

PENNON GROUP PLC

PUBLICATION OF ANNUAL REPORT AND ACCOUNTS 2021

In compliance with Listing Rule 9.6.1 Pennon Group Plc (the "Company") announces that the following document has been submitted to the Financial Conduct Authority electronically via the National Storage Mechanism and will shortly be available for inspection at <https://data.fca.org.uk/#/nsm/nationalstoragemechanism>

- Annual Report and Accounts 2021

The Annual Report and Accounts 2021 may also be viewed on the Company's website at www.pennon-group.co.uk

The Company will hold its 2021 Annual General Meeting ("AGM") at Sandy Park Conference Centre, Rydon Lane, Exeter, EX2 7NN at 2.30pm on Thursday 22 July 2021. Due to the ongoing COVID-19 pandemic and current government guidelines, remote AGM participation and electronic voting will be strongly encouraged. Further information will be provided in the Notice of AGM, which will be issued to shareholders shortly.

The following information in the Appendix to this announcement is as set out in the Company's Annual Report and Accounts 2021. It should be read in conjunction with the Company's Full Year Results announcement released on 3 June 2021 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

21 June 2021

APPENDIX

Principal risks and uncertainties

The Group's business model exposes the business to a variety of external and internal risks influenced by the potential impact of macro political, economic and environmental factors.

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. Following the completion of the Viridor sale, the Board has performed a comprehensive review and reassessment of the Group's principal risks to reflect the refocusing of the Group on its water and wastewater business. This has resulted in a number of changes to the Group's principal risks when compared with previous annual reports.

- **Tax compliance and contribution:** This is no longer considered a principal risk due to the lower tax risk profile of the continuing Group following the disposal of Viridor and all enquiries with HMRC being resolved.
- **Poor service and/or increased competition leading to loss of customers:** The commercial exposure arising from the potential loss of customers significantly decreased following the disposal of Viridor and is no longer considered a principal risk for the Group. A new risk has been established with a broader customer and stakeholder focus covering the both Group's domestic water and water retail operations, which has both financial and reputational implications: Failure to maintain excellent service or effectively engage with our customers and wider stakeholders (risk L).
- **Business interruption or significant operational failures / incidents:** This risk has been separated into two elements to more clearly articulate the risks associated with the Group's drinking water and wastewater activities; Failure of operational water treatment assets and processes resulting in an inability to produce or supply clean drinking water (risk J) and Failure of operational wastewater assets and processes resulting in an inability to remove and treat wastewater and potential environmental impacts, including pollutions (risk K).
- **Failure to fully realise the strategic value arising from the acquisition of Bristol Water (risk Q):** This reflects the potential risks associated with the acquisition and integration of Bristol Water.

Britain's trade agreement with the European Union

On 31 December 2020 the UK's transition period from leaving the EU ended and was replaced with a new trade agreement. There has been no significant impact or disruption to the operations and activities of the Group either prior to or following the commencement of this trade agreement.

Impact of COVID-19

As a provider of critical services, the Group has continued to operate resiliently throughout the period of COVID-19 to date, demonstrating the strength of the risk management framework. Whilst the UK Government has provided a roadmap for the lifting of current restrictions, this is dependent on a number of factors and there is the potential that specific measures could remain or be reintroduced in the medium term. The Group's principal risks have been assessed giving due consideration to the estimated continued impact of COVID-19 and the mitigating actions that will remain in place.

The Directors confirm that during 2020/21 they have carried out a robust assessment of current and emerging risks facing the Group. The assessment of the Group's principal risks has considered the impact on its business model, future performance, solvency and liquidity. These principal risks have been considered in preparing the viability statement on page 80.

