PENNON GROUP PLC

PUBLICATION OF ANNUAL REPORT AND ACCOUNTS 2019
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 Financial Conduct 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 2019
- Notice of Annual General Meeting
- Form of Proxy

The Annual Report and Accounts 2019 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 2019 Annual General Meeting at Sandy Park Conference Centre, Sandy Park Way, Exeter, Devon, EX2 7NN on Thursday 25 July at 2.30pm.

The following information in the Appendix to this announcement is as set out in the Company's Annual Report and Accounts 2019. It should be read in conjunction with the Company’s Full Year Results announcement released on 30 May 2019 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 main trading subsidiary companies. Together these documents constitute the information required by Disclosure and Transparency Rule 6.3.5.

Simon Pugsley
Group General Counsel & Company Secretary

25 June 2019

APPENDIX

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's business model exposes it to a variety of external and internal risks influenced by the possible impact of macro political, economic and environmental factors; notably the continued uncertainly arising from Britain's exit from the European Union (EU) and the potential renationalisation of the water industry. While the current Government are supportive of the existing regulatory model, in the event of a change of government, it remains the policy of the opposition to renationalise the water industry and Labour has provided further detail of their proposed approach during the year. In the event of this scenario occurring there could be an impact to the Group's business model and consequently this remains a significant risk to the Group.

While the ability of the Group to influence these macro level risks is limited, they continue to be regularly monitored and the potential implications are considered as part of the ongoing risk assessment process. The Group performs a range of scenario planning and analysis exercises to understand the risk exposure of one or a number of these events occurring. The Group's principal risks have remained consistent with the 2018 annual report with the exception of one additional principal risk: non-delivery of regulatory outcomes and performance commitments. This risk reflects the significance of the ODI regime in the regulatory model. South West Water has the opportunity for reward but it is also exposed to risk if performance commitments are not achieved.

Britain's exit from the European Union

During the year the Group has continued to evaluate and monitor the potential risks and opportunities arising from Britain's decision to exit the EU. Cross functional working groups have been established and mitigation plans have been implemented focusing on those activities that are likely to be most impacted in the event of Britain leaving the EU without a withdrawal agreement. The Pennon Executive and the Board have received regular updates throughout the year on the Group's preparations for a no-deal scenario.

The Group continues to reflect the impact associated with Britain leaving the EU within the relevant principal risks. While no single issue is considered to expose the Group to material risk, it is recognised that the combination of multiple issues or events concurrently could result in some disruption in the period immediately after leaving the EU in the event of a no-deal scenario. Plans have been established which seek to minimise the potential impact on the Group and its operations.

The following issues have been identified as potentially having a significant impact on the Group's principal risks:

- **Availability of chemicals** (linked to principal risk: Business interruption or significant operational failures/incidents). Detailed analysis has been completed on chemicals received from European-based suppliers and on South West Water and Viridor stock levels to ensure they continue to be maximised. Additionally, operational plans have been developed to ensure continued asset availability and that Government and Local Resilience Forum requirements are met. South West Water has also been heavily engaged with Water UK in developing a national response. This has involved discussions with the UK Government, regulators and other key stakeholders, developing a 'critical chemicals' action plan jointly with the Chemicals Industry Association and due diligence being undertaken on critical chemical suppliers.

- **Exporting of recyclate material** (linked to principal risk: Macro level risks impacting on commodity and power prices). While we continue to export recyclate to Europe, contingency plans have been established so that, in the event of a no-deal scenario, the majority of recyclate can be diverted to non-European markets. We have engaged extensively with our haulage and shipping partners to understand their preparations and trialled shipments to EU and non-EU countries from alternative UK ports. For the limited volume of recyclate material which will continue to be exported to Europe in the event of a no-deal scenario, revised documentation requirements have been reviewed and internal processes amended where appropriate.

- **Inability to access the same level of funding from the European Investment Bank** (linked to principal risk: Maintaining sufficient finance and funding): Prior to the financial year end funding lines have been put in place which has resulted in cash and committed facilities to fund Viridor's committed growth projects and South West Water's capital programme into K7 (2020-25). Furthermore, we have engaged with a variety of UK and European banks who have reaffirmed their appetite for UK infrastructure lending.

