PENNON GROUP PLC

PUBLICATION OF ANNUAL REPORT AND ACCOUNTS 2013
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.Hemscott.com/nsm.do

Annual Report and Accounts 2013
Notice of Annual General Meeting
Form of Proxy

The Annual Report and Accounts 2013 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 2013 Annual General Meeting at Sandy Park Conference Centre, Sandy Park Way, Exeter, Devon EX2 7NN on Thursday, 1 August 2013 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 2013. It should be read in conjunction with the Company's Preliminary Results announcement released on 23 May 2013 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

4 July 2013

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 the Group's 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 the risks may be more or less significant than indicated.

SOUTH WEST WATER			
LAW AND REGULATION			
RISK	**COMMENTARY**	**MITIGATION**	**CHANGE**
Changes in law, regulation or decisions by governmental bodies or regulators could have a material adverse effect on our financial results or operations.	**There is a wide range of laws and regulations and policy decisions of government and regulators which could have a material adverse effect on South West Water. Examples of legal and regulatory change include:**	**The general direction of travel of UK Government policy is known and South West Water is actively involved in consultations on regulatory changes.**	
Uncertainty arising from regulatory reform	DEFRA issued its Strategic Policy Statement to Ofwat (the Economic Regulator) in March 2013 outlining direction and priorities. Within that context Ofwat is reforming the regulatory approach. 2012/13 has seen the modification of company operating licences in preparation for the next price review and a number of methodology change proposals.	South West Water has contributed fully to the consultation on regulatory reform and has had dialogue with regulators and stakeholders in order to effectively portray its views. Methodology changes will continue to be considered over the coming months in the lead into the next price review.	↑ **(Red)**
Legislative and regulatory compliance	As a regulated business South West Water is subject to numerous and changing obligations.	Performance against key regulatory outputs is reported to the Board on a monthly basis and where performance falls short corrective programmes are developed and implemented to target recovery in a specific area. Internal monitoring and assurance programmes are undertaken through the year. Annual data is supported by external verification to provide assurance on the company's compliance with its obligations.	↔ **(Green)**
New regulations, obligations and standards could increase costs	Issues are addressed through the five-year regulatory price review mechanism; obligations which arise within price control periods such as private sewers and bathing	South West Water continues to manage cost pressures as they arise in addition to achieving operating cost efficiencies and managing inflationary increases.	↔ **(Amber)**

	water obligations are funded through future adjustments to price limits.		
ECONOMIC CONDITIONS			
RISK	**COMMENTARY**	**MITIGATION**	**CHANGE**
Economic conditions could materially affect South West Water's revenues and profitability.	**South West Water has exposure to reduced economic activity and inflation/deflation.**	**South West Water's revenues are economically regulated through the price review mechanism.**	
Non-recovery of customer debt	Customer debt and affordability are key areas of focus given the continued challenging economic conditions.	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 • developing a new strategy for previous and earlier debt collections • working with social housing partners • 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 its WaterCare tariff from 2013/14. This tariff is designed to assist around 10,000 households in the region by reducing their bills to an amount they can better afford to pay. The Government's commitment to tackle the 'unfairness' issue for South West Water customers, in which around 3% of the population are effectively paying for a third of the UK's bathing waters, has resulted in a household customer's	⟷ **(Amber)**

		bill being reduced by £50 per annum from 2013/14.	
Loss of revenue	South West Water revenue can be impacted by changes in customer demand and other income streams. The company has around 75% of its customer base metered and as a result the revenue from metered charges can be volatile from changes in customer usage which can be affected by: • abnormal weather impacts • increased water efficiency • recession impacting commercial customers.	The financial impact of changes in customer demand is mitigated through the Revenue Correction Mechanism whereby shortfalls in revenue in one five-year regulatory pricing period are adjusted in the following period.	↑ **(Amber)**
Financial loss arising from insolvency of a major supplier	South West Water does not have material exposure to payment before receipt of goods and services.	The company uses third party credit monitoring services to identify changes to major suppliers' financial status and creditworthiness to supplement an annual risk review of key and strategic suppliers.	↔ **(Green)**
OPERATING PERFORMANCE			
RISK	**COMMENTARY**	**MITIGATION**	**CHANGE**
Poor operating performance or a failure or interruption of 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.	**Poor operating performance could result in enforcement action, prosecutions, loss of permits and civil action which could all result in negative publicity, regulatory penalties, loss of customer confidence and eventually reduced demand for services and increased fixed costs.**	**South West Water monitors its operating performance through a wide range of systems and management reviews and invests as appropriate to maintain target performance.**	
Non-compliance or avoidable health and safety incident occurrences	South West Water is committed to achieving the appropriate level of health and safety compliance. This year has seen the continued delivery of the behavioural safety programme including safety leadership training for a number of staff, as well as innovative behaviour training. In addition senior management visits were completed during the year	The number of RIDDOR accidents for 2012 has fallen by over 50%. Continuous training is being provided to ensure that appropriate health and safety working practices are embedded and this reducing trend continues.	↓ **(Green)**

