

26 November 2019

**Half Year Results 2019/20**  
**for the period ended 30 September 2019**

***Bringing resources to life***

**Chris Loughlin, Pennon Chief Executive said:**

*“Pennon has maintained its positive momentum through the first half of 2019/20, delivering robust performance across our water and waste businesses. We continue to deliver on our promises to customers, communities and shareholders as our strong operational performance and ongoing investments drive tangible, positive and sustainable results.*

*Viridor continues to deliver sustainable growth in UK recycling and residual waste management. Our existing portfolio of Energy Recovery Facilities (ERFs) is consistently outperforming our investment case returns. This underpins Pennon’s earnings growth for 2020 and beyond. Our Recycling division is on a growth trajectory with a new plastics processing facility on track to add much needed capacity in the UK market. With its diversified complementary operations and unique competitive advantages, Viridor is well positioned to take advantage of strong market dynamics and a favourable UK policy environment.*

*South West Water performance is underpinned by strong cost control. We have made an early start on our business plan for 2020-2025 after receiving fast-track status from the regulator for the second consecutive review, the only water company ever to achieve this. Our plan will see customer bills reduce further, with the cost of the average bill lower in 2025 than it is today. Almost two thirds of South West Water employees are shareholders and, from next summer, our ‘New Deal’ will give South West Water customers a financial stake and a say in the business. We have challenged ourselves to be more ambitious on environment and climate action, reducing leakage and targeting net zero carbon emissions by 2030.*

*In September we announced a full review of Pennon’s strategic focus, growth options and capital allocation policy. The review is ongoing and we will announce our conclusions in 2020.”*

## Financial Highlights

<b>Underlying<sup>^</sup></b>	<b>H1 2019/20</b>	<b>H1 2019/20 (excluding IFRS 16 impact<sup>1</sup>)</b>	<b>H1 2018/19</b>	<b>Change<sup>1</sup> (excluding IFRS 16 impact)</b>
Revenue	£712.4m	£712.4m	£746.7m	(4.6%)
EBITDA <sup>^</sup>	£283.9m	£276.8m	£274.0m	+1.0%
Adjusted EBITDA <sup>^</sup>	£311.5m	£304.4m	£294.7m	+3.3%
Operating profit	£180.7m	£179.5m	£178.5m	+0.6%
Profit before tax (PBT)	£142.9m	£143.7m	£142.5m	+0.8%
Non-underlying items before tax <sup>2</sup>	£20.2m	£20.2m	(£8.9m)	-
<b>Profit before tax</b>	<b>£163.1m</b>	<b>£163.9m</b>	<b>£133.6m</b>	<b>+22.7%</b>
Tax	(£29.6m)	(£29.6m)	(£17.6m)	(68.2%)
<b>Profit after tax (PAT)</b>	<b>£133.5m</b>	<b>£134.3m</b>	<b>£116.0m</b>	<b>+15.8%</b>
Adjusted earnings per share <sup>3</sup>	31.1p	31.3p	30.0p	+4.3%
<b>Statutory earnings per share</b>	<b>30.1p</b>		<b>25.6p</b>	<b>+17.6%</b>
Dividend per share <sup>4</sup>	13.66p		12.84p	+6.4%

From 2019/20 the new accounting standard *IFRS 16: Leases* has been adopted, which results in all leases whether operating or financial being treated on a consistent basis within the reported results. Overall there is marginal net impact on the income statement of £0.8 million reducing underlying profit before tax from £143.7 million to £142.9 million and profit before tax from £163.9 million to £163.1 million. For 2019/20 only, to aid the comparability of reported results against the prior period, all figures and narrative in this statement will focus on the results using consistent accounting policies, with references to performance measures excluding the impact of IFRS 16. A full reconciliation of the statutory reported results is included in Item (iii) in the Alternative Performance Measures on pages 70 to 71 of this announcement.

### Pennon Group

- Group performance in line with management expectations
- Underlying PBT up by 0.8% to £143.7 million, resulting from:
  - Viridor EBITDA growth driven by strong performance across all activities, with ERF availability on track for >90% in 2019/20
  - Lower revenues and EBITDA at South West Water reflecting reduced customer demand compared to the elevated level during last year's hot dry summer, net of lower operating costs through continued focus on cost-savings
- Profit before tax (excluding the impact of IFRS 16) up +22.7% to £163.9 million due to efficient financing providing a non-underlying gain of £18.0 million, and a non-underlying gain of £2.2

<sup>^</sup> Measures with this symbol ^ are defined in the Alternative Performance Measures (APMs) as outlined on pages 68 to 73.

<sup>1</sup> Change in performance is calculated on a consistent accounting basis by removing the impact of implementing IFRS 16 leases on the performance measure. A full reconciliation of the statutory reported results to the adjusted results is included in Item (iii) in the Alternative Performance Measures on pages 70 to 71.

<sup>2</sup> Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of financial performance

<sup>3</sup> EPS before deferred tax, non-underlying items and proportionately adjusted for the return on the perpetual capital securities (Note 8)

<sup>4</sup> The RPI rate used is 2.4% as of 30 September 2019.

million from aspects of the finalisation of pension commitments relating to the exit from the Greater Manchester contract

- Statutory earnings per share up +17.6% to 30.1p
- Interim dividend per share up +6.4% to 13.66p
- Cash flow from operations reflecting robust operational performance, whilst significant capital investment across the Group continues

## **Viridor**

- Excellent track record, successful growth – capitalising on favourable UK policy environment
- Focus on infrastructure model, de-risked through index-linked, long-term contracts
- Good operational performance and EBITDA growth in H1 2019/20 across Viridor's complementary activities with EBITDA up +9.9%
  - Build out of ERFs supporting strong, profitable growth – performing consistently in excess of investment case returns
  - Portfolio of 10 operating ERFs on track to deliver full-year availability >90% for the fourth consecutive year, with planned maintenance weighted to H1
  - Optimisation ongoing at Glasgow, Beddington and Dunbar ERFs through operational ramp-up process
  - Robust volumes and pricing in landfill and landfill gas – strong engine availability and gas collection
  - Resilient performance in recycling with continued focus on quality
  - Driving ongoing efficiencies in indirect costs
- Confidence in long-term market outlook
  - Well placed to benefit from substantial imbalance of supply and demand for ERFs and plastics recycling
- Growth through investment in ERFs, plastics recycling activities and Energy Parks
  - Avonmouth ERF on track for commissioning in H2 2019/20
  - Joint Venture with Grundon Waste Management Limited for a new ERF at Ford, West Sussex – heads of terms signed
  - Construction at our £65 million Avonmouth plastics recycling facility underway – c.85% of inputs and c.75% of offtake now contracted with third parties
  - Energy Park development – contract signed for the private wire agreement at Beddington ERF – offtake up to 27 MWs for up to 25 years
- Visible pipeline of future growth projects
  - Exploring two further co-located plastics recycling facilities at Ardley and Dunbar ERFs
  - Two additional ERFs being considered as market fundamentals remain favourable
  - Leveraging value from Viridor's asset base through Energy Park opportunities

## **South West Water**

- Delivering for our customers
  - Bills lower today than they were 10 years ago
  - Upper quartile in Ofwat's Service Delivery report for 2018/19
  - Improving operational performance – written complaints down 15%, reducing pollution incidents, and reducing supply interruptions
  - On track to meet our leakage target – met every year since inception
  - c.99% of bathing waters meeting the quality standard – c.83% achieved excellent status
  - H1 2019/20 return on regulated equity (RORE) 11.9% – cumulative RORE for K6 11.8%
  - WaterShare delivering £121 million of cumulative outperformance to be shared with customers
- Continuing momentum for K7 (2020-25)
  - Highest potential outperformance for K7 – confidence in outperformance across all areas
  - Delivering early investments to target ODI rewards – laying the foundations for future performance
  - Innovation at the centre of our plans for the next regulatory period – international collaboration agreements signed and UK Innovation Centre launched
- Working in the public interest – 'New Deal' for our customers and communities
  - Improving our impact on the environment – reducing leakage by 15% by 2025
  - Targeting net zero carbon emissions by 2030
  - Delivering our WaterShare+ commitment – empowering customers, giving them a stake and say in our business

## **Pennon Water Services**

- Robust performance in a competitive market
  - Gaining national customers with multi-year contracts
  - Focused on a broader customer offering including value-added services as well as reducing costs and driving efficiency

## Presentation of Results

A presentation for City audiences will be held today, Tuesday 26 November 2019, at 09.00am at The Lincoln Centre, 18 Lincoln's Inn Fields, Holborn, London, WC2A 3ED.

A live webcast of the presentation can also be accessed using the following link:

<http://www.pennon-group.co.uk/investor-information>

### For further information, please contact:

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## PENNON BUSINESS REVIEW & OUTLOOK

Pennon has maintained its positive momentum through the first half of 2019/20, delivering a strong performance from both our water and waste businesses. We continue to deliver on our promises to customers, communities and shareholders as our investments drive tangible, positive and sustainable results for all our stakeholders. Over 60% of Pennon's shareholders are UK pension, savings, charities, individuals and employees, with almost two thirds of South West Water's employees being shareholders. Viridor continues to perform strongly across its recycling and residual waste processing and transformation operations. South West Water has made an early start on the business plan for K7 (2020-25) after receiving fast-track status from the regulator, Ofwat, for the second consecutive review, the only water company ever to achieve this.

### Viridor: Confident outlook – unique platform for growth

Viridor is focused on delivering UK recycling and residual waste processing and transformation. Over recent years the business has been re-positioned to focus on a de-risked infrastructure model, with investment backed by profitable, index-linked, long-term contracts. We believe there are continued favourable waste market dynamics in both recycling and residual waste, supporting opportunities for further investment and growth.

We expect the UK ERF capacity gap to be around seven million tonnes (mT) to 2035<sup>5</sup>. Viridor's portfolio of ten operating ERFs are performing well with optimisation and operational ramp-up underway for the Glasgow, Beddington and Dunbar ERFs commissioned in 2018/19.

Viridor continues to expand its ERF portfolio with the construction at Avonmouth progressing to budget and commissioning planned during H2 2019/20. Operational ramp-up is expected during

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<sup>5</sup> Source: Tolvik, Defra, SEPA, NRW, MSW and Viridor analysis net of Refuse Derived Fuel (RDF) export analysis

2020/21. During H1 2019/20, Viridor also signed heads of terms with Grundon Waste Management Limited for a new ERF joint venture in Ford, West Sussex. A site with outline planning permission has been identified, which is neighbouring one of our existing materials recycling facilities and Grundon Waste Management Limited's waste transfer station, giving rise to potential Energy Park benefits. Viridor also continues to assess two further ERF opportunities. We believe our landfill portfolio complements the combustible residual waste strategy, with a requirement for a landfill solution into the medium/long term.

The 'Blue Planet' effect continues to encourage action and we were pleased to see the Resources & Waste Strategy published in December 2018. The strategy has cross-party support and is expected to be brought into effect through the Environment Bill once Parliament returns after the General Election. Whilst the recycling market has been challenging, with changing public perception and Government support for recycling and the UK Plastics Pact outlining a roadmap with targets to 2025, we are confident in the long-term market outlook.

We view plastics reprocessing as an exciting area of growth and see opportunities to further increase our market share in this area. Viridor's £65 million plastics processing facility, co-located with Avonmouth ERF, remains on track for contribution to earnings in 2020/21. Viridor has now secured c.85% of inputs and c.75% of offtake contracts including the recently announced contract with Unilever, creating a viable and sustainable alternative to virgin plastic. Once commissioned, Viridor will process virtually all of its recyclable plastic in the UK. We see strong market fundamentals in plastics recycling and processing and we are exploring investment opportunities for two further reprocessing facilities co-located with our ERFs at Ardley in Oxfordshire and Dunbar, near Edinburgh.

### **South West Water: strong foundations for continued outperformance into K7**

South West Water continues to perform strongly in the final year of this regulatory period. It continues to lead the industry with a cumulative Return on Regulated Equity (RORE) of 11.8% and is one of the only companies to have outperformed on every measure for each year of K6: total expenditure (totex), financing and Outcome Delivery Incentives (ODIs).

Cumulative totex savings for the 2015-20 period to date are £268 million and are on track to deliver the c.£300 million savings targeted. This demonstrates continued focus on cost efficiency and the use of innovation to deliver operational improvements at a lower cost for the benefit of our customers.

We know that delivering a resilient service in South West Water is critical for our customers, with no water restrictions for the 23rd consecutive year. South West Water has delivered further benefits for customers through our innovative WaterShare mechanism with around £121 million of benefits achieved since 2015. Customers will continue to benefit from reinvestment in services and lower bills into the next period.

South West Water was pleased to be awarded fast-track status for its K7 business plan by Ofwat earlier in the year, the only water company ever to achieve this in two consecutive price reviews. This has enabled us to start planning and making early investments to target ODI rewards earlier in the next regulatory period. The key focus for our business plan is empowering customers through a 'New Deal' – giving customers a stake and a say through our innovative WaterShare+ mechanism. The option for customers to have a shareholding and participate in customer AGMs gives them a tangible stake in our business through the outperformance delivered and will further ensure customers are at the heart of our business.

### **Pennon Water Services: Focus on customer service and delivery**

Pennon Water Services (PWS), our 80:20 retail venture with South Staffordshire Plc, continues to perform robustly in a competitive market gaining national customers with multi-year contracts, serving over 160,000 customer accounts across 18 different wholesale regions. We are focused on a broader customer offering including value added services supporting our goal of being the retailer of choice.

### **Strategic review of focus, growth options and capital allocation for the Group underway**

Given the strong financial performance and operational progress of the Group, coupled with the imminent start of the new K7 regulatory delivery period for South West Water and the near and medium-term growth opportunities at Viridor, the Pennon Board has concluded that it is an appropriate time to conduct a full review of the strategic focus, growth options and capital allocation policy for the Group. The review is ongoing and we will announce our conclusions in 2020.

### **Dividend policy**

Whilst delivering on our promises to customers and communities, Pennon's long established 10-year dividend policy delivers 4% year-on-year growth above RPI inflation to 2020 to shareholders. The dividend policy to 2020 has been supported by our sustainable growth strategy and is underpinned by the highest return on regulated equity in the water sector over K6 (2015-20) and the growth in earnings delivered by Viridor's operations.

For H1 2019/20, the Board has declared an interim dividend of 13.66p, an increase of 6.4%. The interim dividend will be paid on 3 April 2020 to shareholders on the register on 24 January 2020. Pennon offers shareholders the opportunity to invest their dividend in a Dividend Reinvestment Plan (DRIP).