- **The ability to attract and employ individuals with the necessary skills and experience** (linked to principal risk: Difficulty in the recruitment, retention and development of skills): While the current position of the UK Government in the event of a no-deal scenario is that EU nationals already in the country will be able to apply for settled status, the Group has been proactive in reinforcing this to all affected staff. Furthermore, Viridor has moved 180 employees from agency roles into permanent employment. The Group has also sought assurances from temporary employment agencies as to their plans to ensure sufficient availability of temporary resource in the event of a no-deal scenario.

The Directors confirm that during 2018/19 they have carried out a robust assessment of risks facing the Group, including assessing the impacts on its business model, future performance, solvency and liquidity.

These principal risks have been considered in preparing the viability statement on page 69 of the 2019 Annual Report.

Strategic impact – long-term priorities affected

1	2	3
Leadership in UK water and waste	**Leadership in cost base efficiency**	**Driving sustainable growth**

Risk level

Green	Amber	Red	↑	↔	↓
Low	**Medium**	**High**	**Increasing**	**Stable**	**Decreasing**

Law, regulation and finance

Principal risks	Strategic impact	Mitigation	Net risk	Direction	Risk appetite
Changes in Government policy	Long-term priorities affected: 1,2 Changes in Government policy may fundamentally impact our ability to deliver the Group's strategic priorities, impacting shareholder value.	(i) While the present Government is supportive of the existing regulatory model, the renationalisation of the water industry continues to be a central policy of the Labour Party and remains a possibility in the event of a change of Government. We continue to engage with all political parties, customers and wider stakeholders, both directly and via Water UK, demonstrating the value received from our operational performance and continued investment in the network infrastructure. South West Water's 2020-25 business plan also detailed how we would empower customers further and deliver benefits for our stakeholders over the next regulatory period. (ii) Viridor remains well placed to leverage the opportunities arising from the key outcomes within the Government's Resources and Waste Strategy, as reflected by investment in an additional plastic processing facility. Further clarity is required, however, with respect to key aspects of the initiatives within the Resources and Waste Strategy as timescales remain uncertain.	**Red** **Green**	⟷ ⟷	We recognise that Government policy evolves. The Group seeks to minimise potential risk and maximise opportunities through regular engagement, communication and robust scenario planning.
Regulatory reform	Long-term priorities affected: 1,2 Reform of the regulatory framework may result in changes to the Group's priorities and the service we provide to our customers. It may have a significant impact on our performance which can impact shareholder value.	There remains a continued focus from Ofwat on the governance of companies in the water sector; in particular the introduction of a 'social contract' between water companies and their stakeholders. We have been an active voice in the sector during the year on this topic. This concept was at the heart of South West Water's 2020-25 business plan, entitled 'New Deal', which received fast-track status from Ofwat. The Draft Determination was received from Ofwat in April 2019. This included our commitment to provide customers with a shareholding and a greater say in how South West Water is run. Additionally, as a listed company we continue to uphold the highest standards of corporate governance and transparency, including compliance with the UK Corporate Governance Code and Ofwat's Principles for Holding Companies.	**Amber**	⟷	We accept that regulatory reform occurs and seek to leverage opportunities where possible and minimise the negative impact of regulatory reform by targeting changes which are NPV neutral over the longer term to protect customer affordability and shareholder value.

Principal risks	Strategic impact	Mitigation	Net risk	Direction	Risk appetite
Compliance with laws and regulations	Long-term priorities affected: 1,2 The Group is required to comply with a range of regulated and non-regulated laws and regulation across our water and waste businesses. Non-compliance with one or a number of these may result in financial penalties, a negative impact on our ability to operate effectively and reputational damage. .	The Group operates a robust and mature regulatory framework which seeks to ensure compliance with Ofwat, Environment Agency and other relevant requirements. The Group also continues to provide a rolling programme of training and guidance to our staff, contractors and partners. This included data protection training following the implementation of the General Data Protection Regulation. During the year we have also refreshed our Code of Conduct and launched a specific Supply Chain Code of Conduct, further reinforcing the standards expected of our staff and our partners. The Group's Speak Up whistleblowing process allows any concerns to be raised confidentially and robust processes are in place for investigating these. Additionally during the year Pennon became a member of the Slave Free Alliance, demonstrating the Group's commitment to eradicating modern slavery.	**Green**	↑	The Group has the highest standards of compliance and has no appetite for legal or regulatory breaches.
Maintaining sufficient finance and funding, within our debt covenants, to meet ongoing commitments	Long-term priorities affected: 1,3 Failure to maintain funding requirements could lead to additional finance costs and put our growth agenda at risk. Breach of covenants could result in the requirement to repay certain debt.	The Group has mature treasury, funding and cash flow arrangements in place and the impact of political, economic, and regulatory risks on the Group's financing commitments and cashflow is regularly reviewed by Pennon Executive and the Board. The Group has £1.2 billion of cash and committed facilities. During the year the Group has signed new facilities of £830 million of which £600 million is linked to the sustainable nature of our business. This provides funding for Viridor's committed capital projects and funds the South West Water into K7. The strength of our position provides the Group with added resilience in the event of short-term volatility of a potential Brexit no-deal scenario. Further detail is provided above.	**Green**	↔	The Group operates a prudent approach to our financing strategy in order to ensure our funding requirements are fully met.