	across a number of sites.		
Operational failure at clean and waste water sites	Due to the nature of South West Water's business there are continued risks arising during the normal course of business, including risk of failure of assets, processes or systems which could otherwise impact on the health safety and security of the company's people or customers, or on its financial position and reputation.	The company is able to monitor its significant assets by automated and remote operation and has routine controls and operating procedures in place that are constantly kept under review. Asset management techniques are employed to pre-empt the failure of assets. Where issues do arise there are appropriate contingency plans to deal with such instances and these are updated through experience of such events.	⟷ **(Green)**
Contamination of water supplies	South West Water has established procedures and controls in place, as well as contingency plans and incident management procedures.	It also maintains insurance policies 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.	⟷ **(Green)**
Extreme weather and climate change	2012 has been a challenging year in terms of weather impacts.The continued dry weather from 2011 into the early part of 2012 placed pressure on the company's water resources. This was followed by a period of extreme rain – South West Water's wettest spring/summer in 100 years – which placed significant pressure on its network and resulted in higher levels of flooding incidents.	The business is well placed to manage such extreme incidents. 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 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 climate changes.	⟷ **(Amber)**
Increased flooding incidents	The extreme wet weather during the year resulted in a significant increase in the number of flooding incidents, both for customers and at South West Water sites.	The company has identified targeted capital investments to reduce the risk to specific customers in key affected areas.	↑ **(Amber)**
Pollution events	South West Water is committed to minimising the impact on the environment.	As a result of the extreme weather during the year the number of acute pollution incidents has increased from the prior year. Whilst this is regrettable the number of more serious incidents has fallen from the prior year.	↑ **(Amber)**
Water resources adequacy	South West Water has a number of schemes in place to maintain water resources	Whilst there has been a strong recovery in the company's water resources, as a result of	⟷

	(such as pumped storage for certain reservoirs) and promotes conservation measures and customer water efficiency measures.	the extremely wet weather seen over spring/summer 2012, the company continues to monitor reservoir levels to maintain sufficient water resources for drier periods such as those seen in recent years. 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. The Draft Water Resources Management Plan for 2015-2040 has recently been submitted to DEFRA and will be publicly available later in the year. The plan indicates that the company has a surplus of resources through to the horizon of 2040. However investment is needed to develop the overall trunk main infrastructure, to expand treatment capacity and to enhance certain pumped storage facilities.	**(Green)**
Poor service provided to customers	Customer service remains paramount to South West Water and the company focuses on improving customer satisfaction and reducing customer complaints. 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 significant improvements in customer service during K5 with a 51% reduction in written complaints and an 88% increase in the Service Improvement Mechanism (SIM) score. Continued improvement is being targeted. While the company has seen improvements in customer service particularly through reduced written complaints, South West Water's relative position will remain unclear until industry data is published. There is an ongoing strategy to improve customer service further.	⟷ **(Amber)**
Failure to deliver operating cost efficiencies	In line with its track record South West Water remains confident of delivering Ofwat's assumed operating cost savings.	The company has delivered cumulative operating cost efficiencies ahead of K5 targets.	⟷ **(Green)**