Long-term priorities 1 Leadership in UK Water 2 Efficient operations 3 Sustainable growth	Risk Level Increasing Stable Decreasing High Medium Low
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Law, regulation and finance				
Principal risk	Strategic impact	Mitigation	Net risk	Appetite
A: Changes in Government policy	<p><i>Long-term priorities 1, 2</i></p> <p>Changes in Government policy may fundamentally impact our ability to deliver the Group's strategic priorities, impacting shareholder value.</p>	<p>The current UK Government remains supportive of the existing regulatory model and the Group continues to engage with MPs and political stakeholders, both directly and through Water UK, demonstrating the value from our operational performance and continued investment in our network infrastructure.</p> <p>The Group is committed to supporting the South West economy through its Green Recovery Initiative which focuses on projects that matter most to customers and those that improve public health, protect the environment and address climate change. Broader emerging changes in Government policy, including restrictions and ongoing economic support in response to COVID-19, are regularly monitored in order to assess the potential impact on the Group.</p>	Medium Stable	<p>We recognise that Government policy evolves. The Group seeks to minimise the potential risk and maximise opportunities through regular engagement and robust scenario planning.</p>

Principal risk	Strategic impact	Mitigation	Net risk	Appetite
B: Regulatory reform	<p><i>Long-term priorities 1, 2</i></p> <p>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.</p>	<p>Certainty over the regulatory framework for the 2020-25 regulatory period has been provided through South West Water's Final Determination. Ofwat have published initial discussion papers to inform the priorities for the PR24 price review. South West Water has responded to these papers and has proactively commenced planning for the next price review.</p> <p>Specific temporary regulatory changes, in response to COVID-19, remain in place; particularly in respect of the water retail market, including wholesaler support. The Group fully engages with regulators on these changes to minimise the potential impact on the Group's activities.</p>	Medium Stable	<p>We accept that regulatory reform occurs and seek to leverage opportunities where possible and minimise the potential risks by targeting changes which are NPV neutral over the longer-term to protect customer affordability and shareholder value.</p>
C: Non-compliance with laws and regulations	<p><i>Long-term priorities 1, 2</i></p> <p>The Group is required to comply with a range of regulated and non-regulated laws and regulations across our businesses. Non-compliance with one or a number of these may result in financial penalties negative impact on our ability to operate effectively and</p>	<p>The Group operates within robust and mature regulatory frameworks, ensuring compliance with the requirements of Ofwat, the Environment Agency and other relevant regulators. These frameworks are subject to review by South West Water, Pennon Water Services and the Group Executive as appropriate.</p> <p>The legal and regulatory landscape has become more complex increasing the potential risk within this area. This includes additional legal requirements proposed within the Environmental Bill, as well as additional requirements on water companies to reduce the use of storm overflows. Regular horizon scanning is undertaken to identify potential changes and, where</p>	Medium Increasing	<p>The Group maintains the highest standards of compliance and has no appetite for legal or regulatory breaches.</p>

	reputational damage.	<p>introduced, internal processes, systems and controls are revised, as necessary, to ensure compliance.</p> <p>The Group maintains a comprehensive internal framework to ensure compliance with corporate laws and regulations. This is reinforced through key policies including the Group's Code of Conduct, Anti- Bribery and Corruption, Anti-Facilitation of Tax Evasion and Anti- Modern Slavery and Human Rights, which have been reviewed and endorsed by the Pennon Board during the year.</p> <p>The Group operates a Speak Up whistleblowing process, allowing concerns to be raised confidentially and appropriately investigated. This process has been refreshed and relaunched during the year.</p>		
D: Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments	<p><i>Long-term priorities 2, 3</i></p> <p>Failure to maintain funding requirements could lead to additional financing costs and put our growth agenda at risk. Breach of covenants could result in the requirement to repay certain debt.</p>	<p>The Group has well established treasury, funding and cash flow arrangements in place underpinned by a clear Treasury Management policy which has been endorsed by the Pennon Board. The impact of political, economic and regulatory risks on the Group's financing commitments and cash flow is regularly reviewed by the Group Executive and the Pennon Board.</p> <p>The Group retains significant cash and committed facilities of £3,189 million and has utilised c.£1 billion to efficiently reduce gross debt at the Pennon company level to circa £180 million. Additionally, South West Water is fully funded for the 2020-2025 regulatory period.</p> <p>During 2020/21 £120 million of new or renewed funding was</p>	Low Stable	The Group operates a prudent approach to our financing strategy in order to ensure our funding requirements are fully met.