Principal risks	Strategic impact	Mitigation	Net risk	Direction	Risk appetite
Non-compliance or occurrence of an avoidable health & safety incident	Long-term priorities affected: 1,2,3 A breach of health & safety law could lead to financial penalties, significant legal costs and damage to the Group's reputation.	The effective management of health & safety risks continues to be a priority for the Board and Pennon Executive, as demonstrated by the 2025 HomeSafe strategy. Experienced health & safety professionals are embedded within the Group providing advice, guidance and support to operational staff. During the year the Group progressed the full roll out of HomeSafe for Viridor and South West Water which encompassed both face-to-face and e-learning training. This was supported by a comprehensive assurance programme to ensure the key requirements of HomeSafe, legal compliance and our standards are being correctly followed with outcomes reported to the Pennon Health & Safety Committee. The benefits of the HomeSafe programme are already being seen with lost time injury frequency rates falling 32.2% during the year.	**Amber**	↔	The Group has no appetite for health & safety related incidents and has the highest standards of compliance within the Group, contractors, partners and third parties.
Tax compliance and contribution	Long-term priorities affected: 2 Non-compliance may result in financial penalties, legal costs and reputational damage. Furthermore, the perception that Pennon's overall tax contribution is inadequate could have a detrimental impact on the reputation of the Group.	The Group have an experienced and professionally qualified in-house tax team, supported, where necessary, by external specialists. The Pennon tax strategy has been refreshed and published, following customer consultation. During the year Pennon became the first water and waste management utility to secure the Fair Tax Mark; an independent accreditation scheme, which recognises organisations that demonstrate they are paying the right amount of corporation tax at the right time. Processes and controls have been reviewed during the year to ensure we are able to continue to meet HMRC requirements.	**Green**	↑	The Group ensures full compliance with HMRC requirements and will not enter into artificial tax arrangements or take an aggressive stance in the interpretation of tax legislation.

Principal risks	Strategic impact	Mitigation	Net risk	Direction	Risk appetite
Failure to pay all pension obligations as they fall due and increased costs to the Group should the deferred pension scheme deficit increase	Long-term priorities affected: 2 The Group could be called upon to increase funding to reduce the deficit, impacting our cost base.	The Group has an experienced in-house pensions team who also engage professional advisors to manage the pension scheme's investment strategy, ensuring the scheme can pay its obligations as they fall due. During the past year there has been a significant decrease in bond yields resulting from uncertainty over Brexit, which could result in an increased deficit position following the revaluation of the defined benefit pension scheme.	**Amber**	↑	The Group will ensure that all obligations are met in full but seeks to manage this without unnecessary increased costs to the Group.

Market and economic conditions

Principal risks	Strategic impact	Mitigation	Net risk	Direction	Risk appetite
Non-recovery of customer debt	Long-term priorities affected: 1,2 Potential impact on revenue as a result of reduced customer debt collection, particularly with regard to vulnerable customers and affordability.	South West Water has mature and embedded debt collection strategies in place for the recovery of domestic customer debt which has delivered improved collection rates and decreased bad debt exposure during the past three years. There has been no significant increase in bills for 2019/20 and real-term decreases form part of the business plan for 2020-25. The potential economic impact of Brexit on our customers remains a risk. We work proactively with our customers who are struggling to pay and have a range of affordability schemes and social tariffs to support them including Restart, WaterCare and Freshstart. Within the non-household market there has been continued focus on the collection of older debt which has proved effective. Due to high proportion of public sector contracts, Viridor's debt collection risk is lower, however, customer debt is regularly reviewed and proactively managed.	**Green**	↑	While seeking to minimise non-recoverable debt, we recognise customer affordability challenges and the inability to disconnect customers results in a residual risk of uncollectable debt remaining.