CAPITAL INVESTMENT			
RISK	**COMMENTARY**	**MITIGATION**	**CHANGE**
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 South West Water's financial position and reputation.	South West Water may not deliver its capital programme within the price limits and with the efficiencies determined by Ofwat.	South West Water has a track record of delivering its capital programme in accordance with regulatory requirements and progress is regularly monitored and reviewed.	⟷ **(Green)**
BUSINESS SYSTEMS			
RISK	**COMMENTARY**	**MITIGATION**	
Major failure of IT systems.	There always remains a risk of interruption, failure or third party intervention that could have a material adverse impact on the operations of South West Water's business.	South West Water has well developed IT systems and continuity systems in place. These include a geographically separate alternative data centre, which is hosted by a third party communications provider. This reduces the impact of any failure or disruption.	⟷ **(Green)**
MARKET			
RISK	**COMMENTARY**	**MITIGATION**	**CHANGE**
Uncertainty arising from market reform.	Whilst the Draft Water Bill recognised an approach to reform that was 'evolutionary' rather than 'revolutionary' the development of greater competition in the water industry could reduce South West Water's revenues.	As part of the risk management and business strategic planning processes the company continues to evaluate developments and proposals for competition. 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 offered to commercial customers through 'Source for Business'.	↑ **(Amber)**
REPUTATION			
RISK	**COMMENTARY**	**MITIGATION**	**CHANGE**
Loss of key stakeholder support and prolonged negative media campaign.	South West Water has a number of key stakeholders, including customers, and aims to balance their needs with environmental responsibilities and legislative and regulatory obligations.	The company is committed to engaging with key stakeholders for both South West Water's long-term strategy and coming regulatory period through its independently chaired WaterFuture Customer Challenge Panel which includes representatives from stakeholder organisations. In addition South West Water actively manages communications with	⟷ **(Green)**

		customers and stakeholders both online and through social media.	
VIRIDOR			
LAW AND REGULATION			
RISK	**COMMENTARY**	**MITIGATION**	**CHANGE**
Changes in law, regulation or decisions by governmental bodies or regulators could have a material adverse effect on Viridor's financial results or operations.	**There is a wide range of laws and regulations and policy decisions of government and regulators which could have a materially adverse effect on Viridor.** **It remains possible that government policies and regulations may change in unforeseen ways which adversely affect Viridor.**	**The general direction of travel of UK Government policy is known and Viridor is actively involved in consultations on regulatory changes. It maintains a transparent and proactive relationship with regulators.** **Viridor policy is to meet or exceed regulatory requirements which represents a potential competitive advantage for the company.**	⟷ **(Amber)**
Landfill diversion and recycling targets could increase costs/reduce profitability	The UK has landfill diversion, recycling and recovery targets which, together with the impact of WEEE Regulations, higher Producer Responsibility obligations and pre-treatment requirements, plus rising landfill tax, will continue to further reduce landfill volumes for Viridor and potentially, over time, landfill asset values.	Viridor's strategy is to grow in recycling and energy from waste where margins per tonne are much higher than in landfill. Escalating landfill tax increases the economic attractiveness of recycling and energy from waste. The resource efficiency agenda from the EU and the UK Government's attention to resource and energy security are expected to provide further opportunities for Viridor. Reflecting the above Viridor has undertaken a thorough review of landfill site lives on a prudent basis, and has written down landfill asset values accordingly.	↓ **(Green)**
Higher regulatory standards could increase costs	The ever increasing demand for higher standards, in areas such as health and safety, environmental performance and employee welfare, increases costs.	Wherever possible Viridor passes on these higher costs through contractual arrangements with waste authorities and other customers (via legislation and technical clauses). However as government cutbacks continue to bite, local authorities (via austerity measures) are looking for price reductions for already contracted waste streams. Continually improved management controls and investment in its business	⟷ **(Amber)**

