced due to less activity in municipal and commercial markets in current economic conditions. These may be expected to recover somewhat as the economy recovers. 
- the Government's recent Spending Review has put pressure on local authority services, including household waste recycling sites' operations, which is expected to have a short-term impact. Viridor is working with local authority clients to deliver essential recycling and waste management services in an economic manner. 
- recyclate prices are, like any commodity, volatile and are directly impacted by world economic conditions. The effect is most significant on recycling volumes of internationally traded commodities such as paper, card, plastics and metals. However recyclate is typically cheaper than virgin materials which limits the impact on prices for good quality recyclate and in 2010/11 recyclate revenues per tonne increased back up to the peak levels experienced before the global financial crisis. 
- 'Brown energy prices' continue to be determined by the world and UK energy market and may go down as well as up. Prices in 2010/11 were around £30 per MWh lower than achieved in 2009/10 which affected the company's power generation comparative performance in 2010/11. 
- South West Water's revenues can be reduced by higher bad debts and customer affordability. In addition to existing debt reduction strategies, which are kept under review, the company continues to implement new initiatives to improve and secure cash collection, including the use of property charging orders. The accounts of major customers are kept under close review. Provision was made in the last regulatory price review for companies to make an application for an Interim Determination (a price increase) in the event of household bad debts being significantly above the amount allowed by the economic regulator due to worsening economic circumstances in the company's operating area. South West Water has worked with the Government on the findings of the Walker Report and has promoted fairness for its bill payers and actively sought to introduce and promote practical measures to help customers struggling to pay their water bills. 

FINANCE AND FUNDING

Access to finance and funding costs may be adversely affected by perceived credit rating and by prolonged periods of market

The Group may be unable to raise sufficient funds to finance its activities or such funds may be only available at higher cost. The Group has robust treasury policies in place which include always having pre-funded surplus cash and/or committed facilities to cover at least one year's estimated cash flow and arranging for no more than 20% of net borrowing to mature in any one year. In 

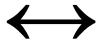
volatility or liquidity and we are subject to limitations and restrictive obligations in respect of our borrowing and debt arrangements

OPERATING PERFORMANCE

Poor operating performance or a failure of, or interruption to, our operating systems or the inability to carry out network operations or damage to infrastructure may have a material adverse impact on both our financial position and reputation

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 of activity. In addition the Group's debt has a long average maturity profile of 23 years.

Poor operating performance for both South West Water or Viridor could result in enforcement action, prosecutions, loss of permits and civil action which could all result in negative publicity, loss of customer confidence due to poor performance and, eventually, reduced demand for services and increased fixed costs.



Within South West Water a major network failure or interruption may be suffered or the company may not be able to carry out critical network operations. Operational performance could be materially adversely affected by a failure to maintain the health of the system or network which could cause South West Water to fail agreed standards of service or specified quality standards.

Specific measures taken by South West Water include:

- a Water Resources Plan prepared every five years which is reviewed annually for a range of climate change and demand scenarios. The current Water Resources Plan indicates that no new reservoirs are required before the planning horizon of 2035. However investment is needed to develop the overall trunk main infrastructure, to expand treatment capacity and to enhance certain pumped storage facilities.
- established procedures and controls as well as contingency plans and incident management procedures against the risk of contamination to water supplies and against failures of sewers and at waste water treatment works. Insurance policies are also maintained in relation to these risks, although there can be no assurance that all or any of the costs associated with these risks would be covered or that coverage will continue to be available in the future.

Viridor operates in a competitive marketplace where price and service are key precursors to success. Sound policies and accredited procedures are in place with internal and external inspections, to maintain operations and achieve performance standards set.

CAPITAL INVESTMENT

The failure or increased costs of capital projects or acquisitions or joint ventures not achieving predicted revenues or performance could have a material adverse effect on both our financial position and reputation

South West Water may not carry out its capital programme within the price limits and with the efficiencies determined by Ofwat. However South West Water does have a track record of delivering its capital programme in accordance with regulatory requirements and progress is regularly monitored and reviewed.



Within Viridor there is a risk of project or contract failure or overpaying for an acquisition. However the Group has experienced and dedicated project/contract teams; detailed due diligence on all projects and acquisitions is carried out by experienced and qualified staff; and wherever possible back-to-back agreements with and guarantees from suppliers are entered into.