		entered into, including £90 million of funding through the Sustainable Financing Framework for South West Water.		
E: Non-compliance or occurrence of an avoidable health and safety incident	<p><i>Long-term priorities 1, 2, 3</i></p> <p>A significant health and safety event could result in financial penalties, significant legal costs and damage to the Group's reputation.</p>	<p>The effective management of health and safety risks continues to be a priority for the Pennon Board and Group Executive.</p> <p>The Group's health and safety governance arrangements have been further enhanced during 2020/21 with dedicated Board and Executive Health and Safety committees established. Additionally, a new Director of Health and Safety has been appointed with significant water industry experience.</p> <p>HomeSafe training has continued to be delivered to front line and support staff and a new Group-wide Wellbeing strategy has been launched.</p> <p>Enhanced COVID-19 safety measures remain in place to enable the Group's activities to be delivered safely, stringently following the most recent Government guidelines. This includes remote working where appropriate, the provision of COVID-19 testing for those unable to work remotely, social distancing and enhanced hygiene at all of the Group's sites and appropriate personal, protective equipment (PPE).</p> <p>The continuing Group's LTIFR during the year was 1.41 with the Group targeting an LTIFR of 0.5 by 2025.</p>	Medium Stable	The Group has no appetite for health and safety related incidents and maintains the highest standards of compliance for our staff, contractors and other third parties.
F: Failure to pay all pension obligations as they fall due and increased	<p><i>Long-term priorities 2</i></p> <p>The Group could be called upon</p>	<p>The Group has an experienced in-house Pensions team supplemented by professional advisors to manage the scheme's investment strategy. A recovery plan remains in</p>	Medium Stable	The Group will ensure that all obligations are met in full but seeks to manage this without

costs to the Group should the defined benefit pension scheme deficit increase	to increase funding to reduce the deficit, impacting our cost base.	place to return the scheme to a fully funded position on a technical basis by March 2022. During the year £36 million of contributions have been made, partially utilising proceeds from the disposal of Viridor. Following this payment and other movements in market conditions, the scheme is 103% funded on a technical provisions basis at 31 March 2021. Following consultation, the scheme will be closed to future accrual for existing members from 30 June 2021.		unnecessary costs to the Group.
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Market and economic conditions

G: Non-recovery of customer debt	<i>Long-term priorities 1, 2</i> Reduced customer debt collection would adversely impact on the Group's revenue.	South West Water and Pennon Water Services have continued to review and adapt their debt collection strategies in response to changes in COVID-19 restrictions and the consequential impact on customers. These measures have enabled both South West Water and Pennon Water Services to maintain collection rates and debt exposure at levels broadly comparable with the prior year. South West Water has sought to identify those customers most in need and support them in the most appropriate ways, such as automatically extending social tariffs and payment plans. Similarly, Pennon Water Services has proactively engaged with customers from those sectors most impacted by COVID-19 restrictions and provided tailored support in line with market code requirements. The potential impact on customers arising from the gradual withdrawal of Government economic support	High Stable	While seeking to minimise non-recoverable debt, we recognise customer affordability challenges and the inability to disconnect domestic customers results in a residual risk of uncollectable debt remaining.
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		measures means a level of risk to collection rates will remain in the medium term.		
H: Macro-economic risks impacting on inflation, interest rates and power prices	<p><i>Long-term priorities 2, 3</i></p> <p>Lower inflation or deflation could adversely impact on the Group's revenue and significant changes in interest rates and power prices could increase the Group's cost base.</p>	<p>Regulatory revenue controls links the Group's revenue to CPIH. Additionally, the mix of fixed rate, floating and indexed link debt, in addition to robust procurement processes assists in mitigating the risk of inflation. The Group has a diverse portfolio of debt with a manageable debt maturity profile, enabling changes in interest rates to be managed effectively during each regulatory period. South West Water has hedged the majority of its wholesale power costs through to March 2022 and has a new energy purchasing contract in place for future hedging opportunities, to mitigate the risk of volatility in the energy markets. Energy usage is minimised and where possible on-site renewable energy schemes are implemented reducing reliance on purchasing energy from the grid. This remains an important element of the Group's strategy to achieve Net Zero by 2030.</p>	Medium Stable	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				
I: The Group's operations and assets are impacted as a result of climate change and extreme weather events	<p><i>Long-term priorities 1, 3</i></p> <p>Failure of our operations to cope with short-term extreme weather or long-term implications of climate change may result in an inability to meet customer needs,</p>	<p>A low appetite remains amongst regulators and stakeholders for reduced performance arising from extreme weather and climate change related incidents. The Group has assessed the risks and opportunities associated with the transition to a low carbon scenario and the associated physical risks of the various scenarios. This is detailed further in our TCFD section on pages 74 to 79. Climate change impacts are</p>	Medium Increasing	The Group seeks to mitigate the impact of climate change and extreme weather events through long-term planning, forecasting and investment.