		management systems help Viridor to keep the cost base as low as possible whilst maintaining compliance. Viridor also maintains a close interest in industry developments via the waste sector trade association and therefore is often at the forefront of planned changes.	
ECONOMIC CONDITIONS			
RISK	**COMMENTARY**	**MITIGATION**	
Economic conditions could materially affect Viridor's revenues and profitability.	**Viridor has exposure to reduced economic activity, inflation/deflation, the impact of the current Eurozone uncertainties and any potential slow down in the Chinese economy.**	**Viridor has a diversified revenue stream which includes domestic sales as well as exports to countries such as China and India and the rest of the EU. Nevertheless Viridor remains exposed to general weakening in worldwide economic conditions.**	⟷ **(Amber)**
Reduced waste volumes could impact Viridor revenue/profit	Viridor has seen residual waste landfill and collection volumes reduce due to the recession and the long-term trend towards recycling and energy from waste.	Viridor's strategy is focused on growing in recycling and energy from waste where margins per tonne are much higher than in landfill.	⟷ **(Amber)**
Reduced recyclate prices could impact Viridor revenues/profit	Viridor's commodity trading arm, Viridor Resource Management, trades where the market is most favourable. However Viridor remains susceptible to global economic demands and the weakness of the Eurozone is having a depressing effect on the prices of internationally traded recyclates. A breakdown of the Eurozone would intensify the downward pressure on prices. In addition competition for recyclables from other contractors via aggressive pricing has been a recent trend. China's recent 'Green Fence' initiative, effectively banning certain waste streams from the country, has placed further burdens on exporters to that country.	Viridor has attempted to mitigate this price reduction via customer supply contracts and by extensive cost control and other management actions. Closure/mothballing of sites has now taken place and an asset impairment charge has been recognised accordingly.	⟷ **(Amber)**
Viridor enters into long-term contracts which potentially subject the company to contract performance risk for many years	The Government's ongoing spending review is putting increased pressure on local authority services, including waste management, and	Viridor provides best value services and competitive procurement bids to its public sector customers and is protected by the terms of its	↑ **(Amber)**

	creating an ongoing search for efficiencies.	contracts which run for periods of up to 25 years. Some local authorities are seeking price reductions. Viridor's position remains that it will consider renegotiation of contracts where appropriate to mutual benefit. Nevertheless Viridor remains exposed to such pressures particularly when contracts come to an end.	
	Poor performance in the contract or poor initial pricing at the tender stage could impact on the company's long-term profitability and financial condition.	The company's strategy of identifying long-term profitable contracts includes a full evaluation of the benefits from a mix of responses to the requirements of client organisations ensuring that profit is recognised at each stage of the supply chain. The company has strict contract authorisation procedures which reflect the size, duration and potential risks of different types of contract. Authorisation of long-term contracts is given at Board or senior management level. The company has recognised that certain historic contracts, particularly from acquired businesses, have unsatisfactory pricing structures and where appropriate has recognised a diminution in value.	↔ **(Green)** ↔ **(Green)** ↓ **(Green)**
OPERATING PERFORMANCE			
RISK	**COMMENTARY**	**MITIGATION**	**CHANGE**
Poor operating performance or a failure or interruption of Viridor's operations may have a material adverse impact on both its financial position and reputation.	**Poor operating performance could result in enforcement action, prosecutions, loss of permits and civil action which could all result in negative publicity, regulatory penalties, loss of customer confidence and, eventually, reduced demand for services and increased fixed costs.**	**Regulatory performance is subject to continued and extensive internal and external inspection, including business management systems and compliance policy.**	↔ **(Amber)**
ENVIRONMENTAL PROVISIONING			
RISK	**COMMENTARY**	**MITIGATION**	**CHANGE**

Landfill aftercare and restoration liabilities are long-term in nature and could increase which may have a material adverse impact on Viridor's financial position.	**The high cost of moving landfills from active operation, through restoration and into aftercare, continues to increase. This is compounded by shorter remaining landfill lives (due to reduced tonnages).**	**Extensive modelling work has been undertaken with the assistance of outside professional advisers to fully understand the true cost of restoration and aftercare. This has resulted in the period of provision having been increased to 60 years and provisions having increased accordingly.**	↓ **(Amber)**
CAPITAL INVESTMENT			
RISK	**COMMENTARY**	**MITIGATION**	**CHANGE**
The failure or increased costs of capital projects, and acquisitions or joint ventures not achieving predicted revenues or performance, could have a material adverse effect on both Viridor's financial position and reputation.	**Within Viridor there are risks of project delays, cost overruns or contract failure which could be as a result of failure or insolvency on the part of contractors or their subcontractors, or due to a new technology failing performance requirements. There is also a risk of overpaying for an acquisition.** With the increase in Viridor's project pipeline, Viridor recognises that this risk is increasing and is addressing it.	**This has been recognised as a key risk and systems and procedures are in place to address it. More recently the Viridor board has been strengthened by the appointment of a Capital Projects and Engineering Director. The establishment of 'oversight boards' for each of the major projects has added additional rigour to their delivery. Nevertheless the scale of the investment has increased significantly and the quantum of risk has accordingly risen.** Viridor's experienced and dedicated project/contract teams carry out detailed due diligence on all projects, suppliers, technologies and acquisitions prior to commencement. Wherever possible back-to-back agreements with, and guarantees from, suppliers are entered into which provide a significant degree of protection. 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.	↑ **(Amber)**
Contractor failing to deliver progress could increase Viridor's costs	Despite extensive due diligence and significant protection of back-to-back	Viridor, through its Capital Projects and Engineering Director, proactively manages	↑