## **Interim dividend payment information**

23 January 2020	Ordinary shares quoted ex-dividend
24 January 2020	Record date
6 March 2020	Final date for receipt of DRIP applications
3 April 2020	Interim dividend payment date

## **Upcoming Events**

30 March 2020	Trading Statement
4 June 2020	Full Year Results 2019/20
23 July 2020	Annual General Meeting
25 September 2020	Trading Statement
24 November 2020	Half Year Results 2020/21



## PENNON FINANCIAL PERFORMANCE

Underlying	H1 2019/20	H1 2019/20 (excluding IFRS 16 impact)	H1 2018/19	Change (excluding IFRS 16 impact)
Revenue	£712.4m	£712.4m	£746.7m	(4.6%)
EBITDA	£283.9m	£276.8m	£274.0m	+1.0%
Adjusted EBITDA	£311.5m	£304.4m	£294.7m	+3.3%
Depreciation and amortisation	(£103.2m)	(£97.3m)	(£95.5m)	(1.9%)
Operating profit	£180.7m	£179.5m	£178.5m	+0.6%
Net interest	(£45.1m)	(£43.1m)	(£40.8m)	(5.6%)
Share of JV profit after tax	£7.3m	£7.3m	£4.8m	+52.1%
Profit before tax (PBT)	£142.9m	£143.7m	£142.5m	+0.8%
Non-underlying items before tax <sup>6</sup>	£20.2m	£20.2m	(£8.9m)	-
<b>Profit before tax</b>	<b>£163.1m</b>	<b>£163.9m</b>	<b>£133.6m</b>	<b>+22.7%</b>
Tax	(£29.6m)	(£29.6m)	(£17.6m)	(68.2%)
<b>Profit after tax (PAT)</b>	<b>£133.5m</b>	<b>£134.3m</b>	<b>£116.0m</b>	<b>+15.8%</b>
PAT (attributable to holders of hybrid capital)	£7.0m	£7.0m	£8.6m	(18.6%)
PAT (attributable to minority interests)	(£0.1m)	(£0.1m)	(£0.1m)	-
PAT (attributable to shareholders)	£126.6m	£127.4m	£107.5m	+18.5%
Adjusted earnings per share <sup>7,8</sup>	31.1p	31.3p	30.0p	+4.3%
<b>Statutory earnings per share</b>	<b>30.1p</b>		<b>25.6p</b>	<b>+17.6%</b>
Dividend per share <sup>9</sup>	13.66p		12.84p	+6.4%
Capital investment <sup>10</sup>	£172.0m		£200.6m	(14.3%)
South West Water	£77.6m		£68.6m	+13.1%
Viridor <sup>10</sup>	£94.4m		£131.9m	(28.4%)
Other	-		£0.1m	(100.0%)
	<b>30 September 2019</b>	<b>30 September 2019 (excluding IFRS 16 impact)</b>	<b>31 March 2019</b>	<b>Change (excluding IFRS 16 impact)</b>
Net debt	£3,296.0m	£3,177.7m	£3,079.5m	+3.2%

<sup>6</sup> Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance

<sup>7</sup> EPS before deferred tax, non-underlying items and proportionately adjusted for the return due on the perpetual capital securities

<sup>8</sup> Weighted average number of shares for H1 2019/20 of 420.0 million (H1 2018/19 419.3 million)

<sup>9</sup> The RPI rate used is 2.4% as of 30 September 2019

<sup>10</sup> Including construction spend related to service concession arrangements net of amounts subject to legal contractual process

## **Non-underlying items before tax**

Non-underlying items for the half year total a credit of £20.2 million (H1 2018/19 charge of £8.9 million). The Directors believe excluding non-underlying items provides a more useful comparison on business trends and performance.

The non-underlying credit of £20.2 million is a result of:

- The movement in the fair value of long-dated derivatives associated with South West Water's 2040 bond. These derivatives no longer met the Group's accounting hedging requirements and early settlement enabled South West Water to lock in a 'mark to market' gain. This has resulted in the recognition of a pre-tax credit of £18.0 million (H1 2018/19 charge of £8.9 million) and cash proceeds on termination of the derivative of £87.2 million
- Aspects of the closedown of defined benefit pension commitments following the cessation of the Greater Manchester recycling operating contract have resulted in a pre-tax credit of £2.2 million (H1 2018/19: £nil).

## **Delivering results responsibly for all stakeholders**

Our businesses provide essential services to local communities. We have a responsibility to deliver these well and our customers depend on our ability to operate in a sustainable way. Our approach ensures we are aligned and integrated with our values; trusted, responsible, collaborative and progressive.

We are at the forefront of sustainable financing through our successful financing framework and were the first water and waste company to achieve the Fair Tax Mark accreditation, which demonstrates transparency and best practice across the Group.

## **Robust Group underlying financial performance**

### *IFRS 16: Leases*

From 1 April 2019 the new accounting standard IFRS 16: *Leases* has been adopted, which results in all leases, whether operating or financing leases under the previous IAS 17 classifications, being treated on a consistent basis within the reported results with the lease being recognised as a liability on the balance sheet along with an associated right of use asset. Overall there is marginal net impact on the income statement and the balance sheet. The impacts from the implementation are:

- At 1 April 2019, recognition of £108 million of right of use assets within property, plant and equipment and £121 million of lease obligations (these lease obligations are excluded for the purposes of banking covenants)
- £7.1 million increase in EBITDA in H1 2019/20 (reflecting the removal of operating lease rentals)

- £5.9 million increase in depreciation in H1 2019/20 (arising from the depreciation on the newly recognised right of use assets)
- £2.0 million increase in interest charges in H1 2019/20 (reflecting the interest on the newly recognised lease liabilities)
- £0.8 million overall reduction profit before tax in H1 2019/20.

For 2019/20 only, to aid the comparability of reported results with the prior period, all figures and narrative are on a consistent accounting basis with references to performance measures excluding the impact of IFRS 16. A full reconciliation is included in item (iii) on pages 70 and 71 of this announcement.

## **Financial performance in line with expectations for 2019/20**

### **Revenue**

Group revenue in H1 2019/20 decreased by 4.6% (£34.3 million) to £712.4 million due to the planned cessation of the Greater Manchester recycling operating contract and lower landfill tax receipts in Viridor and in South West Water, lower customer demand in H1 2019/20 as the exceptionally hot, dry summer last year, which resulted in higher revenue, has not been repeated. In Pennon Water Services revenue has increased reflecting continued robust performance.

### **EBITDA**

Good operational cost control across the Group and strong performance across Viridor's activities has resulted in Group EBITDA and adjusted EBITDA being ahead of the same period last year by 1.0% and 3.3%, respectively. The increase between EBITDA and adjusted EBITDA is being driven by the strong performance of Viridor's joint ventures in the Lakeside and Runcorn I ERFs.

### **Net Finance Costs**

Underlying net finance costs of £43.1 million are £2.3 million higher than the prior half year (H1 2018/19 £40.8 million), primarily due to the change in treatment of interest charges on construction as the Beddington, Glasgow and Dunbar ERFs have become operational.

The Group continues to secure funding at a cost that is efficient with the effective interest rate reducing to 3.5% (H1 2018/19 3.6%), reflecting lower margins on new and renewed financing.

The effective interest rate for the Group is calculated after adjusting for capitalised interest of £6.1 million (H1 2018/19: £8.3 million), notional interest items totalling £5.8 million (H1 2018/19: £6.3 million), interest received from shareholder loans to joint ventures of £3.4 million (H1 2018/19: £2.5 million) and IFRIC 12 interest receivable of £7.4 million (H1 2018/19: £7.3 million).

During H1 2019/20 underlying net finance costs (excluding pensions net interest costs of £0.8 million, discount unwind of provisions of £5.0 million and IFRIC 12 notional interest receivable of £7.4 million)

were £54.2 million, covered 4.0 times by Group operating profit (H1 2018/19 £52.6 million and 4.4 times).

### **Profit before tax**

Group underlying profit before tax was £143.7 million, an increase of 0.8% compared with the prior half year (H1 2018/19 £142.5 million). Underlying profit before tax includes the Group's share of joint venture profit after tax of £7.3 million (H1 2018/19 £4.8 million), which has increased by 52.1% following strong operational performance and the acquisition of a further 37.5% of the economic interest in Runcorn I ERF in H2 2018/19. Profit before tax was £163.1 million (H1 2018/19 £133.6 million) reflecting a non-underlying credit before tax of £20.2 million (H1 2018/19 non-underlying charge of £8.9 million) and £0.8 million reduction in profit before tax arising from the implementation of IFRS 16.

### **Taxation**

The Group's underlying mainstream UK corporation current tax charge for the half year (before prior year adjustments) was £13.7 million, reflecting an effective tax rate of 9.6% (H1 2018/19 charge of £15.6 million, 10.9%), which has reduced due to the current tax impact of the accelerated pension deficit recovery payment. The consistent lower effective rate versus the UK's mainstream corporation tax rate of 19% reflects the accelerated level of capital allowance claims available to the Group compared to the Group depreciation charge. There was a prior year credit of £4.9 million recognised for the half year (H1 2018/19 credit of £3.2 million), as previous uncertain tax items have been clarified.

Underlying deferred tax for the period (before prior year adjustments) was a charge of £13.1 million (H1 2018/19 charge £12.2 million). The charge for H1 2019/20 primarily reflects capital allowances across the Group in excess of depreciation charged. There was a prior year deferred tax charge of £2.5 million recognised for the period (H1 2018/19 £5.3 million credit), partially offsetting the prior year current tax credit of £4.9 million, as previous uncertain tax items have been clarified.

In addition, in H1 2019/20 there is a non-underlying net tax charge of £5.2 million<sup>11</sup> (2018/19 H1 £1.7 million net tax credit) relating to the non-underlying movement in the fair value of long-dated derivatives associated with South West Water's 2040 bond of £4.8 million and the transfer of pension liabilities upon exit from the Greater Manchester recycling operating contract of £0.4 million.

Overall the total tax charge for the period was £29.6 million (H1 2018/19 charge of £17.6 million). The Group's taxes borne and collected (those that are a cost to the Group and those where the

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<sup>11</sup> £5.2 million net tax charge: £16.3 million current tax charge and £11.1 million deferred tax credit

business acts as a collector of taxes) results in a total tax contribution of £141 million<sup>12</sup> being paid to the Government.

### **Earnings per share**

Statutory earnings per share and adjusted earnings per share (on an underlying basis before deferred tax) have increased by 17.6% at 30.1p (H1 2018/19 25.6p) and 3.7% at 31.1p (H1 2018/19 30.0p) respectively. Adjusted earnings per share (excluding the impact of IFRS 16) increased by 4.3% to 31.3p. From 2019/20 the 2017 perpetual capital securities qualify for tax relief, following a change in legislation. The relief for 2019/20, accounted for in full in H1 2019/20 is £1.6 million, increasing earnings per share by 0.4p. The growth in earnings per share is benefiting from the non-underlying gain on the long-dated derivatives and pension settlements.

### **Robust cash inflow from operations, continuing investment in future growth**

The Group's operational cash inflows in H1 2019/20 were £339.8 million (H1 2018/19 £266.6 million). These funds have been used in efficiently financing the Group's capital structure and investing in future growth. This investment has resulted in higher Group net debt.

Contributions into the Group's pension schemes for the half year were £37.9 million (H1 2018/19 £8.5 million), including a voluntary £17.2 million accelerated deficit recovery payment. Corporation tax payments were £26.8 million (H1 2018/19: £12.2 million) reflecting the changes in legislation for the timing of payments on account. Total tax payments reflecting all taxes borne by the Group in H1 2018/19 were £75.7 million<sup>13</sup> (H1 2018/19 £63.4 million).

### **Sustainable funding position underpinning investment**

The Group has a strong liquidity and funding position with £1,600 million of cash and committed facilities at 30 September 2019 with c.£800 million of headroom for investment. This consists of cash and deposits of c.£530 million (including £209 million of restricted funds representing deposits with lessors against lease obligations) and undrawn facilities of £1,070 million. At 30 September 2019 the Group's borrowings totalled £3,706 million, excluding £118 million of obligations now classified as leases under IFRS 16.

Pennon has created and pioneered a Sustainable Financing Framework to integrate commitments to environmental and social objectives into a variety of funding opportunities across the Group. £655 million of sustainable funding has been raised cumulatively to 30 September 2019:

- £230 million against Pennon Group's ESG performance
- £90 million green long-funding lease facilities

<sup>12</sup> Total tax contribution includes landfill tax collected and borne, VAT, business rates, employment taxes, corporation tax, fuel excise duty, carbon reduction commitment, environmental payments and climate change levy

<sup>13</sup> Total tax includes corporation tax, business rates, employers' national insurance, fuel excise duty, carbon reduction commitment, environmental payments, climate change levy and external landfill tax

- £260 million from sustainability-linked counterparties
- £75 million against South West Water bathing water targets.

This progressive approach to financing maximises the availability of financing at efficient rates and increases the speed of execution through the framework.

Noting the announced potential abolition of LIBOR in 2021, South West Water has completed the first LIBOR to SONIA amendment for a sustainable Revolving Credit Facility (RCF). Whilst financial institutions finalise the precise workings of the successor measure to LIBOR, widely expected to be SONIA, this amendment to an existing facility allows the Group to address documentation and early system changes that will be required.

During September 2019 the Group early settled the fixed to floating derivatives associated with the South West Water Finance Plc 2040 bond. The settlement locked in value and removed future volatility from the income statement. This resulted in a cash inflow of £87.2 million, which will be utilised to fund South West Water's capital commitments.

Financing in place to support operations has increased in the six months to 30 September 2019 through the following facilities:

- £500 million Pennon RCF has been signed, which provides the Group with flexible, efficient and effective funding during the ongoing strategic review
- £85 million of new facilities secured for South West Water including a £25 million sustainable RCF.

Since the 30 September 2019, £190 million of further funding for South West Water has been raised bringing the total sustainable financing to date to £845 million:

- £50 million sustainable CPI-linked loan facility, maintaining South West Water's proportion of index-linked net debt in line with Ofwat's notionally funded company and supporting Ofwat's transition from RPI to CPI
- £140 million term loan with delayed drawdown capabilities to support South West Water's sustainable projects into the next regulatory period.

As a result, Pennon has cash and committed facilities covering planned expenditure and funding requirements for the period out to March 2022.

### **Efficient long-term financing strategy**

The Group has a diversified funding mix of fixed (£2,089 million, 66%), floating (£519 million, 16%) and index-linked borrowings (£570 million, 18%). The Group's debt has a maturity of up to 38 years with a weighted average maturity of c.18 years. Much of the Group's debt is floating rate and derivatives are used to fix the rate on that debt. The Group fixed, or put swaps in place to fix, the

interest rate on a substantial portion of the existing water business debt for the entire K6 period, in line with the Group's policy for this regulatory period to have at least 50% of funding fixed.

South West Water's cost of finance is amongst the lowest in the industry. Around two thirds of South West Water's net debt has been raised from finance leases (as previously defined under IAS 17) which provide a long maturity profile. Interest payable benefits from the fixed credit margins which are secured at the inception of each lease. £522 million (c.25%) of South West Water's debt is index-linked at an overall real rate under 2.0%. This represents a quarter of the net funding for South West Water, a level below Ofwat's notional level of 33%, which we believe gives an advantageous position given the RPI to CPIH transition.

Following the submission of the K7 (2020-25) South West Water business plan and the resulting Draft Determination from Ofwat, the Group is aligning the hedging for the next regulatory period with the changed regulatory methodology. A proportion of new debt will be hedged in K7 on a rolling ten-year basis whilst still maintaining flexibility within the overall portfolio. Our embedded debt hedging is aligned with the five-year regulatory delivery period. Around 50% of South West Water's embedded floating net debt has already been hedged into K7 during the last 12 months, taking advantage of falling swap rates.

### **Net debt position**

In the first half of 2019/20 the Group's net debt increased by £98 million, to £3,178 million. Following the implementation of IFRS 16, an additional £118 million of debt has been recognised on the balance sheet as at 30 September 2019 primarily representing the discounted future lease obligations for operational land and properties. For the purposes of banking covenants these lease obligations are excluded from net debt.