Principal risks	Strategic impact	Mitigation	Net risk	Direction	Risk appetite
Macroeconomic risks arising from a downturn in the global and UK economy and commodity and power prices	Long-term priorities affected: 3 Challenges such as continued local authority austerity, reduced global demand for our recycled commodities and decreases in power prices have a direct impact on our revenues generated by our recycling and energy businesses.	Viridor remains well positioned across the waste hierarchy with long-term contracts supporting the ERF business. While recyclate markets have improved during the year, continuing to meet the quality requirements within China and other markets remains a key area of focus in addition to sourcing other potential markets. Extensive planning in the event of a Brexit no deal scenario has also been undertaken and is detailed further above. We continue to invest in our assets and we work closely in partnership with our local authority customers in the delivery of our services and maximising the quality of the input recyclate material. Additionally, a significant proportion of our input contracts have price adjustments based on price fluctuations during the year. Energy risk management is undertaken at a Group level and acts as a natural hedge between South West Water and Viridor, offsetting any drop in power prices. Forward hedges have been put in place with the Group c. 95% hedged for 2019/20, c.55% for 2020/21 and c.20% for 2021/22 hedged.	**Red**	↔	The Group seeks to take well-judged and informed decisions while ensuring plans are in place to mitigate the potential impact of macroeconomic risks.

Operating performance

Principal risks	Strategic impact	Mitigation	Net risk	Direction	Risk appetite
Poor operating performance due to extreme weather or climate change	Long-term priorities affected: 1 Failure of our assets to cope with extreme weather conditions may lead to an inability to meet our customers' needs, environmental damage, additional costs and reputational damage.	The increased frequency and impact of extreme weather exposes our assets to risk, while there continues to be a reduced appetite for reduced performance arising from such incidents from the regulator and our stakeholders. The Group seeks to mitigate this risk through investment via a planned capital investment programme, emergency resources and contingency planning. As part of the risk management process the Group also performs horizon scanning on the longer-term impacts of climate change on its operations. Key lessons learnt from the freeze-thaw event in March 2018 were incorporated into our 2018/19 winter preparedness planning. Extensive modelling and forecasting is also performed to evaluate South West Water's water resources, both in actively managing resources in periods of dry weather but also managing long-term water resources as demonstrated through South West Water's 25 year Water Resources Management Plan. Viridor has in place regional adverse weather management strategies aimed at reducing disruption to site operations and transport logistics.	**Amber**	↔	The Group seeks to reduce both the impact and likelihood through long-term planning and forecasting to ensure that sufficient measures are in place to mitigate the impact of extreme weather and climate change on our operations.

Principal risks	Strategic impact	Mitigation	Net risk	Direction	Risk appetite
Poor customer service/ increased competition leading to loss of customer base	Long-term priorities affected: 1,3 Poor customer service has a direct impact on South West Water's delivery of the PR14 business plan and the ability of both Viridor and Pennon Water Services to retain and grow market share.	There has been a continued focus on customer experience and the customer journey across the Group during the year. Enhanced capability within our call centre, investment in training and expanded channels to interact with our customers resulted in South West Water's best ever SIM customer service score with a ranking of second out of all water and sewerage companies in England and Wales. South West Water is also accredited to the Institute of Customer Service's ServiceMark accreditation. Planning is also underway to evaluate South West Water's performance under the new C-MeX guidance, which will replace SIM from 2020. Customer service and experience has been a continued focus for Viridor with a score of 7.1 out of ten on Trustpilot. Customer service within Pennon Water Services is also monitored through Trustpilot where a score of 8.5 out of ten has been achieved.	**Amber**	↔	The Group continually seeks to increase customer satisfaction and maximise customer retention while taking well informed risk to develop further markets and offerings.
Business interruption or significant operational failures/ incidents	Long-term priorities affected: 1,3 Operational failure in our water business could mean that we are unable to supply clean water to our customers or provide safe wastewater processes. This has a direct impact on the successful delivery of the PR14 business plan. Additionally business interruption caused by defects, outage or fire could impact the availability and optimisation of our ERF and recycling facilities.	The Group maintains detailed contingency plans and incident management procedures which are regularly reviewed and assets are managed through a programme of sophisticated planned and preventive maintenance and effective management of stores. Extensive Group-wide Brexit no-deal planning has also been undertaken with further detail outlined above. Continued investment alongside South West Water's pollution reduction strategy has resulted in a reduction of serious pollution incidents to two during the year. This was among the lowest number of such incidents in the industry. There has also been a continued reduction in minor pollution incidents (Category 3). Careful management and effective optimisation of the ERF fleet has again resulted in availability exceeding 90% across our operational portfolio (including joint ventures).	**Amber**	↑	The Group operates a low tolerance for significant operational failure and seeks to mitigate these risks where possible.