	contracts and/or penalty clauses in contracts to deliver new technologies on time and on budget, Viridor remains exposed to contractors' failure to deliver new projects which may in extreme circumstances require lengthy legal action or other redress. The Runcorn EfW/CHP plant is believed to have fallen about nine months behind schedule and such delay without an increase in liquidated damages would have an adverse effect on Viridor's associated joint ventures and ultimately on Viridor itself.	its contractors. It has enhanced its team, both from internal and external resources, to reflect the increased scale of its capital programme.	**(Red)**
COMPETITIVE PRESSURES			
RISK	**COMMENTARY**	**MITIGATION**	**CHANGE**
A reduced customer base, increased competition affecting prices or reduced demand for services could have a material adverse impact on Viridor's financial position.	**As a result of current weak economic conditions compounded by the recent spike in global commodity prices, Viridor is experiencing increased competitive pressures in a number of areas of its business, including in particular recyclate volumes and prices, landfill gate fees and bidding for Public Private Partnership contracts (PPPs).**	**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.**	↔ **(Amber)**
	Recycling has been recognised as an attractive business by an increasing number of businesses who are now competing aggressively for volume leading to depressed prices.	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. We believe there is competitive shake-out taking place among marginal competitors which will in due course benefit Viridor as a market leader.	↓ **(Amber)**
Over capacity in the UK EfW market could impact demand for Viridor's new plants.	There is significant consented EfW capacity in the UK which has yet to be built.	Viridor has fully evaluated projected demand and competing capacity for each of its planned facilities and is	↔ **(Amber)**

		confident that they can be filled profitably. With landfill tax to reach £80 per tonne in April 2014, large scale energy from waste facilities of the type Viridor is building will be the low cost way of disposing of residual waste. Reflecting government policies and trends there will be a need for around 20 million tonnes of capacity in the UK in 2020. When reviewing current competing projects and take account of planning barriers, financing difficulties and the lack of further large base load municipal contracts, it is expected that there will be a capacity shortfall of up to 25%. Of the 2.5 million tonnes capacity Viridor is committed to operating by 2020 more than half (1.3 million tonnes) is already backed by long-term municipal contracts.	⟷ **(Amber)**
Over capacity in parts of Europe could impact the UK EfW market.	Some waste is being converted into solid recovered fuel (SRF) and, in the absence of sufficient EfW capacity in the UK, is being sent under EA licence for disposal in adjacent parts of Northern Europe where there is currently surplus capacity.	The costs of producing SRF to the required quality and of shipping it to Europe are Significant. Disposal and generation of the associated renewable energy in EfWs in the UK is generally lower cost (and better for the UK economy). Nevertheless small amounts of SRF may continue to be exported especially if UK EfW capacity remains insufficient.	⟷ **(Amber)**
BUSINESS SYSTEMS			
RISK	**COMMENTARY**	**MITIGATION**	**CHANGE**
Information technology and business continuity systems and processes may fail which may cause material disruption to Viridor's business and could have a material adverse impact on both its financial position and reputation.	**Some of Viridor's IT systems require replacement, development or upgrading to meet the growing requirements of the business.** In some areas new technology being introduced	**Viridor has increased its IT management and technical resources accordingly. It also 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. Nevertheless Viridor recognises the risks associated with IT upgrades.** Project Enterprise, charged with developing a fully	⟷ **(Amber)** ⟷ **(Amber)**