Cash inflow from operations for H1 2019/20 was £340 million, compared to £267 million for H1 2018/19, an increase of £73 million. Cash outflows relating to the capital programme totalled £193 million<sup>14</sup>, (H1 2018/19: £192 million). The gearing ratio at 30 September 2019, being the ratio of net debt to (equity plus net debt), was 66.3% reflecting this investment in growth capital expenditure (31 March 2019 64.7%, 30 September 2018 65.5%) and is expected to reduce by the year end, given the timing of dividend payments.

The combined South West Water and Bournemouth Water debt to RCV ratio is 63.1%<sup>15</sup> (31 March 2019 58.9%, 30 September 2018 61.9%) aligned with Ofwat's K6 target for efficient gearing of 62.5%. During the half year South West Water also made a voluntary accelerated pension deficit recovery payment of £17.2 million covering two years of planned payments, adding 0.5% to gearing.

<sup>14</sup> Includes net proceeds from sale of property, plant and equipment and spend on service concession arrangements (before amounts subject to legal contractual process)

<sup>15</sup> Based on Regulatory Capital Value (RCV) at 31 March 2019 and South West Water group net debt (excluding the impact of IFRS 16). Regulatory gearing is 65.8% at 30 September 2019 (62.1% at 30 September 2018)



Group net debt includes £2,212 million for South West Water with the remaining £966 million supporting investment in Viridor growth and expansion.

### **Reducing capital investment as current ERF build out nears completion**

Group capital investment was £172 million<sup>16</sup> in H1 2019/20 compared with £201 million in H1 2018/19.

#### *Viridor*

Capital expenditure in the period amounted to £94.4 million, down £37.5 million from the prior period (H1 2018/19 £131.9 million) with the ERF assets now operational. The majority of the expenditure continues to relate to the ERF portfolio, principally the continued development of Avonmouth ERF on track for commissioning in H2 2019/20. Other larger projects in the period include the commencement of construction of the £65.0 million Avonmouth plastics recycling facility and the £15.4 million refurbishment and upgrade of the Masons materials recycling facility in Suffolk.

Ongoing restoration and remediation programmes continue for our landfill assets, ensuring we meet or exceed our environmental duties and responsibilities.

#### *South West Water*

South West Water's capital expenditure in the first half of the year was £77.6 million, compared with £68.6 million in H1 2018/19 with the profile aligned with the K6 capital plan, but with additional expenditure to make an early start on key K7 initiatives focused on ODI delivery.

Key areas of investment<sup>17</sup> and activity during H1 2019/20 included:

- Further investments in our drinking water quality programme work now underway to install Granular Activated Carbon (GAC) treatment at College water treatment works in Cornwall. This £10 million project will improve the resilience of our water quality for c.35,000 customers
- Schemes to deliver National Environment Programme (NEP) commitments, including phosphorus and ammonia discharge reductions
- Continued improvements at wastewater treatment works, including flood resilience
- Investment for growth to meet increases in supply and demand
- Ongoing commissioning of Mayflower water treatment works and early preparations for the new treatment works in Bournemouth.

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<sup>16</sup> Including construction spend relating to service concession arrangements, capitalised interest of £6.1 million (H1 2018/19 £8.3 million), ERF maintenance, net of amounts subject to legal contractual process

<sup>17</sup> Infrastructure spend (IRE) was £11.7 million capital and £6.3 million operating expenditure



## **Pensions**

The Group operates defined benefit pension schemes for certain employees of Pennon Group. The main schemes were closed to new entrants on or before 1 April 2008.

At 30 September 2019 the Group's pension schemes showed an aggregate deficit (before deferred tax) of £38.5 million (March 2019 £60.8 million), a reduction of £22.3 million. The key movements are as a result of:

- £34.0 million contributions including £17.2 million following the Group's decision to voluntarily accelerate a significant proportion of the planned deficit recovery payments
- A further reduction in corporate bond yields (used to discount the liabilities under IAS 19) of 0.6% from 2.4% at 31 March 2019 to 1.8% at 30 September 2019
- Greater Manchester recycling operating contract cessation has decreased liabilities by £14.4 million.

During H1 2019/20, South West Water made a capital structure dividend payment to ensure the gearing profile was aligned with Ofwat's assessment of a notional company structure. Aligned with our approach to dividends for South West Water, we have considered the remaining agreed pension deficit recovery payments and accelerated these, recognising that obligation.

The last actuarial valuation was in 2016, where contributions, including the recovery plan of annual deficit contributions to 2022 (in line with the 2014 Final Determination allowances) were agreed. The 2019 triennial valuation for the Group's principal scheme is underway and is expected to conclude in the first half of 2020.

The net aggregate liabilities of £32.0 million (after deferred tax) represented around 1% of the Group's market capitalisation at 30 September 2019.

As at 30 September 2019, £19 million of the pension liability relates to two schemes operated by the Group in connection with the Greater Manchester recycling operating contract. Following the planned exit from the Greater Manchester recycling operating contract, it is expected that all previously active members of these schemes at 31 May 2019, the date of contract exit, will be transferred to the new operator's pension scheme. In the results to 30 September 2019, a non-underlying credit of £2.2 million has been recognised in the income statement in connection with active employees moving to deferred status in these schemes. As a result of the contract termination a surplus amount relating to one of the pension schemes associated with this contract now becomes recoverable. Accordingly, a gain of £12.2 million, along with an associated tax charge of £2.3 million, have been recognised in the statement of comprehensive income. On a net basis no additional material IAS 19 charges are expected to arise on transfer of the remaining liabilities.

## **Energy hedging**

Pennon has adopted a Group portfolio management approach to energy hedging. Currently around 50% of volumes generated are either used within the Group (South West Water and Viridor) or contracted for the long-term through private wire offtake agreements (c.40% for Viridor internal usage). The new growth opportunities for energy parks will increase the Group position to c.60% (c.50% for Viridor alone).

The Group has the ability to hedge the pricing for its generation for periods up to five years ahead, further helping to protect revenues. Forward hedges not already under long-term contracts or naturally hedged within the Group have been put in place in the liquid market with the Group c.100% hedged until March 2020, c.90% hedged until March 2021 and c.75% hedged until March 2022 for its energy (generation net of internal usage of electricity). The energy portfolio management team continues to actively manage the Group net energy generation position in liquid markets.

## VIRIDOR PERFORMANCE

### Strong delivery in H1 2019/20

Underlying	H1 2019/20	H1 2019/20 (excluding IFRS 16 impact)	H1 2018/19	Change (excluding IFRS 16 impact)
Revenue <sup>18</sup>	£388.1m	£388.1m	£422.3m	(8.1%)
EBITDA	£92.4m	£86.2m	£78.4m	+9.9%
<i>ERFs</i>	£71.4m	£71.0m	£66.6m	+6.6%
<i>Landfill</i>	£4.6m	£4.4m	£3.8m	+15.8%
<i>Landfill gas</i>	£11.1m	£11.1m	£8.1m	+37.0%
<i>Recycling</i>	£10.1m	£7.6m	£7.4m	+2.7%
<i>Contracts, Collections &amp; Other</i>	£21.0m	£18.5m	£20.3m	(8.9%)
<i>Indirect costs</i>	(£25.8m)	(£26.4m)	(£27.8m)	+5.0%
Depreciation and amortisation	(£43.7m)	(£38.5m)	(£36.2m)	(6.4%)
Share of JV profit after tax	£7.3m	£7.3m	£4.8m	+52.1%
Net interest	(£14.5m)	(£13.1m)	(£10.8m)	(21.3%)
Profit before tax	£41.5m	£41.9m	£36.2m	+15.7%
Share of JV EBITDA	£20.2m	£20.2m	£13.4m	+50.7%
IFRIC 12 interest receivable	£7.4m	£7.4m	£7.3m	+1.4%
Adjusted EBITDA	£120.0m	£113.8m	£99.1m	+14.8%

### Revenue

Viridor revenues reduced by 8.1% (£34.2 million) due to the expected cessation of the Greater Manchester recycling operating contract and lower landfill tax receipts as landfill volumes declined following the net closure of two sites in the period. After taking into account overhead savings in relation to the Greater Manchester recycling operating contract exit, these lower revenues had a minimal profit impact.

Recycling revenue per tonne increased by 11% to £122 (H1 2018/19 £110) reflecting the mix of recycling focused on higher quality materials. Despite the closure of landfill sites and lower volumes the average gate fees remained stable at £22 (H1 2018/19 £22).

### EBITDA

In H1 2019/20, Viridor's EBITDA increased by 9.9%, underpinned by a solid performance in the ERF business. The ten operational facilities are performing well with availability on track to exceed 90% for the full financial year. Availability for H1 2019/20 was 86% compared to 89% in H1 2018/19 as

<sup>18</sup> Including landfill tax and construction spend on service concession arrangements

the newer ERFs ramp up to optimal availability levels; excluding these assets in ramp up, availability was 89%.

Despite a reduction in landfill volumes, following two site closures, cost efficiencies have generated an increase in EBITDA of 15.8% to £4.4 million (H1 2018/19 £3.8 million).

The landfill gas business has performed well in H1 2019/20 benefiting from the strategy implemented in the previous financial year to invest in more efficient engines. The resulting improvements in reliability and favourable landfill gas pricing have resulted in a 37.0% increase in EBITDA to £11.1 million (H1 2018/19 £8.1million). Average revenue per megawatt hour (MWh) increased by 24% to £107 (H1 2018/19 £87), with the average margins increasing to £55 (H1 2018/19 £39).

Recycling EBITDA at £7.6 million (H1 2018/19 £7.4 million) is consistent with the prior half year with pricing pressures in the global recycling markets for paper offset by Viridor's continued focus on investing in the most valuable recycling markets. As a result, EBITDA margin has increased by £3 per tonne (25%) to £15 per tonne (H1 2018/19 £12 per tonne).

Contracts, collections and other EBITDA reduced marginally by £1.8 million to £18.5 million (H1 2018/19 £20.3 million). During H1 2019/20 Viridor successfully repurposed a landfill site for alternative use, with the resulting sale crystallising a profit of around £2.0 million. The 'run-off' contract for recycling operations with Greater Manchester Waste Disposal Authority has now successfully transitioned to the new operator. Although this has led to lower volumes and revenue, it has had a limited impact upon Viridor's earnings.

Viridor's indirect costs have continued to fall, down 5.0% to £26.4 million (H1 2018/19 £27.8 million), in part due to overhead savings following the planned exit from the Greater Manchester recycling operations contract.

Joint venture EBITDA has increased from £13.4 million in H1 2018/19 to £20.2 million, an increase of 50.7%. This is a result of the purchase of a greater economic interest in Runcorn I in December 2018 (increasing the economic interest in INEOS Runcorn (TPS) Holdings from 37.5% to 75.0%) and the high levels of availability achieved at both the Runcorn I and Lakeside ERFs. The joint venture at Lakeside ERF (a 50:50 joint venture with Grundon Waste Management Limited) continues to outperform its original targets for both waste processing and power generation and is on track for full year availability to be in excess of 90%.

IFRIC 12 interest receivable, associated with certain ERFs, at £7.4 million is in line with H1 2018/19 of £7.3 million.

Viridor has delivered both robust operational and financial performance across the business from our existing portfolio of assets.

	H1 2019/20	H1 2018/19
Total Waste Inputs (mT)	3.1	3.5
ERFs	1.4	1.0
Landfill	0.7	0.9
Recycling and Other	1.0	1.6
Recycling Volumes Traded (mT)	0.5	0.6
ERF availability – fully operational	89%	89%
ERF availability – all assets	86%	86%

### Leading UK waste management core infrastructure business

Viridor is focused on delivering UK recycling and residual waste processing and transformation. Over recent years the business has been re-positioned to focus on a de-risked infrastructure model, with investment backed by profitable, index-linked long-term contracts. We have a strong track record of diversification and growth through our complementary portfolio of activities: collections, landfill, recycling and ERFs.

We remain confident in the UK waste market fundamentals and believe there are continued favourable waste market dynamics in both recycling and residual waste providing a unique platform for growth. Viridor is well placed to benefit from the imbalance of supply and demand for ERFs and plastics recycling in addition to leveraging our existing asset base through Energy Park opportunities.

### Residual Waste

#### *Continued momentum of our ERF portfolio*

Our existing portfolio of 10 assets, including the three sites progressing through their operational ramp up, have performed well. EBITDA has increased by 6.6% (£4.4 million) to £71.0 million in the period, principally through good operational performance and from securing some beneficial new input contracts. Assets in operational ramp-up have moved from contractual financial contributions in H1 2018/19 to full operating financial contributions in H1 2019/20. All our fully operational ERFs have successfully completed their major annual outage maintenance programmes<sup>19</sup> and the portfolio remains on track to achieve full-year availability of >90%<sup>20</sup> for the fourth consecutive year. In line with the expected H2 weighting, we are looking forward to increased financial and operational performance in the second half from higher availability (due to having completed the major maintenance outages) and higher winter electricity prices.

<sup>19</sup> Ongoing capital and operational maintenance underlying future average rate of 3.5% of capital spend

<sup>20</sup> ERF availability is an average weighted by site capacity, including 100% of joint ventures

Glasgow, Beddington and Dunbar ERFs taken over towards the end of 2018/19 and are progressing through operational ramp-up and optimisation during H1 2019/20. At the Glasgow Recycling & Renewable Energy Centre (GRREC) we have received confirmation that Renewable Obligation Certificates (ROCs) have been secured for a period of 20 years from commissioning. This underlines the recognition that the facility generates important renewable energy.

As previously reported, the rectification and completion costs of GRREC exceeded expectations and Viridor are contractually entitled to recover incremental costs from the original principal contractor Interserve Construction Limited. We have now issued arbitration proceedings to progress legal recovery of the debt. The gross receivable of £72 million continues to be recognised and having again considered the assessment of the Interserve credit risk, the cumulative provision of £28.7 million remains unchanged from the position at 31 March 2019.

Construction at Avonmouth ERF continues to progress. The development remains on budget with commissioning expected in H2 2019/20 and operational ramp up during 2020/21. Avonmouth will add a further 320,000 tonnes and 34 megawatts (MW) capacity to our ERF portfolio.

Our operational capacity is currently 2.8 million tonnes of waste per annum and 233 MW of electrical generation (including joint ventures). This will extend to 3.1 million tonnes of waste and 267 MW when Avonmouth becomes operational.

100% of base inputs are secured either under long-term index-linked contracts (80%) or short/medium term contracts of less than 10 years (20%). Further opportunities to de-risk the portfolio are being considered with higher demand for medium/longer term commercial and industrial contracts as well as the increasing move to process UK waste in the UK resulting in a reduction in RDF<sup>21</sup> exported.

Viridor continues to identify that significant ERF capacity needs to be constructed in the UK to meet this longer-term demand. We are continuing with the development of options for up to three new ERFs, and as a first step towards this we have signed heads of terms to develop a new 40 year joint venture with Grundon Waste Management Limited, our existing joint venture partner at Lakeside. A site owned by Grundon Waste Management Limited with outline planning has been identified adjacent to our materials recycling facility in Ford, West Sussex. This investment supports our de-risked portfolio approach through shared input commitments and an economic benefit assessed for 40 years from completion. This development would give rise to additional value through potential energy park benefits.

#### *Optimising long-term value from landfill*

Overall landfill volumes have decreased in the period to September 2019 reflecting the closure of two landfill sites to active waste resulting in consented landfill capacity of 28 million cubic metres

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<sup>21</sup> RDF – Refuse Derived Fuel

(mcm) (H1 2018/19 30 mcm). However, gate fee pricing has remained strong at £22 per tonne. We continue to operate from eight locations to meet the market demand for the provision of a landfill solution with six sites forecast to remain operational into the medium/longer term.