	<p>environmental impacts, increased costs and reputational damage.</p>	<p>mitigated through proactive and reactive mitigation strategies. Extensive water resource scenario planning and modelling is undertaken, as outlined in South West Water's 25-year Water Resources Strategy.</p> <p>There has also been significant capital investment to maintain the performance of our assets and pipe network. This has included enhancing the resilience of assets located on or near flood plains or at risk of rising sea levels and coastal erosion.</p> <p>The Group is also targeting Net Zero Carbon by 2030 and strategies to achieve this are being progressed.</p> <p>The Group will also be publishing an updated Climate Change Adaptation Plan later in 2021.</p>		
<p>J: Failure of operational water treatment assets and processes resulting in an inability to produce or supply clean drinking water</p>	<p><i>Long-term priorities 1, 3</i></p> <p>An inability to produce or supply clean drinking water could result in financial penalties, regulatory enforcement and damage to the Group's reputation.</p>	<p>The potential impact of increased tourism within the region, as a consequence of COVID-19, on water treatment assets increases the potential risk in this area.</p> <p>Additional resilience has been created through the Mayflower Water Treatment Works which replaced Crownhill in November 2020. Further water treatment capital investment is planned during the regulatory period.</p> <p>Asset health is managed through a well-established programme of planned and preventative maintenance works and effective stores management.</p> <p>These actions have assisted in delivering further improvements during the year across a number of areas within the</p>	<p>Medium Increasing</p>	<p>The Group operates a low tolerance for significant operational failure of its water treatment assets and seeks to mitigate these risks where possible.</p>

		<p>Group's drinking water operations.</p> <p>In the event of a significant incident South West Water maintains detailed contingency plans and incident management procedures which are regularly reviewed.</p>		
<p>K: Failure of operational wastewater assets and processes resulting in an inability to remove and treat wastewater and potential environmental impacts, including pollutions</p>	<p><i>Long-term priorities</i> 1, 3</p> <p>An inability to remove or treat wastewater could result in adverse environment impacts, financial penalties, regulatory enforcement and damage to the Group's reputation.</p>	<p>Wastewater assets are managed through a well-established programme of capital investment and planned and preventative maintenance. There have been significant improvements in South West Water's pollutions performance since the launch of the targeted pollutions reduction plan in summer 2020.</p> <p>Key enhancements delivered as part of this plan includes governance, training, asset health and technology and there remains continued focus on ensuring this positive trend continues in 2021/22.</p> <p>In the event of a significant incident South West Water maintains detailed contingency plans and incident management procedures which are regularly reviewed.</p>	<p>High Stable</p>	<p>The Group operates a low tolerance for significant operational failure of its wastewater processes and assets and maintains the highest level of environmental standards.</p>
<p>L: Failure to maintain excellent service or effectively engage with our customers and wider stakeholders</p>	<p><i>Long-term priorities</i> 1</p> <p>Failure to maintain an adequate level of service and engagement could lead to financial penalties for South West Water, the inability of Pennon Water Services to retain and grow</p>	<p>The Group continues to invest in training and expanded channels to interact with and support customers. South West Water holds the Institute of Customer Service's ServiceMark accreditation and during 2020/21 also achieved BS18477 accreditation; a dedicated standard for identifying and responding to customer vulnerability.</p> <p>Pennon Water Services continues to maintain high customer satisfaction scores, including a rating of 4.8 out of 5 on Trustpilot.</p>	<p>Medium Stable</p>	<p>The Group continually seeks to engage with and increase customer and wider stakeholder satisfaction levels.</p>