	may not operate or perform according to stated specification requirements. Existing systems are beginning to prove inadequate or are unsupported which may lead to an inability to perform key business functions.	scaleable Enterprise Resource Planning (ERP) type platform is now well advanced, led by the Director of Business Transformation with external professional assistance as required. Nevertheless this is a major project which, as with all IT systems, carries risks. Project Enterprise is significantly addressing these issues as a matter of priority.	⟷ **(Amber)**
GROUP			
FINANCE AND FUNDING			
RISK	**COMMENTARY**	**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.	**Access to finance and funding costs may be adversely affected by perceived credit rating and prolonged periods of market volatility or liquidity. There are covenant limits and restrictive obligations on borrowing and debt arrangements.** The Group had £1.15 billion of cash and facilities as at 31 March 2013 including around £0.8 billion of new/refinanced facilities sourced during the year.	**The Company has robust treasury policies in place.** 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. 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	**COMMENTARY**	**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.** Indications are that the actuarial deficit has increased since the last valuation in 2010.	**Employee and employer contributions are kept under review and a formal actuarial valuation is being undertaken as at 31 March 2013.** Pension trustees keep investment policies under review and use professional investment advisers to seek to maximise investment returns at an appropriate level of risk.	↑ **(Amber)**
SUCCESSION PLANNING			
RISK	**COMMENTARY**	**MITIGATION**	**CHANGE**
Pennon's employees are the cornerstone to its success and further development. High quality, well motivated, trained and competent people at all levels must be in place to ensure sustained business development.	Ensuring the right people in the right places at the right time does not happen by accident; it needs careful planning. .	Succession plans are in place for Board Directors and senior management, and further down the organisation as appropriate. These are normally updated annually. Both South West Water and Viridor have introduced training and development programmes including apprenticeships, graduate training and management development.	↔ **(Green)**

DIRECTORS' RESPONSIBILITIES STATEMENTS

(This statement is extracted from the governance section of the Annual Report 2013 and page numbers referred to are those in the Annual Report 2013.)

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 62 and 63 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 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 4 to 59 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.

RELATED PARTY TRANSACTIONS

(The following is Note 45 to the Financial Statements set out in the Annual Report 2013.)

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

	2013 £m	**2012 £m**
Sales of goods and services		
Viridor Laing (Greater Manchester) Limited	**83.0**	80.4
Purchase of goods and services		
Lakeside Energy from Waste Limited	**10.9**	10.7
Dividends received		
Lakeside Energy from Waste Holdings Limited	**8.5**	–

Year-end balances

	2013 £m	**2012 £m**
Receivables due from related parties		
Viridor Laing (Greater Manchester) Holdings Limited (loan balance)	**45.4**	40.3
Lakeside Energy from Waste Holdings Limited (loan balance)	**9.7**	10.0
INEOS Runcorn (TPS) Holdings Limited (loan balance)	**25.0**	22.3
	80.1	72.6
Viridor Laing (Greater Manchester) Limited (trading balance)	**9.6**	7.6

Lakeside Energy from Waste Limited (trading balance)	**1.2**	1.0
	10.8	8.6
Payables due to related parties		
Viridor Laing (Greater Manchester) Limited (trading balance)	**–**	7.0
Lakeside Energy for Waste Limited (trading balance)	**0.2**	–

The £80.1 million (2012 £72.6 million) receivable relates to loans to related parties included within receivables and due for repayment in instalments between 2013 and 2033. Interest is charged at an average of 13.0% (2012 14.0%).

Company

The following transactions with subsidiary undertakings occurred in the year:

	2013 £m	**2012 £m**
Sales of goods and services (management fees)	**9.3**	8.4
Purchase of goods and services (support services)	**0.5**	0.5
Interest receivable	**25.2**	19.6
Dividends received	**177.6**	117.5

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

	2013 £m	**2012 £m**
Receivables due from subsidiary undertakings		
Loans	**628.2**	439.8
Trading balances	**8.8**	1.9

Interest on £128.7 million of the loans has been charged at a fixed rate of 4.5% and on £199.4 million at a fixed rate of 6.0%
(2012 £204.3 million, 4.5% and £29.6 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 2014 to 2018. During the year there were no provisions (2012 nil) in respect of loans to subsidiaries not expected to be repaid.

	2013 £m	**2012 £m**
Payables due to subsidiary undertakings		
Loans	**281.2**	281.2
Trading balances	**14.4**	14.4

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

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements with respect to 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 of Pennon Group and its subsidiaries. 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 document, 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 document on principal risks and uncertainties.

Subject to compliance with applicable law and regulations, Pennon 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.

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