We continue to invest in landfill facilities where commercially attractive and have developed new cells at two of our landfill sites in the period, with a further new cell set for completion in H2 2019/20.

High quality restoration and remediation of our landfill sites remains the cornerstone of our land stewardship responsibilities. As an example, since closure last year, Beddington, South London, landfill is being transformed into a network of species-rich habitats including wet grasslands, meadowlands and hedge habitats, providing birdwatching hides and a cycle way. We have seen the successful disposal of the Norlands, Surrey, closed landfill site, which has been sold to developers for repurposing, further reflecting the responsible management of the site.

#### *Securing reliable generation of landfill gas*

The targeted investment undertaken through our engine optimisation strategy and gas collection systems has helped improve the overall engine availability and the gas collection process. This has resulted in the volume of electricity generated from landfill gas falling by c.4% compared to the same period last year, a second year of decline at a lower rate than experienced in previous years. We have continued to invest in our engine optimisation strategy this half year, installing four new engines to further enhance availability and better match gas output to engine input requirements. Our landfill gas portfolio currently stands at 32 sites with 85 MWh of generating capacity, providing enough energy to supply around 100,000 homes.

Over time the decline in landfill gas volumes has created surplus grid connection capacity at some landfill gas sites. We are currently seeking to capitalise on this opportunity through the installation of gas peaking engines, which use natural gas to generate electricity at times of peak demand, all of which are co-ordinated from a central control room in Ardley, Oxfordshire.

At our Dunbar landfill site we will be trialling a new 'CarbonOrO' technology with additional gas cleaning processes to ultimately produce a gas stream that is equivalent to natural gas. The first phase of the project is to demonstrate that the resultant gas quality is consistent over time. A pre-application meeting has been held with SEPA (Scottish Environment Protection Agency) and early planning preparations are underway.

#### **Recycling – delivering continued progress**

The recycling business continues to focus on quality. Operationally we have seen higher volumes and prices in plastics, and Crayford MRF has performed well following the investments made last year. However, global paper markets have been challenging, with fewer offtake opportunities as



demand and quality requirements change. Overall recycling volumes are lower than the same period last year, but both revenue and EBITDA per tonne are ahead driven by our focus on quality.

The construction of our £65 million plastics processing facility has commenced with the plant set to contribute to Viridor earnings from 2020/21. Co-located at Avonmouth ERF this provides a model example of our Energy Park development approach. Building on our existing commercial relationships, we have secured c.85% of the total input requirements and c.75% of offtake to date under medium-term contractual arrangements. In addition, we are currently upgrading Masons MRF at a cost of c.£15 million, investment that will increase both output volumes and quality. This investment is underpinned by a ten-year contract with Suffolk City Council.

### **Energy Parks – leveraging value from Viridor’s asset base**

Viridor has a number of Energy Park connections leveraging value from the existing asset base and reducing exposure to the energy markets. Expanding this activity further, a new private wire agreement has been signed to supply a co-located data centre from Beddington ERF and we are exploring two new plastics recycling facilities at Dunbar and Ardley.

These new facilities will result in c.50% of Viridor’s total power output supplying long-term private wire connections or own usage.

### **Confident outlook for Viridor – visible pipeline of growth projects**

Looking forward, the market fundamentals for ERFs remain strong. In its Resources and Waste Strategy, the Government recognised energy recovery as a long-term feature of the waste market. We expect the ERF capacity gap to be around seven million tonnes (mT) to 2035<sup>22</sup> indicating the market can support multiple new viable ERFs, requiring capacity equivalent to c.23 large ERFs<sup>23</sup>, with an additional c.12 large ERFs required if recycling rates do not improve.

Building on this potential for growth, Viridor continues to expand the ERF portfolio with Avonmouth ERF on track to become fully operational in 2020/21. Viridor has also signed heads of terms with Grundon Waste Management Limited for a new joint venture in Ford, West Sussex and continues to assess two further ERF opportunities.

Whilst the recycling market has been challenging, with changing public perception and Government support for recycling and the UK Plastics Pact outlining a roadmap with targets to 2025, we are confident in the long-term market outlook. 46%<sup>24</sup> of UK plastic waste is currently collected for recycling with a significant increase required to meet the Government’s target of 75%<sup>25</sup> by 2030 (with current expectation of 67% by 2025). To fulfil the increasing capacity gap by

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<sup>22</sup> Net of RDF export forecast

<sup>23</sup> Based on Viridor forecasts and an illustrative 300kt plant

<sup>24</sup> Defra UK statistics on waste - 2019

<sup>25</sup> 75% recycling rate for plastics packaging by 2030 subject to consultation – UK Government Resources and Waste Strategy



2025<sup>26</sup>, the UK would require the equivalent of c.14 facilities the size of our Avonmouth plastics recycling facility, with a further c.10 facilities required if all plastics in the market were recyclable. This increased requirement is not only driven by Government policy and regulation but also consumer demand. The 2019 Viridor Recycling Index<sup>27</sup> found that 90% of consumers believe that plastic waste should be used to create resources that can be used again, and that 90% of consumers think the UK should deal with its own recycling.

Viridor sees market opportunity as policy and regulatory drivers call for greater domestic recycling. As a result, we see UK-based recycling as an exciting area of growth, with opportunities to significantly increase our market share and move up the value chain, capturing additional margin in this area. Alongside the Avonmouth plastics recycling facility, which is due to be operational next year, we are currently developing options for two further facilities co-located at our Dunbar and Ardley ERFs. The portfolio of plastic recycling facilities will minimise the recyclate going to third parties and will mean that virtually all of our recyclable plastic waste will be processed in the UK. These new facilities will more than double Viridor's capacity for plastics processing, resulting in an estimated market share of greater than 15%.

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<sup>26</sup> 2025 capacity gap of 1,141kt based on Wrap forecast of 2,410kt plastic packaging placed on the market and a forecast implied recycling rate of 67%

<sup>27</sup> Source: Edelman intelligence for Viridor, 2,500 UK general population – July 2019

## SOUTH WEST WATER

Underlying	H1 2019/20	H1 2019/20 (excluding IFRS 16 impact)	H1 2018/19	Change (excluding IFRS 16 impact)
Revenue <sup>28</sup>	£292.9m	£292.9m	£301.5m	(2.9%)
Operating costs	(£102.3m)	(£103.2m)	(£106.8m)	+3.4%
EBITDA	£190.6m	£189.7m	£194.7m	(2.6%)
Depreciation and amortisation	(£59.1m)	(£58.4m)	(£58.8m)	+0.7%
Operating profit	£131.5m	£131.3m	£135.9m	(3.4%)
Net interest	(£35.3m)	(£34.7m)	(£35.6m)	+2.5%
Profit before tax	£96.2m	£96.6m	£100.3m	(3.7%)

### Revenue

South West Water revenue for H1 2019/20 has reduced by 2.9% (£8.6 million) compared with the prior period. Noting our c.84% metered customer base, following the exceptionally hot, dry summer last year tariff rises of 0.6%<sup>29</sup> have been offset by lower customer demand (down 5%). Revenue from new customer connections (c.4,500 in H1 2019/20) has been offset by meter switchers and an increase in leak allowances to customers in the first half of the year as we continue to target reducing customer side leakage. Year on year changes in revenues (compared with the Final Determination) are subject to a revenue true-up mechanism.

### EBITDA & operating profit

As a result of lower revenue in H1 2019/20, South West Water's EBITDA and operating profit reduced by 2.6% and 3.4%, respectively. The ongoing focus on strong cost control and efficiency delivery, as well as c.£3 million of extreme weather costs in the prior period which have not been repeated, resulted in operating costs decreasing by 3.4%, significantly below inflation. South West Water's bad debt performance remains strong with a charge of 0.6% as a percentage of revenue. This continues to be driven by efficient cash collections with the annual charge below the levels assumed for K6 in our Final Determination.

### Continued operational performance – strong foundation into K7

South West Water continues to perform strongly in the final year of this regulatory period. It continues to lead the industry with a cumulative Return on Regulated Equity (RORE) of 11.8% (H1 2019/20 11.9%) and is one of the only companies to achieve outperformance in all areas throughout K6; total expenditure (totex), financing and Outcome Delivery Incentives (ODIs).

<sup>28</sup> Includes wholesale revenue for non-household customers

<sup>29</sup> Net tariff increase reflects the net position post Wholesale Revenue Forecast Incentive Mechanism (WRFIM) pass back of £9.0 million for H1 2019/20

Cumulative totex savings for the 2015-20 period to date are £268 million and are on track to deliver the c.£300 million savings targeted. This demonstrates continued focus on cost efficiency, use of innovation to deliver operational improvements and capital investments at a lower cost for the benefit of customers and shareholders. Innovation is at the centre of our plans for the next period to achieve more challenging operational targets at a lower cost.

South West Water was pleased to be awarded fast-track status by Ofwat this year. This has enabled the company to start planning and make early investment decisions that target ODI rewards earlier in the next regulatory period. One of the key enablers for success in the next period is our relationship with strategic suppliers and during the half year key supply chain agreements were negotiated and put in place. This continues a successful outsourcing model driving flexibility and out of hours responsiveness to minimise adverse impacts for customers.

Our business plan is focused on empowering and building closer relationships with our customers through a 'New Deal' – giving customers a stake and a say. It will ensure customers are sharing in our success and having a say through a Customer AGM and quarterly meetings allowing customers to hold us directly to account. In addition, the option for customers to have a shareholding gives them a tangible stake in our business benefiting from the outperformance delivered and will further ensure customers are at the heart of our business, increasing trust and legitimacy with our customers.

## **Delivering high quality services for our customers**

### *Upper quartile performance*

South West Water was ranked as upper quartile (4<sup>th</sup>) in Ofwat's Service Delivery report for 2018/19. The report noted strong performance delivered in several common measures including:

- Totex outperformance – highest level of outperformance with c.16% efficiencies delivered
- Leakage – target met in every year since inception
- Supply interruptions – 58% reduction since 2014, continuing momentum
- Internal sewer flooding – top performer in this area.

South West Water recognises that there continues to be a small number of areas to focus on including water quality contacts, where despite a 47% improvement since 2012 and meeting our ODI commitment we remain in the lower quartile for this measure. In addition, we continue to focus on reducing the number of pollution incidents and have made positive progress this year.

### *Step change in SIM performance over K6*

Improving customer service is at the heart of our delivery plans. Since 2015 South West Water has delivered continuous improvements in our Service Incentive Mechanism (SIM) and in 2018/19 we achieved our best ever customer service score, ranked third in both the South West and Bournemouth regions and second for the quality of customer service. Ofwat has stopped publishing

the SIM score results as it prepares to introduce a new customer experience (CMex) metric in the next regulatory period. We continue to focus on delivering improvements in customer services with written complaints down 15% in H1 2019/20 compared to the same period last year.

### ***Industry leading support for vulnerable customers***

South West Water is leading the industry in providing support for customers in vulnerable circumstances or who struggle to pay their bills. We continue to focus on this and have committed to eliminating water poverty in our K7 (2020-25) business plan, which was praised by Ofwat for its high-quality customer engagement and affordability.

Preparation for these additional activities is well advanced. We have rolled out a dual-billing pilot for unmetered customers in North Devon, we are expanding our WaterCare+ programme through an interactive WaterCare App which gives an instant assessment of support available, and we continue to work with our partners to reach more customers needing support. This innovative scheme is achieving on average over £90 per week of additional benefits for eligible customers. A total of £2.5 million of benefits income has been realised through this programme since 2015. The number of customers currently receiving support through reduced tariffs has increased to c.24,500 customers, with around 59,500 customers supported through this and other programmes.

### **Continued outperformance – highest sector returns**

South West Water has performed well in H1 2019/20 and has delivered results in line with management expectations. Strong operational and financial performance underpins our sector leading RORE which has been consistently above 11% annually and remains at 11.8% cumulatively since the start of the K6 business plan period.

Of the cumulative 11.8%, 6.0% is the base return, 2.6% reflects totex savings and efficiencies, 0.3% reflects a net reward on ODIs and 2.9% reflects the difference between actual and assumed financing costs using a cumulative forecast RPI of 2.8%, which is consistent with the approach adopted for calculating our innovative WaterShare mechanism. Cumulatively the WaterShare RORE outperformance over K6 is consistent with the approach adopted by Ofwat

	<b>H1 2019/20</b>	<b>K6 to date</b>
Base return	6.0%	6.0%
Totex outperformance	2.7%	2.6%
ODI outperformance	0.3%	0.3%
Financing outperformance	2.9%	2.9%
WaterShare RORE	11.9%	11.8%
<i>Ofwat RORE</i>	<i>12.0%</i>	<i>11.7%</i>

### ***Totex efficiency reducing customer bills***

South West Water continues to strive for ever greater efficiency. Totex outperformance has already achieved cumulative savings of £268 million to September 2019 and we are on track to deliver our target of c.£300 million totex savings by the end of the year.

These savings are being driven by:

- Managing upward cost pressures, with actual net price rises being below annual average inflation rates
- Continuing advantages from our strategic alliances and driving efficiency from our procurement processes
- Reducing customer debt through enhanced collections activities and increasing our affordability schemes (such as social tariffs), with the cost of bad debt now below the level assumed within the 2014 Final Determination
- Efficiencies from the Bournemouth Water integration, including delivery of key capital schemes in the region, with the c.£27 million of net synergies secured.

This focus on cost efficiency is reducing bills for customers. Our K7 business plan was identified as one of the most efficient, this being a key aspect of achieving fast-track status.

### ***ODIs continue to deliver net reward for K6***

Operational performance measured on delivery at 30 September 2019 resulted in a net ODI reward of £1.7 million (£13.0 million cumulatively for K6) reflecting RORE outperformance of 0.3%. Good asset reliability with stable serviceability across all water and wastewater areas has been maintained. Rewards were delivered across water restrictions and continued improvements in internal sewer flooding. The cumulative net reward of £13.0 million comprises £20.7 million of total rewards and £7.7 million of total penalties. ODI penalties which apply within the regulatory period will reduce customer bills as they are 'passed back'. ODI net penalties of £0.3 million have been adjusted in customer bills for 2019/20.

Whilst a small number of ODIs are in penalty this year, South West Water is forecasting to deliver net ODI rewards again this year – as has been the case throughout K6.

- *Flooding – continuing strong performance*

The total number of flooding incidents in the first half of 2019/20 has continued to fall with a 3% reduction this year.

- *Water resources – 23rd consecutive year without water restrictions*

The South West Water region remained unrestricted for a 23<sup>rd</sup> consecutive year and the Bournemouth water region maintained its position of having no water restrictions since privatisation.

- *Bathing water quality – c.99% achieving sufficient quality, over c.83% excellent*

Our legacy of major investment to protect bathing waters continues to be reflected in extremely positive results for the 2019 bathing water season. Of the 151 bathing waters tested in the South West Water region, 149 (c.99%) were classified 'sufficient' or better, with more than c.83% classified as 'excellent'. Neither of the two bathing waters rated as 'poor' were attributed to any failure of South West Water's assets.

- *Leakage – on track to meet 2019 target*

Targeted investment and operational resources (including fixing visible leaks and providing additional support to customers) ensured we met our 2018 target of 84 megalitres per day ensuring no ODI penalty was incurred and remain on track to meet the target for 2019.

Leakage targets have been met every year in this regulatory period, and new technologies, such as acoustic loggers and advanced working techniques are being deployed to deliver on the stretching commitments for K7, which targets a 15% reduction in leakage by 2025.