	market share and damage to the Group's reputation.	<p>Following the launch of the WaterShare+ scheme an independent WaterShare+ advisory panel has been established as a key mechanism for engaging and demonstrating to customers how South West Water is delivering its business plan and Board pledges.</p> <p>The Group also proactively engages with other key stakeholders including regulators, environmental stakeholders and community groups.</p>		
M: Insufficient skills and resources to meet the current and future business needs and deliver the Group's strategic priorities	<p><i>Long-term priorities</i> 1, 2, 3</p> <p>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 innovate, share best practice, deliver synergies and move the Group forward.</p>	<p>Throughout 2020/21, the Group did not furlough any staff or utilise Government COVID-19 support.</p> <p>The Group's HR strategy enables the Group to attract, retain and develop our employees. The Group has set targets to recruit 500 new apprentices and 100 graduates over the next five years; plus 50 Kickstart opportunities during 2021.</p> <p>There are also various engagement forums across the Group which provides opportunities for employees to regularly engage and discuss business priorities with senior management and the Group Executive.</p> <p>The impact of the Group's Employee Benefits and Reward Strategy, a focus on talent management and prioritisation of our diversity and inclusion agenda are reflected within the results of the Group's most recent Great Place to Work Best Workplace survey. We achieved our highest ever participation rate at 84% while 73% of respondents</p>	Medium Stable	While turnover of employees does occur, we ensure the appropriate skills and experience are in place with succession plans providing adequate resilience.

		believe Pennon is a great place to work; resulting in the Group being accredited as a Great Place to Work.		
N: Non-delivery of regulatory outcomes and performance commitments	<p><i>Long-term priorities 1,2,3</i></p> <p>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.</p>	<p>Performance against ODIs is subject to regular scrutiny and review by both the Group Executive and the Pennon Board, further supplemented by a comprehensive programme of assurance. Fast track status awarded to South West Water by Ofwat enabled early roll out of key projects and initiatives. This has resulted in c.80% of Outcome Delivery Incentives (ODIs) being on or ahead of target. This includes internal and external sewer flooding and South West Water is achieving its supply interruption target two years ahead of plan. The net penalty position for 2020/21 is largely based on pollutions performance. As outlined in risk K above, the targeted pollutions reduction plan has delivered significant improvements since July 2020 and focus remains on ensuring this positive trend continues into 2021/22.</p>	High Stable	The Group is committed to achieving all performance commitments over the length of each regulatory period. Where performance in an individual year falls below expectations, action plans and targeted intervention are implemented to ensure performance returns to committed levels.

Business Systems and capital investment

O: Inefficient or ineffective delivery of capital projects	<p><i>Long-term priorities 1, 3</i></p> <p>Inability to successfully deliver on our capital programme may result in increased costs and delays, detrimentally impacting our</p>	<p>Capital projects are subject to an established and robust business case process, which includes challenge and risk modelling of key assumptions. Projects are delivered utilising skilled project management resource, complemented by Executive level oversight. Projects to be delivered during the current regulatory period are progressing and a number of additional capital projects have been identified as part of</p>	Low Increasing	The Board has a low risk appetite for risk associated with the delivery of capital investment within our regulated business plan.
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	ability to provide top class customer service and achieve our growth agenda.	South West Water's Green Recovery Initiative submission. There remains a risk that the continued impact of COVID-19 places further strain on the financial health of key contractors and supply chain partners. Regular engagement and communication is maintained with the Group's supply chain, regular monitoring of the financial health of our key partners is undertaken and early intervention is taken where necessary.		
P: Inadequate technological security results in a breach of the Group's assets, systems and data	<p><i>Long-term priorities</i> 1</p> <p>Failure of our technology security, due to inadequate internal processes or external cyber threats, could result in the business being unable to operate effectively and the corruption or loss of data. This could have a detrimental impact on our customers and result in financial penalties and reputational damage to the Group.</p>	During the period of COVID-19 external cyber threats have continued to increase in both volume and sophistication. While there has been an increase in remote working, which has introduced additional capacity challenges, IT systems have remained resilient and the Group has maintained a strong preventative and detective information security framework, aligned to guidance issued by the National Cyber Security Centre. South West Water also continues to hold the ISO27001 accreditation. South West Water has also completed a number of actions during the year as part of the roadmap to meet the requirements of the Network and Information Systems (NIS) directive, with activities aligned to priorities identified by the Drinking Water Inspectorate. Disaster recovery plans are in place for corporate and operational technology and are subject to regular review.	Medium Increasing	The Group seeks to minimise technology and security risk to the lowest possible level without detrimentally impacting on the Group's operations.