Principal risks	Strategic impact	Mitigation	Net risk	Direction	Risk appetite
Difficulty in the recruitment, retention and development of appropriate skills required to deliver the Group's strategy	Long-term priorities affected: 1,2,3 Failure to have a workforce of skilled and motivated individuals will detrimentally impact all of our strategic priorities. We need the right people in the right places to share best practice, deliver synergies and move the Group forward.	The Group's HR Strategy continues to be embedded across the organisation and a range of initiatives have been delivered during the year to attract, retain and develop our employees. Employee Voice Forums and engagement provides opportunities for employees to regularly discuss business priorities and challenges with business leaders. Mitigating actions have also been taken to reduce the potential impact of a Brexit no-deal scenario on our workforce. Further detail is included above. Succession plans remain in place for senior and other key positions. In order to ensure the Group can compete for the top talent in the market place during the year 30 graduates joined Viridor and 226 apprenticeships started across the Group supporting new starters and existing employees in their career development. The impact of these initiatives is measured through the results of the most recent Great Places to Work Best Workplaces™ Survey which showed an improved Trust Index score of 62% and Engagement score of 68%.	**Amber**	↔	While turnover of staff does occur we ensure the appropriate skills and experience is in place with succession plans providing adequate resilience.
Non-delivery of Regulatory Outcomes and performance commitments	Long-term priorities affected: 1,2,3 South West Water's Regulatory Outcomes and performance commitments cover key strategic focus areas. Non-delivery against these could result in financial penalties being applied as well as reputational damage to the Group.	The regulatory framework has been in place since 1 April 2015 and South West Water has delivered cumulative net ODI rewards of £11.3 million. South West Water is forecast to meet all its ODI commitments by 2020. This risk reflects the significance of the ODI regime in the regulatory model. South West Water has the opportunity for reward but is also exposed to risk if performance commitments are not achieved. Following the South West Water 2020-25 business plan being awarded fast-track status, we are already working on plans to deliver a step change in operational performance as well as meeting our 2020 commitments.	**Amber**	↑	The Group is committed to achieving all of our performance commitments over the length of each regulatory period. Where performance in an individual year falls below expectation we implement action plans and targeted interventions to ensure performance returns to committed levels.

Business systems and capital investment

Principal risks	Strategic impact	Mitigation	Net risk	Direction	Risk appetite
Failure or increased cost of capital projects/ exposure to contract failures	Long-term priorities affected: 1,3 Inability to successfully deliver on our capital programme may result in increased costs and delays and detrimentally impacts our ability to provide top class customer service and achieve our growth agenda.	All capital projects are subject to a robust business case process which includes challenge and risk modelling over key assumptions. Projects are delivered using skilled project management resource complimented by senior oversight and leadership. As a result of the financial challenges experienced by large contractors in the construction sector, there is a reduced appetite for large water and waste construction projects, resulting in a general lack of commercial tension. Regular monitoring is performed on the financial health of key contractors and supply chain partners. Glasgow, Beddington and Dunbar ERFs all began processing waste during the year while the commissioning commenced on Mayflower water treatment works. The construction of Avonmouth ERF is progressing well with completion on track for 2020/21. Resulting from remediation work at the Glasgow ERF, Viridor is contractually entitled to recover the gross contractual receivable of £72 million from the original principal contractor Interserve Construction Limited. We will take all necessary legal and procedural steps to achieve this. Liquidated damages associated with Beddington and Dunbar ERFs have been fully offset against milestone payments. The redevelopment of Heathrow Airport continues to be closely monitored, with the Lakeside ERF joint venture located on the site of the proposed third runway. Lakeside ERF would have to be removed in the event this redevelopment occurs and we would expect to be fully compensated for the rebuild of the facility on a like-for-like basis. An alternative site has been identified with detailed site studies and environmental assessments currently being undertaken.	**Red**	↑	The Group's investment activities are taken on an informed basis with risks weighed against appropriate returns.
Failure of information technology systems, management and protection including	Long-term priorities affected: 1 Failure of our information technology systems, due to inadequate internal processes or external cyber threats could result in the	The Group operates a mature and embedded governance framework over the 'business as usual' IT environment and major project implementations aligned to ISO 27001 standards. Disaster recovery plans are in place for corporate and operational technology and these are regularly reviewed	**Amber**	↑	We seek to minimise the risk of informational technology failure and cyber security threats to the lowest level without detrimentally impacting on business operations.