- *Supply interruptions – maintaining strong performance*

Average duration of supply interruptions per property for South West Water is below the target set for the year to date and maintains the strong performance from previous years.

- *Pollution incidents – serious pollution incidents reducing*

The number of serious pollution incidents (Category 1&2) has reduced with one potential incident in the year to date, therefore no penalty has been forecast. The number of minor incidents (Category 3) has also decreased compared to the same period last year following the recent investment strategy to drive reductions in incidents. These include mobilisation of a fleet of jetters and vactors to provide resilient support on the network. However significant focus is being maintained to improve this performance further with stretching targets for the next regulatory period.

### ***Financing investment efficiently***

Alongside strong operational outperformance, South West Water is confident that the efficient and effective financing strategy in place will continue to deliver cumulative financing outperformance, with £146 million delivered in the K6 period to date. South West Water's diverse and flexible

financing structure has underpinned one of the lowest effective interest rates across the industry at 3.4% for H1 2019/20 (H1 2018/19 3.5%).

Pennon's Sustainable Financing Framework opens further opportunities for debt investment, for example £60 million of leasing specifically linked to the new innovative Mayflower water treatment works. Gearing levels remain aligned with Ofwat's current notional level and South West Water is the only UK water company to share the benefits of lower interest rates with customers.

### ***Sharing outperformance between customers and shareholders***

South West Water is sharing the benefits of business outperformance between customers and shareholders through our unique WaterShare mechanism. Since 2015 £121 million of cumulative benefits have been identified to share with customers through future bill reductions, ODI service improvements and reinvestment in services. This reflects £86 million of totex savings, £13 million of net ODI benefits and £22 million of other benefits (including financing and tax). These totex savings and efficiencies (including the forecast to 2020) have been reflected in the K7 business plan, lowering bills for customers over the next regulatory period. The other savings identified in recent years and expected out to 2020 will provide the basis for the c.£20 million WaterShare+ scheme in 2020 – a first of its kind, an ambitious, voluntary share scheme, which will give all customers a choice of how to receive these benefits including the option of receiving Pennon shares.

### ***Sector leading outperformance forecast to continue***

Following the publication of the Draft Determinations for Slow Track and Significant Scrutiny Companies, South West Water continues to have the highest outperformance potential for the next regulatory period and we are confident in delivering outperformance across all areas (totex, ODIs and Financing). Totex allowances in K7 are broadly consistent with the allowances in K6 and higher than the current forecast spend for K6 which reflects the c.£300 million of totex outperformance on track to be delivered by 2020.

An efficient financing structure is already in place for the next regulatory period and South West Water has continued to lock-in its strong financial position through interest rate swaps as rates remain low, with c.50% already in place from 2020. The ODIs<sup>30</sup> for K7 are a mixture of bespoke performance measures which are proposed and designed by South West Water and 15 common measures which will be measured consistently. South West Water has a strong base for outperformance in K7 and this position was supported by the early certainty principle at the initial assessment of our plan.

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<sup>30</sup> Bespoke ODIs, unique rewards for South West Water with up to £68 million reward, up to £66 million of rewards for common ODIs where performance is currently upper quartile or above industry average and ODIs which are an area of focus for improvement reflect a penalty up to £28 million.



South West Water's continuing investment in our assets and services into K7 reflects significant planned capital expenditure, above forecast K6 levels. This results in c.10% growth in RCV to £3.75 billion<sup>31</sup> by 2025 (around 28% growth over 10 years).

### **Innovation driving performance into the next regulatory period**

South West Water has signed an international innovation exchange agreement with Singapore Public Utilities Board and a Dutch technology innovation company<sup>32</sup> to include the development of ceramic membrane and ion exchange technology for water treatment works. Following the success of the Mayflower treatment works, we will be deploying this technology again with plans for two new water treatment works in the Bournemouth area.

A new partnership with the University of Exeter has been established to work together on a UK Innovation Centre to accommodate state-of-the-art, specialist laboratory facilities, and designated space to encourage collaborative research between academics and experts from the water industry. Crucially, the research will draw on Exeter's world-leading expertise across a wide range of disciplines to develop innovative new solutions that benefit the environment, global societies and the economy. £10 million of Government research funding has already been secured and South West Water is providing matched funding to support this programme.

South West Water is also leading the way in managing our network and is the first UK water company to acquire Advanced Value Technologies EZ Valves. This benefits customers by being able to fix bursts with no interruption to supply. We will install large volumes of fixed and acoustic loggers for pin-point targeting of leaks to reduce how much water is lost each year.

In addition, there will be increased use of 'digital twins' of our water and wastewater systems enabling greater real time visibility of our operations, robotics, telemetry, and 'smart networks' technology. Development of modular manufacturer techniques will also be developed with local industry to drive efficiency within our capital investments.

### **Working in the public interest**

South West Water is committed to delivering outstanding customer service and environmental performance, recognising the substantial role we have within our communities. Alongside keeping bills as low as possible, we have set out our key commitments including:

- Building on our track record and reducing leakage by a further 15% by 2025
- Commitment to eliminating water poverty by 2025
- Delivering our WaterShare+ commitment giving customers a stake and a say in our business
- Achieving net zero carbon emissions by 2030

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<sup>31</sup> Based on Draft Determination published in April 2019

<sup>32</sup> PWN Technologies



- Supporting the planting of new trees and forests as well as continuing our extensive catchment management, Upstream Thinking Programme, which promotes carbon sequestration and biodiversity.

## PENNON WATER SERVICES

Underlying	H1 2019/20	H1 2019/20 (excluding IFRS 16 impact)	H1 2018/19	Change (excluding IFRS 16 impact)
Revenue	£86.6m	£86.6m	£84.1m	+3.0%
EBITDA	£0.9m	£0.9m	£0.9m	-
Depreciation and amortisation	(£0.3m)	(£0.3m)	(£0.4m)	+25.0%
Operating profit	£0.6m	£0.6m	£0.5m	+20.0%
Net interest	(£0.9m)	(£0.9m)	(£1.0m)	+10.0%
Profit before tax	(£0.3m)	(£0.3m)	(£0.5m)	+40.0%

### Revenue & operating profit

Pennon Water Services has delivered sales growth of 3.0% in H1 2019/20 compared to H1 2018/19. Overall operating profit for the first half is £0.6 million (H1 2018/19 £0.5 million), with a continuing focus on operating cost efficiencies.

### Focus on delivering operating cost efficiencies

Pennon Water Services, our 80:20 retail venture with South Staffordshire Plc, continues to perform robustly in a competitive market gaining national customers with bespoke multi-year contracts, serving over 160,000 customer accounts across 18 different wholesale regions. We are focused on a broader customer offering including value added services which supports our target of being the retailer of choice.

We continue to focus on delivering customer service that reflects the needs of our business customers with satisfaction scores increasing in the period. We are now implementing further strategies to improve operating cost efficiency within the competitive market including within billing and cash management.

## Technical Guidance 2019/20

<b>Pennon Group</b>		<b>2018/19</b>	<b>Change</b>
Capex	Passed peak of committed ERF capex. Growth capex in near term principally reflects completion of Avonmouth and investment in recycling	£396m	▼
Dividend	Reflecting policy of RPI + 4% annual increase in dividend	41.06p per share	▲
Tax rate	Underlying effective tax rate lower than UK headline rate of 19% reflecting capital allowances (including ERFs)	11.6%	◀
IFRS 16	Minimal impact on profit before tax	-	◀
<b>South West Water</b>			
Revenue	Impact of net tariff increases and lower metered volumes reflecting 2018 extreme summer weather	£581m	▼
Opex	2018/19 includes costs associated with extreme weather. Continued efficiency into 2019/20	£214m	▼
Totex Efficiency	On track to deliver c.£300m over K6	£237m cumulative	▲
RORE	Continued momentum for delivering outperformance in all areas	11.8% cumulative	◀
IFRS 16	Impact of new standard applicable in 2019/20. Minimal impact on profit before tax. Approximate impact on balance sheet and income statement lines as follows: <ul style="list-style-type: none"> <li>£32m gross assets; £34m gross liabilities</li> <li>£2m EBITDA; £2m depreciation; £1m interest</li> </ul>	N/A	▲ ▲
<b>Viridor</b>			
Revenue	Lower following impact of cessation of Greater Manchester recycling operating contract and lower IFRIC 12 construction revenue, partially offset by ERF ramp up and full year operations at new ERFs	£853m	▼
EBITDA	Impact of ERF ramp up	£179m	▲
IFRS 16	Impact of new standard applicable in 2019/20. Minimal impact on profit before tax. Approximate impact on balance sheet and income statement lines as follows: <ul style="list-style-type: none"> <li>£76m gross assets; £85m gross liabilities</li> <li>£12m EBITDA; £9m depreciation; £3m interest</li> </ul>	N/A	▲ ▲

## **Board Matters**

In September 2019 we were pleased to welcome Claire Ighodaro to our Board as an independent non-executive director. Claire's extensive background in finance and across both regulated and non-regulated industries is a great asset to the Group and complements the broad range of skills of the existing Board.

Chris Loughlin

Group Chief Executive Officer

26 November 2019

## Financial Timetable

23 January 2020	Ordinary shares quoted ex dividend
24 January 2020	Record date
6 March 2020	Final date for receipt of DRIP applications
30 March 2020	Trading Statement
3 April 2020	Interim dividend payment date
4 June 2020	Full Year Results 2019/20
June 2020	Annual Report & Accounts published
23 July 2020	Annual General Meeting
23 July 2020*	Ordinary shares quoted ex-dividend
24 July 2020*	Record date for final dividend
10 August 2020*	Final date for receipt of DRIP applications
2 September 2020*	Final dividend paid
25 September 2020	Trading Statement
24 November 2020	Half Year Results 2020/21

\* These dates are provisional and, in the case of the final dividend, subject to obtaining shareholder approval at the 2020 Annual General Meeting.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

In accordance with DTR4.2.3 and 4.2.7 of the Disclosure & Transparency Rules, the principal risks for the remaining six months of the financial year have been reviewed by the Directors and are considered to be unchanged from those reported within the Risk Report on pages 58 to 69 of the Annual Report and Accounts 2019. A summary of Pennon Group's principal risks is detailed below.

These principal risks have been reassessed against a continued back drop of broader macro political and economic uncertainties including; increased scrutiny and regulation of the UK water industry and the potential impact of Britain's withdrawal from the European Union. With a General Election called for the 12th December, the risk and uncertainty of a potential renationalisation of the water industry in the event of a Labour Government remains as a Principal Risk. As noted in the Pennon Annual Report and Accounts 2019, the viability assessment assumes that should renationalisation occur it would be conducted in an orderly manner in line with market conventions noting this would be dependent on the specific approach adopted by a government to implement a renationalisation policy.

The Board considers the principal risks to be:

### ***Law, Regulation and Finance***

- Changes in Government Policy – renationalisation
- Changes in Government Policy – single use plastics
- Regulatory reform
- Compliance with laws and regulations
- Maintaining sufficient finance and funding to meet ongoing commitments
- Non-compliance or occurrence of avoidable health and safety incidents
- Tax compliance and contribution
- Failure to pay all pension obligations as they fall due and increased costs to the Group should the deferred pension scheme deficit increase

### ***Market and Economic Conditions***

- Non-recovery of customer debt
- Macro-economic risks impacting commodity and power prices

### ***Operating Performance***

- Poor operating performance due to extreme weather or climate change
- Poor customer service and/or increased competition leading to loss of customer base
- Business interruption or significant operational failures/ incidents
- Difficulty in recruitment, retention and development of skills
- Non-delivery of Regulatory Outcomes and performance commitments

### ***Business Systems and Capital Investment***

- Failure or increased cost of capital projects and/or exposure to contract failures
- Failure of information technology systems, management and protection including cyber risks.

## **CAUTIONARY STATEMENT IN RESPECT OF FORWARD-LOOKING STATEMENTS**

This Report contains forward-looking statements relating to the Pennon Group's operations, performance and financial position based on current expectations of, and assumptions and forecasts made by, Pennon Group management which may constitute "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are identified in this Report by words such as "anticipate", "aim", "believe", "continue", "could", "due", "estimate", "expect", "forecast", "goal", "intend", "may", "outlook", "plan", "probably", "project", "remain", "seek", "should", "target", "will", "would" and related and similar expressions, as well as statements in the future tense. All statements other than of historical fact may be forward-looking statements and represent the Group's belief regarding future events, many of which, by their nature, are inherently uncertain and outside the Group's control. Various known and unknown risks, uncertainties and other factors could lead to substantial differences between the actual future results, financial situation, development or performance of the Group and the estimates and historical results given herein. Important risks, uncertainties and other factors that could cause actual results, performance or achievements of Pennon Group to differ materially from any outcomes or results expressed or implied by such forward-looking statements include, among other things, changes in Government policy; the exit of the United Kingdom from the European Union; international treaty changes and other events; re-nationalisation; regulatory and legal reform; compliance with laws and regulations; maintaining sufficient finance and funding to meet ongoing commitments; non-compliance or occurrence of avoidable health and safety incidents; tax compliance and contribution; failure to pay all pension obligations as they fall due and increased costs to the Group should the defined benefit pension scheme deficit increase; non-recovery of customer debt; poor operating performance due to extreme weather or climate change; macro-economic risks impacting commodity and power prices and other matters; poor customer service and/or increased competition leading to loss of customer base; business interruption or significant operational failure/incidents; difficulty in recruitment, retention and development of skills; non-delivery of regulatory outcomes and performance commitments; failure or increased cost of capital projects/exposure to contract failures; failure of information technology systems, management and protection, including cyber risks; and all risks described in the Pennon Group Annual Report published in June 2019. Such forward looking statements should therefore be construed in light of all risks, uncertainties and other factors, including without limitation those identified above, and undue reliance should not be placed on them. Nothing in this report should be construed as a profit forecast.

Any forward-looking statements are made only as of the date of this document and no representation, assurance, guarantee or warranty is given in relation to them including as to their accuracy, completeness, or the basis on which they are made. The Group accepts no obligation to revise or update publicly these forward-looking statements or adjust them as a result of new information or for future events or developments, except to the extent legally required.

## **UNSOLICITED COMMUNICATIONS WITH SHAREHOLDERS**

A number of companies, including Pennon Group plc, continue to be aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters which imply a connection to the company concerned. If shareholders have any concerns about any contact they have received then please refer to the Financial Conduct Authority's website [www.fca.org.uk/scamsmart](http://www.fca.org.uk/scamsmart). Details of any share dealing facilities that the Company endorses will be included in Company mailings.