Q: Failure to fully realise the strategic value arising from the acquisition of Bristol Water	<p><i>Long-term priorities</i></p> <p>3</p> <p>The acquisition of Bristol Water is expected to be reviewed by the CMA and a response is expected within the normal timescales. Additionally, the inability to effectively integrate the acquired business could result in a failure to maximise the value of this transaction, impacting on shareholder return.</p>	<p>The Group has maintained a highly disciplined approach during the acquisition process which has been subject to extensive review by the Pennon Board. This has included benchmarking the transaction against a range of metrics including earning accretion, value creation from the impact on shareholder returns (both income and growth) and the impact customers and other stakeholders. The Group has a strong track record of integration, as demonstrated through its acquisition of Bournemouth Water in 2015 which has generated significant benefits for customers and shareholder returns.</p>	<p>Low Stable</p>	<p>Opportunities that support the Group's strategic priorities are assessed against an expected level of return adopting clearly defined factors and metrics.</p>
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STATEMENT OF DIRECTORS' RESPONSIBILITIES

(This statement is extracted from the governance section of the Annual Report 2021 and page numbers referred to are those in the Annual Report 2021.)

The Directors are responsible for preparing the annual report and the Group 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 elected to prepare the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) in conformity with the Companies Act 2006. 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.

Under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules, group financial statements are required to be presented in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions of the Group's financial position and financial performance;
- in respect of the Group financial statements, state whether IFRSs in conformity with the Companies Act 2006 and IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- in respect of the parent company financial statements, state whether IFRSs in conformity with the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company and/or Group will not continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Group'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 Company and Group financial statements comply with the Companies

Act 2006 and, with respect to the Group financial statements, Article 4 of the International Accounting Standards 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with the law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Each of the Directors, whose names and functions are listed on pages 90 and 91, confirms that, to the best of his or her knowledge:

- i. The consolidated financial statements, prepared in accordance with IFRSs in conformity with the Companies Act 2006 and IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the parent company and undertakings included in the consolidation taken as a whole.
- ii. The annual report, including the Strategic Report (pages 2 to 81), includes a fair review of the development and performance of the business during the year and the position of the Company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.
- iii. They consider that the annual report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

RELATED PARTY TRANSACTIONS

(The following is Note 43 to the Financial Statements set out in the Annual Report 2021.)

Group companies entered into the following transactions with joint ventures which were not members of the Group. All transactions listed below related to the Disposal Group and were reported as part of discontinued operations. The year end balances as at 31 March 2020 with joint ventures were included within assets held for sale (see note 44 for further details).

	2021 £m	2020 £m
Sales of goods and services		
INEOS Runcorn (TPS) Limited	3.5	18.2
Purchase of goods and services		
Lakeside Energy from Waste Limited	3.8	12.8
INEOS Runcorn (TPS) Limited	2.2	8.3
Dividends received		
Lakeside Energy from Waste Holdings Limited	-	6.0

Year-end balances

	2021 £m	2020 £m
Receivables due from related parties		
Lakeside Energy from Waste Limited (loan balance)	-	7.1
INEOS Runcorn (TPS) Limited (loan balance)	-	59.5
	-	66.6
Lakeside Energy from Waste Limited (trading balance)	-	1.0
INEOS Runcorn (TPS) Limited (trading balance)	-	1.2
	-	2.2
Payables due to related parties		
Lakeside Energy from Waste Limited (trading balance)	-	1.1
INEOS Runcorn (TPS) Limited (trading balance)	-	1.7
	-	2.8

Company

The following transactions with subsidiary undertakings occurred in the year:

	2021 £m	2020 £m
Sales of goods and services (management fees)	10.5	17.9
Purchase of goods and services (support services)	3.3	0.6
Interest receivable	4.7	43.4
Interest payable	-	0.1
Dividends received	101.8	335.6

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

	2021 £m	2020 £m
Receivables due from subsidiary undertakings		
Loans	26.1	1,225.6
Trading balances	59.9	16.0

Interest on £13.1 million (2020 £13.0 million) of the loans has been charged at a fixed rate of 5%. Interest on £13.0 million (2020 £13.0 million) of the loans has been 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 (2020 £nil).

	2021 £m	2020 £m
Payables due to subsidiary undertakings		
Loans	283.4	284.4
Trading balances	8.6	9.1

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

21 June 2021

www.pennon-group.co.uk

End transmission