cyber risks	business being unable to operate effectively and the corruption or loss of data. This would have a detrimental impact on our customers and result in financial penalties and reputational damage for the Group.	and tested. Cyber threats continue to increase in volume and sophistication. These risks are mitigated by a strong information security framework aligned to guidance issued by the National Cyber Security Centre (NCSC). A gap analysis of South West Water’s drinking water operational technology cyber security controls has been undertaken against the requirements of the Network and Information Systems (NIS) directive utilising external expertise. The outcomes of this exercise have informed future actions where opportunities for further improvement exist.			

DIRECTORS' RESPONSIBILITIES STATEMENTS

(This statement is extracted from the governance section of the Annual Report 2019 and page numbers referred to are those in the Annual Report 2019.)

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 76 and 77, 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 1 to 71) and the Directors' report 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 44 to the Financial Statements set out in the Annual Report 2019.)

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

	2019 £m	2018 £m
Sales of goods and services		
Viridor Laing (Greater Manchester) Limited	**-**	38.4
INEOS Runcorn (TPS) Limited	**16.6**	15.9
Purchase of goods and services		
Lakeside Energy from Waste Limited	**12.4**	12.0
INEOS Runcorn (TPS) Limited	**7.1**	6.0
Dividends received		
Lakeside Energy from Waste Holdings Limited	**5.5**	6.5

Year-end balances

	2019 £m	2018 £m
Receivables due from related parties		
Lakeside Energy from Waste Limited (loan balance)	**7.7**	8.2
INEOS Runcorn (TPS) Limited (loan balance)	**65.0**	32.5
	72.7	40.7
Lakeside Energy from Waste Limited (trading balance)	**1.0**	1.0
INEOS Runcorn (TPS) Limited (trading balance)	**1.8**	2.0
	2.8	3.0
Payables due to related parties		
Lakeside Energy for Waste Limited (trading balance)	**0.9**	1.2
INEOS Runcorn (TPS) Limited (trading balance)	**3.2**	2.5
	4.1	3.7

The £72.7 million (2018 £40.7 million) receivable relates to loans to related parties included within receivables and due for repayment in instalments between 2018 and 2033. Interest is charged at an average of 13.0% (2018 13.0%).

Company
The following transactions with subsidiary undertakings occurred in the year:

	2019 £m	2018 £m
Sales of goods and services (management fees)	**19.7**	12.2
Purchase of goods and services (support services)	**2.0**	1.5
Interest receivable	**43.3**	39.9
Interest payable	**0.1**	0.1
Dividends received	**196.7**	202.3

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

	2019 £m	2018 £m
Receivables due from subsidiary undertakings		
Loans	**1,044.6**	870.8
Trading balances	**19.9**	16.2

Interest on £499.8 million (2018 £425.3 million) of the loans has been charged at a fixed rate of 5.0%, and on £18.1 million (2018 £20.3 million) at a fixed rate of 6.0%. Interest on £499.8 million of the loans is charged at 12 month LIBOR +2.2% (2018 £411.8 million charged at 12 month LIBOR + 1.0% and £13.4 million charged at 12 month LIBOR + 3.0%). These loans are due for repayment in instalments over the period 2020 to 2056. Interest on £13.5 million of the loans has been charged at a fixed rate of 5.0%. Interest on £13.4 million of the loans is charged at 12 month LIBOR + 3.0%. These loans are due for repayment in instalments over a five-year period following receipt of a request to repay.

No material expected credit loss provision has been recognised in respect of loans to subsidiaries (2018 £nil).

	2019 £m	2018 £m
Payables due to subsidiary undertakings		
Loans	**283.9**	283.6
Trading balances	**14.3**	14.4

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

25 June 2019

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End transmission