**PENNON GROUP PLC**
**Consolidated income statement for the half year ended 30 September 2019**

		Unaudited					
		Before non- underlying items half year ended 30 September 2019 £m	Non- underlying items (note 5) half year ended 30 September 2019 £m	Total half year ended 30 September 2019 £m	Before non- underlying items half year ended 30 September 2018* £m	Non- underlying items (note 5) half year ended 30 September 2018* £m	Total half year ended 30 September 2018* £m
	Notes						
Revenue	4	712.4	-	712.4	746.7	-	746.7
Operating costs							
Employment costs		(104.6)	2.2	(102.4)	(101.5)	-	(101.5)
Raw materials and consumables used		(57.2)	-	(57.2)	(70.2)	-	(70.2)
Other operating expenses		(266.7)	-	(266.7)	(301.0)	-	(301.0)
Earnings before interest, tax, depreciation and amortisation	4	283.9	2.2	286.1	274.0	-	274.0
Depreciation and amortisation		(103.2)	-	(103.2)	(95.5)	-	(95.5)
Operating profit	4	180.7	2.2	182.9	178.5	-	178.5
Finance income	6	12.7	18.0	30.7	11.5	-	11.5
Finance costs	6	(57.8)	-	(57.8)	(52.3)	(8.9)	(61.2)
Net finance costs	6	(45.1)	18.0	(27.1)	(40.8)	(8.9)	(49.7)
Share of post-tax profit from joint ventures		7.3	-	7.3	4.8	-	4.8
Profit before tax	4	142.9	20.2	163.1	142.5	(8.9)	133.6
Taxation	7	(24.4)	(5.2)	(29.6)	(19.3)	1.7	(17.6)
Profit for the period		118.5	15.0	133.5	123.2	(7.2)	116.0
Attributable to:							
Ordinary shareholders of the parent		111.6	15.0	126.6	114.7	(7.2)	107.5
Non-controlling interests		(0.1)	-	(0.1)	(0.1)	-	(0.1)
Perpetual capital security holders		7.0	-	7.0	8.6	-	8.6
Earnings per ordinary share (pence per share)	8						
- Basic				30.1			25.6
- Diluted				30.0			25.5

\* The Group has applied IFRS 16 'Leases' using the modified retrospective method. Under this approach, comparative information is not restated. See note 21 for further details.

The notes on pages 45 to 65 form part of this condensed half year financial information.



**PENNON GROUP PLC**
**Consolidated statement of comprehensive income for the half year ended 30 September 2019**

	<b>Unaudited</b>					
	<b>Before non- underlying items half year ended 30 September 2019 £m</b>	<b>Non-underlying items (note 5) half year ended 30 September 2019 £m</b>	<b>Total half year ended 30 September 2019 £m</b>	<b>Before non- underlying items half year ended 30 September 2018* £m</b>	<b>Non-underlying items (note 5) half year ended 30 September 2018* £m</b>	<b>Total half year ended 30 September 2018* £m</b>
<b>Profit for the period</b>	<b>118.5</b>	<b>15.0</b>	<b>133.5</b>	<b>123.2</b>	<b>(7.2)</b>	<b>116.0</b>
<b>Other comprehensive income</b>						
<i>Items that will not be reclassified to profit or loss</i>						
Remeasurement of defined benefit obligations (note 16)	<b>(20.5)</b>	<b>12.2</b>	<b>(8.3)</b>	<b>7.6</b>	<b>-</b>	<b>7.6</b>
Income tax on items that will not be reclassified	<b>3.8</b>	<b>(2.3)</b>	<b>1.5</b>	<b>(1.3)</b>	<b>-</b>	<b>(1.3)</b>
<b>Total items that will not be reclassified to profit or loss</b>	<b>(16.7)</b>	<b>9.9</b>	<b>(6.8)</b>	<b>6.3</b>	<b>-</b>	<b>6.3</b>
<i>Items that may be reclassified subsequently to profit or loss</i>						
Share of other comprehensive income from joint ventures	<b>(0.2)</b>	<b>-</b>	<b>(0.2)</b>	<b>0.7</b>	<b>-</b>	<b>0.7</b>
Cash flow hedges	<b>(16.0)</b>	<b>-</b>	<b>(16.0)</b>	<b>4.1</b>	<b>-</b>	<b>4.1</b>
Income tax on items that may be reclassified	<b>2.7</b>	<b>-</b>	<b>2.7</b>	<b>(1.1)</b>	<b>-</b>	<b>(1.1)</b>
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>(13.5)</b>	<b>-</b>	<b>(13.5)</b>	<b>3.7</b>	<b>-</b>	<b>3.7</b>
<b>Other comprehensive income for the period net of tax</b>	<b>(30.2)</b>	<b>9.9</b>	<b>(20.3)</b>	<b>10.0</b>	<b>-</b>	<b>10.0</b>
<b>Total comprehensive income for the period</b>	<b>88.3</b>	<b>24.9</b>	<b>113.2</b>	<b>133.2</b>	<b>(7.2)</b>	<b>126.0</b>
<b>Total comprehensive income attributable to:</b>						
Ordinary shareholders of the parent	<b>81.4</b>	<b>24.9</b>	<b>106.3</b>	<b>124.7</b>	<b>(7.2)</b>	<b>117.5</b>
Non-controlling interests	<b>(0.1)</b>	<b>-</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>-</b>	<b>(0.1)</b>
Perpetual capital security holders	<b>7.0</b>	<b>-</b>	<b>7.0</b>	<b>8.6</b>	<b>-</b>	<b>8.6</b>

\* The Group has applied IFRS 16 'Leases' using the modified retrospective method. Under this approach, comparative information is not restated. See note 21 for further details.

The notes on pages 45 to 65 form part of this condensed half year financial information.

**PENNON GROUP PLC**
**Consolidated balance sheet at 30 September 2019**

		Unaudited	
		30 September	31 March
		2019	2019*
		£m	£m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill		383.1	385.0
Other intangible assets		89.6	92.1
Property, plant and equipment	21	4,673.0	4,509.4
Other non-current assets		263.8	256.4
Derivative financial instruments		3.9	70.5
Investments in joint ventures		58.2	51.1
		<b>5,471.6</b>	<b>5,364.5</b>
<b>Current assets</b>			
Inventories		30.7	28.8
Trade and other receivables		497.7	484.8
Derivative financial instruments		2.0	11.8
Cash and cash deposits	14	528.0	569.6
		<b>1,058.4</b>	<b>1,095.0</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Borrowings	14	(124.9)	(150.4)
Financial liabilities at fair value through profit		(2.6)	(3.8)
Derivative financial instruments		(3.0)	(11.1)
Trade and other payables	18	(284.3)	(298.0)
Current tax liabilities		(15.8)	(19.1)
Provisions		(27.2)	(28.7)
		<b>(457.8)</b>	<b>(511.1)</b>
<b>Net current assets</b>		<b>600.6</b>	<b>583.9</b>
<b>Non-current liabilities</b>			
Borrowings	14	(3,699.1)	(3,498.7)
Other non-current liabilities	18	(146.6)	(147.9)
Financial liabilities at fair value through profit		(42.0)	(43.1)
Derivative financial instruments		(35.8)	(9.9)
Retirement benefit obligations	16	(38.5)	(60.8)
Deferred tax liabilities		(303.4)	(305.1)
Provisions		(198.0)	(203.1)
		<b>(4,463.4)</b>	<b>(4,268.6)</b>
<b>Net assets</b>		<b>1,608.8</b>	<b>1,679.8</b>
<b>Shareholders' Equity</b>			
Share capital	10	171.3	171.1
Share premium account	11	226.0	223.6
Capital redemption reserve		144.2	144.2
Retained earnings and other reserves		769.5	843.0
<b>Total shareholders' equity</b>		<b>1,311.0</b>	<b>1,381.9</b>
Non-controlling interests		1.1	1.2
Perpetual capital securities	12	296.7	296.7
<b>Total equity</b>		<b>1,608.8</b>	<b>1,679.8</b>

\* The Group has applied IFRS 16 'Leases' using the modified retrospective method. Under this approach, comparative information is not restated. See note 21 for further details.

The notes on pages 45 to 65 form part of this condensed half year financial information.

**PENNON GROUP PLC**

**Consolidated statement of changes in equity for the half year ended 30 September 2019**

	Unaudited						
	Share capital (note 10) £m	Share premium account (note 11) £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Non-controlling interests £m	Perpetual capital securities (note 12) £m	Total Equity £m
At 1 April 2018	170.8	218.8	144.2	807.1	1.5	296.7	1,639.1
Profit for the period	-	-	-	107.5	(0.1)	8.6	116.0
Other comprehensive income for the period	-	-	-	10.0	-	-	10.0
Total comprehensive income for the period	-	-	-	117.5	(0.1)	8.6	126.0
<i>Transactions with equity shareholders:</i>							
Dividends paid	-	-	-	(162.0)	-	-	(162.0)
Adjustment in respect of share-based payments (net of tax)	-	-	-	1.9	-	-	1.9
Distributions due to perpetual capital security holders	-	-	-	-	-	(8.6)	(8.6)
Own shares acquired by the Pennon Employee Share Trust in respect of Share options granted	-	-	-	(1.5)	-	-	(1.5)
Proceeds from shares issued under the Sharesave Scheme	0.2	3.5	-	-	-	-	3.7
	0.2	3.5	-	(161.6)	-	(8.6)	(166.5)
At 30 September 2018	171.0	222.3	144.2	763.0	1.4	296.7	1,598.6
	Unaudited						
	Share capital (note 10) £m	Share premium account (note 11) £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Non-controlling interests £m	Perpetual capital securities (note 12) £m	Total Equity £m
At 1 April 2019	171.1	223.6	144.2	843.0	1.2	296.7	1,679.8
Opening adjustment on adoption of IFRS 16	-	-	-	(8.0)	-	-	(8.0)
At 1 April 2019 (adjusted for IFRS 16)	171.1	223.6	144.2	835.0	1.2	296.7	1,671.8
Profit for the period	-	-	-	126.6	(0.1)	7.0	133.5
Other comprehensive income for the period	-	-	-	(20.3)	-	-	(20.3)
Total comprehensive income for the period	-	-	-	106.3	(0.1)	7.0	113.2
<i>Transactions with equity shareholders:</i>							
Dividends paid	-	-	-	(172.6)	-	-	(172.6)
Adjustment in respect of share-based payments (net of tax)	-	-	-	2.4	-	-	2.4
Distributions due to perpetual capital security holders	-	-	-	-	-	(8.6)	(8.6)
Current tax relief on distributions to perpetual capital security holders	-	-	-	-	-	1.6	1.6
Own shares acquired by the Pennon Employee Share Trust in respect of Share options	-	-	-	(1.6)	-	-	(1.6)
Proceeds from shares issued under the Sharesave Scheme	0.2	2.4	-	-	-	-	2.6
	0.2	2.4	-	(171.8)	-	(7.0)	(176.2)
<b>At 30 September 2019</b>	<b>171.3</b>	<b>226.0</b>	<b>144.2</b>	<b>769.5</b>	<b>1.1</b>	<b>296.7</b>	<b>1,608.8</b>

The notes on pages 45 to 65 form part of this condensed half year financial information.

**PENNON GROUP PLC**
**Consolidated statement of cash flows for the half year ended 30 September 2019**

		<b>Unaudited</b>	
		<b>Half year ended 30 September 2019</b>	Half year ended 30 September 2018*
		<b>£m</b>	<b>£m</b>
	Notes		
<b>Cash flows from operating activities</b>			
Cash generated from operations	13	<b>244.2</b>	151.7
Interest paid		<b>(38.0)</b>	(31.4)
Tax paid		<b>(26.8)</b>	(12.2)
Net cash generated from operating activities		<b>179.4</b>	108.1
<b>Cash flows from investing activities</b>			
Interest received		<b>2.7</b>	4.4
Loan repayments received from joint ventures		<b>3.7</b>	2.0
Purchase of property, plant and equipment		<b>(194.7)</b>	(181.9)
Proceeds from sale of property, plant and equipment		<b>10.6</b>	0.5
Deposit of restricted cash		<b>(5.0)</b>	(3.7)
Net cash used in investing activities		<b>(182.7)</b>	(178.7)
<b>Cash flows from financing activities</b>			
Proceeds from issuance of ordinary shares		<b>2.6</b>	3.7
Proceeds from derivatives early settlement	5	<b>87.2</b>	-
Purchase of ordinary shares by the Pennon Employee Share Trust		<b>(1.6)</b>	(1.5)
Proceeds from new borrowing	14	<b>50.0</b>	50.0
Repayment of borrowings	14	<b>(67.2)</b>	(16.1)
Cash inflows from sale and leaseback transactions	14	<b>85.0</b>	35.0
Lease principal repayments (2018: Finance lease principal repayments)	14	<b>(18.1)</b>	(16.0)
Dividends paid	9	<b>(172.6)</b>	(162.0)
Perpetual capital securities periodic return		<b>(8.6)</b>	(5.8)
Net cash used in financing activities		<b>(43.3)</b>	(112.7)
<b>Net decrease in cash and cash equivalents</b>		<b>(46.6)</b>	(183.3)
Cash and cash equivalents at beginning of period	14	<b>365.7</b>	403.0
<b>Cash and cash equivalents at end of period</b>	14	<b>319.1</b>	219.7

\* The Group has applied IFRS 16 'Leases' using the modified retrospective method. Under this approach, comparative information is not restated. See note 21 for further details.

The notes on pages 45 to 65 form part of this condensed half year financial information.

## **PENNON GROUP PLC**

### **Notes to condensed half year financial information**

#### **1. General information**

Pennon Group plc is a company registered in the United Kingdom (UK) under the Companies Act 2006. The address of the registered office is given on page 65. Pennon Group's business is operated through two principal subsidiaries. South West Water Limited includes the merged water companies of South West Water and Bournemouth Water, providing water and wastewater services in Devon, Cornwall and parts of Dorset and Somerset and water only services in parts of Dorset, Hampshire and Wiltshire. Viridor Limited's business is recycling, energy recovery and waste management. Pennon Group is also the majority shareholder of Pennon Water Services Limited, a company providing water and wastewater retail services to non-household customer accounts across Great Britain.

This condensed half year financial information was approved by the Board of Directors on 25 November 2019.

The financial information for the period ended 30 September 2019 does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The statutory accounts for 31 March 2019 were approved by the Board of Directors on 29 May 2019 and have been delivered to the Registrar of Companies. The independent auditor's report on these financial statements was unqualified, and did not contain a statement under section 498 of the Companies Act 2006.

#### **2. Basis of preparation**

This condensed half year financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 "Interim financial reporting" as adopted by the European Union (EU). This condensed half year financial information should be read in conjunction with the Pennon Group plc Annual Report and Accounts for the year ended 31 March 2019, which were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Having made enquiries, the Directors consider that the Company and its subsidiary undertakings have adequate resources to continue in business for the foreseeable future, and that it is therefore appropriate to adopt the going concern basis in preparing the condensed half year financial information.

This condensed half year financial information has been reviewed but not audited by the independent auditor pursuant to the Auditing Practices Board guidance on the "Review of Interim Financial Information".

The preparation of the half year financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are consistent with those that applied to the consolidated financial statements for the year ended 31 March 2019, with the exception of changes in estimates that are required in determining the half year provision of income taxes, and as a result of adopting IFRS 16 'Leases'. The most significant of these relate to the following matters:

**PENNON GROUP PLC****Notes to condensed half year financial information (continued)****2. Basis of preparation (continued)**

The discount rate used in the calculation of the lease liability involves estimation. The discount rate is calculated on a lease by lease basis. For vehicle leases, which account for less than 1% of the present value of future lease payments, the discount rate is determined by the implicit rate within the lease. For all other leases, where implicit rates are not available, discount rates are calculated using the Group's estimated Incremental Borrowing Rate ('IBR') for each lease. The IBR is determined with reference to applicable reference rate borrowing curves (e.g. LIBOR or its successor), credit margins for the different business segments and lease terms. At the commencement of new leases, discount rates are updated to ensure the Group applies the IBR that reflects current market conditions. At 1 April 2019, the date of transition to IFRS 16, the range of rates used was between 2.43% and 4.5% and the weighted average IBR across all leases was 3.6%. If the weighted average rate used was increased by 10bps, this would result in a c.0.9% reduction in the present value of lease liabilities recognised at 1 April 2019.