CUSTOMER DEMAND

A reduced customer base, increased competition affecting prices or reduced demand for services could have a material adverse impact on our financial position

Viridor is experiencing increased competitive pressures in a number of areas of its business including in particular for recycle volume, landfill gate fees and bidding for Public Private Partnership contracts (PPPs). However Viridor provides recycling and waste management services which are locally delivered services from locally managed facilities and a substantial amount of its turnover is contracted over the medium or long-term. 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.



Competitive pressures in respect of South West Water are referred to in the first risk set out at the beginning of this section.

BUSINESS SYSTEMS

Information technology and business continuity systems and processes may fail which may cause material disruption to the Group's businesses and could have a material adverse impact on both our financial position and reputation

Some of Viridor's IT systems require replacement, development or upgrading to meet the growing requirements of the business and in some areas new technology being introduced may not operate or perform according to stated specification requirements. Viridor has a comprehensive development programme and plans in place to address the deficiencies identified and seek to ensure business continuity in the event of failure.



Whilst there always remains the risk of interruption, failure or third party intervention which could have a material adverse impact on the operation of South West Water's business, the company does have well developed IT systems and business continuity systems in place.



KEY

↔ Unchanged during year

↑ Increased during year

↓ Reduced during year

Forward-looking statements

This Business review contains forward-looking statements regarding the financial position; results of operations; cash flows; dividends; financing plans; business strategies; operating efficiencies; capital and other expenditures; competitive positions; growth opportunities; plans and objectives of management; and other matters. These forward-looking statements, including, without limitation, those relating to the future business prospects, revenues, working capital, liquidity, capital needs, interest costs and income in relation to Pennon Group and its subsidiaries, wherever they occur in this Business review, are necessarily based on assumptions reflecting the views of Pennon Group and its subsidiary companies, as appropriate. They involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Such forward-looking statements should, therefore, be considered in the light of relevant factors, including those set out in this 'Group risk review' section.

RELATED PARTY TRANSACTIONS (from pages 111 and 112 of the Notes to the Financial Statements in the Annual Report)

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

	2011 £m	2010 £m
Sales of goods and services		

Lakeside Energy from Waste Limited	–	0.2
Viridor Laing (Greater Manchester) Limited	82.0	49.0
Purchase of goods and services		
Lakeside Energy from Waste Limited	9.4	3.8
Year end balances	2011	2010
	£m	£m
Receivables due from related parties		
Viridor Laing (Greater Manchester) Limited (loan balance)	32.0	20.7
Lakeside Energy from Waste Limited (loan balance)	13.6	19.5
INEOS Runcorn (TPS) Limited (loan balance)	11.0	5.7
	56.6	45.9
Viridor Laing (Greater Manchester) Limited (trading balance)	8.8	–
Payables due to related parties		
Viridor Laing (Greater Manchester) Limited (trading balance)	7.0	–
Lakeside Energy for Waste Limited (trading balance)	1.5	5.0

The £56.6 million (2010 £45.9 million) receivable relates to loans to related parties included within receivables and due for repayment in instalments between 2012 and 2033. Interest is charged at an average of 14.0% (2010 11.3%).

The £7.0 million payable relates to consortium relief due to Viridor Laing (Greater Manchester) Limited.

Company

The following transactions with subsidiary undertakings occurred in the year:

	2011	2010
	£m	£m
Sales of goods and services (management fees)	7.8	7.1
Purchase of goods and services (support services)	0.5	0.5
Interest receivable (loans)	18.9	19.4
Interest payable (short-term funding)	–	0.1
Dividends received	93.1	80.6

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

	2011	2010
	£m	£m
Receivables due from subsidiary undertakings		
Loans	457.4	420.6
Trading balances	1.1	0.9

Interest on £104.8 million of the loans has been charged at a fixed rate of 5.0% and on £120.5 million at a fixed rate of 6.0% (2010 £104.3 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 2012 to 2015. During the year there were no further provisions (2010 nil) in respect of loans to subsidiaries not expected to be repaid.

	2011	2010
	£m	£m
Payables due to subsidiary undertakings		
Loans	281.2	281.2
Trading balances	15.1	16.3
Payables due to joint venture		

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

29 June 2011

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End transmission