The tax charge for September 2019 and September 2018 has been derived by applying the anticipated effective annual rate to the first half year profit before tax.

**3. Accounting policies**

Other than the revised policy on leases as a result of the application of IFRS 16, as set out in note 21 below, the accounting policies adopted in this condensed half year financial information are consistent with those applied and set out in the Pennon Group plc Annual Report and Accounts for the year ended 31 March 2019 and are in accordance with all IFRSs and interpretations of the IFRS Interpretations Committee expected to be applicable for the year ending 31 March 2020 in issue which have been adopted by the EU.

Other than the adoption of IFRS 16, which is explained in note 21, new standards or interpretations which were mandatory for the first time in the year beginning 1 April 2019 did not have a material impact on the net assets or results of the Group.

New standards or interpretations due to be adopted from 1 April 2020 are not expected to have a material impact on the Group's net assets or results. Existing borrowing covenants are not impacted by changes in accounting standards.

**PENNON GROUP PLC**
**Notes to the condensed half year financial information (continued)**
**4. Segmental information**

Operating segments are reported in a manner consistent with internal reporting provided to the Chief Operating Decision-Maker, which has been identified as the Pennon Group plc Board.

The water business comprises the regulated water and wastewater services undertaken by South West Water. The waste management business is the recycling, energy recovery and waste management services provided by Viridor. The non-household retail business reflects the services provided by Pennon Water Services.

	<b>Unaudited</b>	
	<b>Half year ended 30 September 2019 £m</b>	<b>Half year ended 30 September 2018 £m</b>
<b>Revenue</b>		
Water	<b>292.9</b>	301.5
Waste management	<b>388.1</b>	422.3
Non-household retail	<b>86.6</b>	84.1
Other	<b>10.3</b>	10.6
Less intra-segment trading	<b>(65.5)</b>	(71.8)
	<b>712.4</b>	746.7
<b>Segment result</b>		
<b>Operating profit before depreciation, amortisation and non-underlying items (EBITDA)</b>		
Water	<b>190.6</b>	194.7
Waste management	<b>92.4</b>	78.4
Non-household retail	<b>0.9</b>	0.9
Other	<b>-</b>	-
	<b>283.9</b>	274.0
<b>Operating profit before non-underlying items</b>		
Water	<b>131.5</b>	135.9
Waste management	<b>48.7</b>	42.1
Non-household retail	<b>0.6</b>	0.5
Other	<b>(0.1)</b>	-
	<b>180.7</b>	178.5
<b>Profit before tax and non-underlying items</b>		
Water	<b>96.2</b>	100.3
Waste management	<b>41.5</b>	36.2
Non-household retail	<b>(0.3)</b>	(0.5)
Other	<b>5.5</b>	6.5
	<b>142.9</b>	142.5
<b>Profit before tax</b>		
Water	<b>114.2</b>	91.2
Waste management	<b>43.7</b>	36.2
Non-household retail	<b>(0.3)</b>	(0.5)
Other	<b>5.5</b>	6.7
	<b>163.1</b>	133.6

The impact of IFRS 16 on the segmental profit above is outlined in section (iii) of the Alternative Performance Measures (APM) on pages 70 to 71.



# PENNON GROUP PLC

## Notes to the condensed half year financial information (continued)

### 4. Segmental information (continued)

Intra-segment trading between different segments is under normal market based commercial terms and conditions. Intra-segment revenue of the other segment is reflected as a cost.

Factors such as seasonal weather patterns can affect sales volumes, income and costs in both the water and waste management segments.

The grouping of revenue streams by how they are affected by economic factors, as required by IFRS 15, is as follows:

Six months ended 30 September 2019 Unaudited	Water	Waste Management (WM)					Non-Household Retail	Other	Total
	UK Total	UK	Rest of EU	China	Rest of World	WM Total	UK Total	UK Total	
	£m	£m	£m	£m	£m	£m	£m	£m	
Segment revenue	292.9	371.4	7.5	3.4	5.8	388.1	86.6	10.3	777.9
Inter-segment revenue	(53.4)	-	-	-	-	-	(1.8)	(10.3)	(65.5)
Revenue from external customers	239.5	371.4	7.5	3.4	5.8	388.1	84.8	-	712.4
Significant service lines									
Water	239.5	-	-	-	-	-	-	-	239.5
Non-household retail	-	-	-	-	-	-	84.8	-	84.8
Waste management services	-	295.7	-	-	-	295.7	-	-	295.7
Energy	-	48.9	-	-	-	48.9	-	-	48.9
Recyclate	-	26.8	7.5	3.4	5.8	43.5	-	-	43.5
	239.5	371.4	7.5	3.4	5.8	388.1	84.8	-	712.4

Six months ended 30 September 2018 Unaudited	Water	Waste Management (WM)					Non-Household Retail	Other	Total
	UK Total	UK	Rest of EU	China	Rest of World	WM Total	UK Total	UK Total	
	£m	£m	£m	£m	£m	£m	£m	£m	
Segment revenue	301.5	400.1	6.6	10.6	5.0	422.3	84.1	10.6	818.5
Inter-segment revenue	(59.9)	-	-	-	-	-	(1.3)	(10.6)	(71.8)
Revenue from external customers	241.6	400.1	6.6	10.6	5.0	422.3	82.8	-	746.7
Significant service lines									
Water	241.6	-	-	-	-	-	-	-	241.6
Non-household retail	-	-	-	-	-	-	82.8	-	82.8
Waste management services	-	342.8	-	-	-	342.8	-	-	342.8
Energy	-	26.0	-	-	-	26.0	-	-	26.0
Recyclate	-	31.3	6.6	10.6	5.0	53.5	-	-	53.5
	241.6	400.1	6.6	10.6	5.0	422.3	82.8	-	746.7

**PENNON GROUP PLC**
**Notes to the condensed half year financial information (continued)**
**5. Non-underlying items**

Non-underlying items are those that in the Directors' view are required to be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance in the period and business trends over time.

	<b>Unaudited</b>	
	<b>Half year ended 30 September 2019 £m</b>	Half year ended 30 September 2018 £m
<b>Operating costs</b>		
Pension past service credit (1)	<b>2.2</b>	-
<b>Total operating costs</b>	<b>2.2</b>	-
Remeasurement of fair value movement in derivatives (2)	<b>18.0</b>	(8.9)
Tax (charge) / credit arising on non-underlying items	<b>(5.2)</b>	1.7
<b>Net non-underlying credit / (charge)</b>	<b>15.0</b>	(7.2)

- 1 Upon cessation of the Greater Manchester contract, Viridor employees on this contract transferred to the new contract provider. Accordingly, defined benefit pension commitments for these employees are in the process of being transferred. The past service credit of £2.2m (H1 2018/19: £nil) reflects curtailment and other gains resulting from active employees moving to deferred status in these schemes. As a result of the contract termination a surplus amount relating to one of the pension schemes associated with this contract now becomes recoverable. Accordingly, a gain of £12.2m, along with an associated tax charge of £2.3m, have been recognised in the statement of comprehensive income.
- 2 In the period a gain of £18.0m was recognised relating to non-cash derivative fair value movements associated with derivatives that are not designated as being party to an accounting hedge relationship (H1 2018/19 charge of £8.9m). In the period these instruments were early settled, as the instruments no longer met the Group's accounting hedging requirements, and this has locked in the mark to market gain. These movements are non-underlying due to the nature of the item being market dependant and potentially can be significant in value (size).

**PENNON GROUP PLC**
**Notes to the condensed half year financial information (continued)**
**6. Net finance costs**

	<b>Unaudited</b>					
	<b>Half year ended 30 September 2019</b>			<b>Half year ended 30 September 2018</b>		
	<b>Finance cost £m</b>	<b>Finance income £m</b>	<b>Total £m</b>	<b>Finance cost £m</b>	<b>Finance income £m</b>	<b>Total £m</b>
<b>Cost of servicing debt</b>						
Bank borrowings and overdrafts	(28.7)	-	(28.7)	(25.0)	-	(25.0)
Interest element of IAS 17 finance lease rentals	(19.8)	-	(19.8)	(19.6)	-	(19.6)
Interest element of IAS 17 operating lease rentals	(2.0)	-	(2.0)	-	-	-
Other finance costs	(1.5)	-	(1.5)	(1.4)	-	(1.4)
Interest receivable	-	1.9	1.9	-	1.7	1.7
Interest receivable on shareholder loans to joint ventures	-	3.4	3.4	-	2.5	2.5
	<b>(52.0)</b>	<b>5.3</b>	<b>(46.7)</b>	<b>(46.0)</b>	<b>4.2</b>	<b>(41.8)</b>
<b>Notional interest</b>						
Interest receivable on service concession arrangements	-	7.4	7.4	-	7.3	7.3
Retirement benefit obligations	(0.8)	-	(0.8)	(0.9)	-	(0.9)
Unwinding of discounts on provisions	(5.0)	-	(5.0)	(5.4)	-	(5.4)
	<b>(5.8)</b>	<b>7.4</b>	<b>1.6</b>	<b>(6.3)</b>	<b>7.3</b>	<b>1.0</b>
<b>Net finance costs before non-underlying items</b>	<b>(57.8)</b>	<b>12.7</b>	<b>(45.1)</b>	<b>(52.3)</b>	<b>11.5</b>	<b>(40.8)</b>
<b>Non-underlying items (note 5)</b>						
Fair value remeasurement of non-designated derivative financial instruments, providing commercial hedges	-	18.0	18.0	(8.9)	-	(8.9)
	-	18.0	18.0	(8.9)	-	(8.9)
<b>Net finance costs after non-underlying items</b>	<b>(57.8)</b>	<b>30.7</b>	<b>(27.1)</b>	<b>(61.2)</b>	<b>11.5</b>	<b>(49.7)</b>

Interest charged on lease rentals increased under IFRS 16 due to the addition of interest of £2.0m attributable to leases previously classified as 'operating leases' under IAS 17. Refer to note 21 for further details regarding the impact of IFRS 16.

**PENNON GROUP PLC**
**Notes to the condensed half year financial information (continued)**
**7. Taxation**

	<b>Unaudited</b>					
	<b>Before non-underlying items half year ended 30 September 2019 £m</b>	<b>Non-underlying items (note 5) half year ended 30 September 2019 £m</b>	<b>Total half year ended 30 September 2019 £m</b>	<b>Before non-underlying items half year ended 30 September 2018 £m</b>	<b>Non-underlying items (note 5) half year ended 30 September 2018 £m</b>	<b>Total half year ended 30 September 2018 £m</b>
<b>Analysis of charge</b>						
Current tax charge	<b>8.8</b>	<b>16.3</b>	<b>25.1</b>	12.4	-	12.4
Deferred tax charge/ (credit)	<b>15.6</b>	<b>(11.1)</b>	<b>4.5</b>	6.9	(1.7)	5.2
Tax charge/ (credit) for the period	<b>24.4</b>	<b>5.2</b>	<b>29.6</b>	19.3	(1.7)	17.6

UK corporation tax is calculated at 19% (H1 2018/19 19%) of the estimated assessable profit for the year. The tax charge for September 2019 and September 2018 has been derived by applying the anticipated effective annual tax rate to the first half year profit before tax.

Tax on amounts included in the consolidated statement of comprehensive income, or directly in equity, is included in those statements respectively.

The effective tax rate for the period before the impact of non-underlying items was 17% (H1 2018/19 14%).

The effective tax rate for the period including the impact of non-underlying items was 18% (H1 2018/19 13%).

**PENNON GROUP PLC**
**Notes to the condensed half year financial information (continued)**
**8. Earnings per share**

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, excluding those held in the employee share trust which are treated as cancelled. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to include all dilutive potential ordinary shares.

The weighted average number of shares and earnings used in the calculations were:

	<b>Unaudited</b>	
	<b>Half year ended 30 September 2019</b>	Half year ended 30 September 2018
<b>Number of shares (millions)</b>		
<b>For basic earnings per share</b>	<b>420.0</b>	419.3
Effect of dilutive potential ordinary shares from share options	<b>1.5</b>	1.1
<b>For diluted earnings per share</b>	<b>421.5</b>	420.4

*Adjusted basic and diluted earnings per ordinary share*

Adjusted earnings per share are presented to provide a more useful comparison on business trends and performance. Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance (as described in note 5). Perpetual capital returns are proportionately adjusted to allow a more useful comparison in the period. Earnings per share have been calculated as follows:

	<b>Unaudited</b>					
	<b>Half year ended 30 September 2019</b>			<b>Half year ended 30 September 2018</b>		
	<b>Profit after tax £m</b>	<b>Earnings per share</b>		<b>Profit after tax £m</b>	<b>Earnings per share</b>	
		<b>Basic p</b>	<b>Diluted p</b>		<b>Basic p</b>	<b>Diluted p</b>
Statutory earnings	<b>126.6</b>	<b>30.1</b>	<b>30.0</b>	107.5	25.6	25.5
Deferred tax before non-underlying items	<b>15.6</b>	<b>3.8</b>	<b>3.8</b>	6.9	1.7	1.7
Non-underlying items (net of tax)	<b>(15.0)</b>	<b>(3.6)</b>	<b>(3.6)</b>	7.2	1.7	1.7
Proportionate impact of perpetual capital returns (note 12)	<b>3.5</b>	<b>0.8</b>	<b>0.8</b>	4.3	1.0	1.0
<b>Earnings before non-underlying items and deferred tax</b>	<b>130.7</b>	<b>31.1</b>	<b>31.0</b>	125.9	30.0	29.9

**PENNON GROUP PLC**
**Notes to the condensed half year financial information (continued)**
**9. Dividends**

**Amounts recognised as distributions to ordinary equity holders in the period:**

	<b>Unaudited</b>	
	<b>Half year ended 30 September 2019 £m</b>	Half year ended 30 September 2018 £m
Interim dividend paid for the year ended 31 March 2019: 12.84p (2018 11.97p) per share	<b>54.0</b>	50.2
Final dividend paid for the year ended 31 March 2019: 28.22p (2018 26.62p) per share	<b>118.6</b>	111.8
	<b>172.6</b>	162.0

In the six months to 30 September 2019 the 2018/19 interim and final dividends were paid resulting in a cash outflow of £172.6m.

	<b>Unaudited</b>	
	<b>Half year ended 30 September 2019 £m</b>	Half year ended 30 September 2018 £m
<b>Proposed interim dividend</b>		
Proposed interim dividend for the year ended 31 March 2020: 13.66p (2019 12.84p) per share	<b>57.4</b>	54.0

The proposed interim dividend has not been included as a liability in this condensed half year financial information.

The proposed interim dividend for 2020 will be paid on 3 April 2020 to shareholders on the register on 24 January 2020.

**PENNON GROUP PLC**
**Notes to the condensed half year financial information (continued)**
**10. Share capital**
**Allotted, called up and fully paid**

Allotted, called up and fully paid	Unaudited		
	Number of shares		
1 April 2018 to 30 September 2018	Treasury shares	Ordinary shares	£m
At 1 April 2018 Ordinary shares of 40.7p each	8,443	419,743,183	170.8
For consideration of £3.7m, shares issued in respect of the Company's Sharesave Scheme	-	563,592	0.2
At 30 September 2018 ordinary shares of 40.7p each	8,443	420,306,775	171.0

	Unaudited		
	Number of shares		
	Treasury shares	Ordinary shares	£m
<b>1 April 2019 to 30 September 2019</b>			
At 1 April 2019 Ordinary shares of 40.7p each	8,443	420,520,598	171.1
For consideration of £2.6m, shares issued in respect of the Company's Sharesave Scheme	-	353,265	0.2
<b>At 30 September 2019 ordinary shares of 40.7p each</b>	<b>8,443</b>	<b>420,873,863</b>	<b>171.3</b>

Shares held as treasury shares may be sold, re-issued for any of the Company's share schemes, or cancelled.

The weighted average market price of the Company's shares at the date of exercise of Sharesave Scheme options during the year was 760p (H1 2018/19 753p).



**PENNON GROUP PLC**
**Notes to the condensed half year financial information (continued)**

11.	<b>Share premium account</b>		<b>Unaudited</b>
			£m
	<b>1 April 2018 to 30 September 2018</b>		
	At 1 April 2018		218.8
	Shares issued under the Sharesave Scheme		3.5
	At 30 September 2018		<u>222.3</u>
	<b>1 April 2019 to 30 September 2019</b>		
	At 1 April 2019		223.6
	Shares issued under the Sharesave Scheme		2.4
	<b>At 30 September 2019</b>		<u><b>226.0</b></u>
12.	<b>Perpetual capital securities</b>		
		<b>Unaudited</b>	
		<b>Half year ended</b>	<b>Year ended</b>
		<b>30 September</b>	<b>31 March</b>
		<b>2019</b>	<b>2019</b>
		<b>£m</b>	<b>£m</b>
	GBP 300m 2.875% perpetual subordinated capital securities	<b>296.7</b>	296.7
		<u><b>296.7</b></u>	<u>296.7</u>

On 22 September 2017 the Company issued £300m perpetual capital securities. Costs directly associated with the issue of £3.3m were set off against the value of the issuance. They have no fixed redemption date but the Company can at its sole discretion redeem all, but not part, of these securities at their principal amount on 22 May 2020 or any subsequent periodic return payment date after this.

The Company has the option to defer periodic returns on any relevant payment date, as long as a dividend on the Ordinary Shares has not been paid or declared in the previous 12 months. Deferred periodic returns shall be satisfied only on redemption or payment of dividend on Ordinary Shares, all of which only occur at the sole discretion of the Company.

As the Company paid a dividend on 4 April 2019 the periodic return of £8.6m, scheduled 22 May 2020, is payable and consequently has been recognised as a liability at 30 September 2019.

**PENNON GROUP PLC**
**Notes to the condensed half year financial information (continued)**
**13. Cash flow from operating activities**

Reconciliation of profit for the period to net cash inflow from operations:

	<b>Unaudited</b>	
	<b>Half year ended 30 September 2019</b>	<b>Half year ended 30 September 2018</b>
	<b>£m</b>	<b>£m</b>
<b>Cash generated from operations</b>		
Profit for the period	<b>133.5</b>	116.0
Adjustments for:		
Share-based payments	<b>2.0</b>	1.9
Profit on disposal of property, plant and equipment	<b>(2.5)</b>	(0.2)
Depreciation charge	<b>100.7</b>	93.0
Amortisation of intangible assets	<b>2.5</b>	2.5
Non-underlying pension past service credit (note 5)	<b>(2.2)</b>	-
Non-underlying remeasurement of fair value movement in derivatives (note 5)	<b>(18.0)</b>	8.9
Share of post-tax profit from joint ventures	<b>(7.3)</b>	(4.8)
Finance income (before non-underlying items)	<b>(12.7)</b>	(11.5)
Finance costs (before non-underlying items)	<b>57.8</b>	52.3
Taxation charge	<b>29.6</b>	17.6
Changes in working capital:		
Increase in inventories	<b>(1.9)</b>	(5.6)
Increase in trade and other receivables	<b>(2.0)</b>	(66.0)
Increase in service concession arrangements receivable	<b>(12.4)</b>	(1.3)
Increase / (decrease) in trade and other payables	<b>19.5</b>	(42.3)
(Decrease) / Increase in retirement benefit obligations from contributions	<b>(29.3)</b>	2.0
Decrease in provisions	<b>(13.1)</b>	(10.8)
Cash generated from operations	<b>244.2</b>	151.7
	<b>Unaudited</b>	
	<b>Half year ended 30 September 2019</b>	<b>Half year ended 30 September 2018</b>
	<b>£m</b>	<b>£m</b>
<b>Total interest paid</b>		
Interest paid in operating activities	<b>38.0</b>	31.4
Interest paid in investing activities	<b>6.1</b>	8.3
Total interest paid	<b>44.1</b>	39.7

**PENNON GROUP PLC**
**Notes to the condensed half year financial information (continued)**

Interest paid in operating activities increased under IFRS 16 due to the addition of cash paid of £1.8m (H1 2018/19 £nil) attributable to leases previously classified as 'operating leases' under IAS 17. Refer to note 21 for further details regarding the impact of IFRS 16.

**14. Net borrowings**

	<b>Unaudited</b>	
	<b>Half year</b>	Year ended
	<b>ended 30</b>	31 March
	<b>September</b>	2019
	<b>2019</b>	2019
	<b>£m</b>	£m
<b>Cash and cash deposits</b>	<b>528.0</b>	569.6
<i>Borrowings – current</i>		
Bank and other loans	<b>(10.2)</b>	(59.8)
Other current borrowings	<b>(27.0)</b>	(27.0)
Leases (IAS 17 finance)	<b>(78.7)</b>	(63.6)
Leases (IAS 17 operating)	<b>(9.0)</b>	-
<b>Total current borrowings</b>	<b>(124.9)</b>	(150.4)
<i>Borrowings – non-current</i>		
Bank and other loans	<b>(1,674.7)</b>	(1,628.0)
Other non-current borrowings	<b>(357.4)</b>	(373.9)
Leases (IAS 17 finance)	<b>(1,557.7)</b>	(1,496.8)
Leases (IAS 17 operating)	<b>(109.3)</b>	-
<b>Total non-current borrowings</b>	<b>(3,699.1)</b>	(3,498.7)
<b>Total net borrowings</b>	<b>(3,296.0)</b>	(3,079.5)

Refer to note 21 for further details regarding the impact of IFRS 16 Leases. References above to IAS 17 finance and IAS 17 operating leases represent the classification of these lease balances under IAS 17 prior to implementation of IFRS 16.

The movements in net borrowings during the periods presented were as follows:

	Unaudited				
	Net		Foreign	Other non-	Net
	borrowings	Cash flows -	exchange	cash	borrowings
	at 1 April	other	adjustments	movements	at 30
	2018	£m	£m	£m	September
	£m	£m	£m	£m	2018
Cash and cash deposits	585.3	(179.6)	-	-	405.7
Bank and other loans due within one year	(149.6)	-	-	96.9	(52.7)
Other current borrowings	(32.0)	16.1	-	(13.6)	(29.5)
Leases due within one year	(28.2)	28.9	-	(27.9)	(27.2)
Bank and other loans due after one year	(1,408.8)	(50.0)	(0.9)	(96.6)	(1,556.3)
Other non-current borrowings	(291.4)	-	-	13.5	(277.9)
Leases due after one year	(1,476.8)	(35.0)	-	7.8	(1,504.0)
<b>Total</b>	<b>(2,801.5)</b>	<b>(219.6)</b>	<b>(0.9)</b>	<b>(19.9)</b>	<b>(3,041.9)</b>

**PENNON GROUP PLC**
**Notes to the condensed half year financial information (continued)**
**14. Net borrowings (continued)**

	Unaudited					Net borrowings at 30 September 2019
	Net borrowings at 1 April 2019	Adjustment for transition to new accounting standard (note 21)	Cash flows - other	Foreign exchange adjustments	Other non-cash movements	
	£m	£m	£m	£m	£m	£m
Cash and cash deposits	569.6	-	(41.6)	-	-	528.0
Bank and other loans due within one year	(59.8)	-	53.6	-	(4.0)	(10.2)
Other current borrowings	(27.0)	-	13.5	-	(13.5)	(27.0)
Leases (IAS 17 finance) due within one year	(63.6)	-	12.3	-	(27.4)	(78.7)
Leases (IAS 17 operating) due within one year	-	(8.9)	5.8	-	(5.9)	(9.0)
Bank and other loans due after one year	(1,628.0)	-	(49.9)	(1.1)	4.3	(1,674.7)
Other non-current borrowings	(373.9)	-	-	-	16.5	(357.4)
Leases (IAS 17 finance) due after one year	(1,496.8)	-	(85.0)	-	24.1	(1,557.7)
Leases (IAS 17 operating) due after one year	-	(112.3)	-	-	3.0	(109.3)
<b>Total</b>	<b>(3,079.5)</b>	<b>(121.2)</b>	<b>(91.3)</b>	<b>(1.1)</b>	<b>(2.9)</b>	<b>(3,296.0)</b>

During the half year ended 30 September 2019, the Group raised £85m through sale and leaseback transactions of certain water and waste water assets including, where possible, eligible assets under the Group's sustainable financing framework. This did not meet the revenue recognition criteria under IFRS 15 and has been reflected as a financing transaction.

For the purposes of the cash flow statement cash and cash equivalents comprise:

	Unaudited Half year ended 30 September 2019	Year ended 31 March 2019
	£m	£m
Cash and cash deposits as above	528.0	569.6
Less: deposits with a maturity of three months or more (restricted funds)	(208.9)	(203.9)
	<b>319.1</b>	<b>365.7</b>

Restricted funds are available for access, subject to being replaced by an equivalent valued security.

**PENNON GROUP PLC**
**Notes to the condensed half year financial information (continued)**
**15. Fair value disclosure for financial instruments**
**Fair value of financial instruments carried at amortised cost**

Financial assets and liabilities which are not carried at an amount which approximates to their fair value are:

	<b>Unaudited</b>			
	<b>Half year ended 30 September 2019</b>		<b>Year ended 31 March 2019</b>	
	<b>Book value</b>	<b>Fair value</b>	<b>Book value</b>	<b>Fair value</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Non-current borrowings:				
Bank and other loans	<b>1,674.7</b>	<b>1,946.3</b>	1,628.0	1,828.9
Other non-current borrowings	<b>357.4</b>	<b>337.7</b>	373.9	345.2
Non-current borrowings excluding leases	<b>2,032.1</b>	<b>2,284.0</b>	2,001.9	2,174.1
Lease obligations (IAS 17 finance)	<b>1,557.7</b>	<b>1,497.4</b>	1,496.8	1,431.6
Total non-current borrowings	<b>3,589.8</b>	<b>3,781.4</b>	3,498.7	3,605.7
Other non-current assets	<b>263.8</b>	<b>276.2</b>	256.4	270.5

The carrying and fair values at 30 September 2019 exclude newly capitalised leases, that were previously classified as operating leases under IAS 17, following adoption of IFRS 16.

**Valuation hierarchy of financial instruments carried at fair value**

The Group uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

The fair value of financial instruments not traded in an active market (level 2, for example over-the-counter derivatives) is determined by using valuation techniques. A variety of methods and assumptions are used based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The Group's financial instruments are valued principally using level 2 measures:

	<b>Unaudited</b>	
	<b>Half year ended 30 September 2019 £m</b>	<b>Year ended 31 March 2019 £m</b>
<b>Level 2 inputs</b>		
<b>Assets</b>		
Derivatives used for hedging	<b>5.9</b>	6.5
Derivatives deemed held for trading	-	75.8
Total assets	<b>5.9</b>	82.3
<b>Liabilities</b>		
Derivatives used for hedging	<b>38.4</b>	20.5
Derivatives deemed held for trading	<b>0.4</b>	0.5
Total liabilities	<b>38.8</b>	21.0

**PENNON GROUP PLC**
**Notes to the condensed half year financial information (continued)**
**16. Retirement benefit obligations**
**Defined benefit schemes**

The principal actuarial assumptions were: the rate used to discount schemes' liabilities and expected return on scheme assets of 1.80% (March 2019 2.40%) and the inflation assumption of 3.10% (March 2019 3.30%).

	<b>Unaudited</b>					
	<b>Half year ended 30 September 2019</b>			<b>Year ended 31 March 2019</b>		
	<b>Present value of obligation £m</b>	<b>Fair value of plan assets £m</b>	<b>Total £m</b>	<b>Present value of obligation £m</b>	<b>Fair value of plan assets £m</b>	<b>Total £m</b>
At beginning of period	(994.8)	934.0	(60.8)	(948.0)	898.5	(49.5)
Amounts recognised in the income statement	(13.9)	10.5	(3.4)	(41.3)	23.8	(17.5)
Remeasurements through other comprehensive income	(85.2)	76.9	(8.3)	(37.4)	20.2	(17.2)
Company contributions	-	34.0	34.0	-	23.4	23.4
Benefits and expenses paid	20.4	(20.4)	-	31.9	(31.9)	-
At end of period	(1,073.5)	1,035.0	(38.5)	(994.8)	934.0	(60.8)

Net pension liabilities decreased by £17.2m following the Group's decision to voluntarily accelerate a significant proportion of the planned deficit recovery payments.

Included within the total obligations and assets noted above are defined benefit pension commitments in connection with the Greater Manchester contract operated by Viridor. Upon cessation of the Greater Manchester contract, Viridor employees on this contract transferred to the new contract provider. Accordingly, defined benefit pension commitments for these employees are in the process of being transferred. Within 'amounts recognised in the income statement' is the past service credit of £2.2m (H1 2018/19: £nil), which reflects curtailment and other gains resulting from active employees moving to deferred status in these pension schemes. Furthermore, as a result of the contract termination a surplus amount relating to one of the pension schemes associated with this contract now becomes recoverable. Accordingly, a gain of £12.2m is included within 'remeasurements through other comprehensive income'.

**17. Capital expenditure**

	<b>Unaudited</b>	
	<b>Half year ended 30 September 2019 £m</b>	<b>Year ended 31 March 2019 £m</b>
<b>Property, plant and equipment</b>		
Additions	166.3	387.2
Net book value of disposals	13.7	2.6
<b>Capital commitments</b>		
Contracted but not provided	204.6	201.0

**PENNON GROUP PLC**
**Notes to the condensed half year financial information (continued)**
**18. Trade and other payables & other non-current liabilities**

	<b>Unaudited</b>	
	<b>Half year ended</b>	<b>Year ended</b>
	<b>30 September</b>	<b>31 March</b>
	<b>2019</b>	<b>2019</b>
	<b>£m</b>	<b>£m</b>
<b>Trade and other payables - current</b>		
Trade payables	<b>99.0</b>	127.6
Contract liabilities	<b>9.9</b>	10.3
Amounts owed to joint ventures	<b>3.1</b>	4.1
Other tax and social security	<b>52.6</b>	32.5
Accruals and other payables	<b>119.7</b>	123.5
	<b>284.3</b>	298.0
<b>Other non-current liabilities</b>		
Contract liabilities	<b>119.6</b>	116.1
Deferred income	<b>7.0</b>	7.5
Other payables	<b>20.0</b>	24.3
	<b>146.6</b>	147.9

**19. Contingencies**  
**Contingent liabilities**

	<b>Unaudited</b>	
	<b>Half year ended</b>	<b>Year ended</b>
	<b>30 September 2019</b>	<b>31 March 2019</b>
	<b>£m</b>	<b>£m</b>
Performance bonds	<b>202.0</b>	201.7

Guarantees in respect of performance bonds are entered into in the normal course of business. No liability is expected to arise in respect of the guarantees.

***Other contractual and litigation uncertainties***

The Group establishes provisions in connection with contracts and litigation where it has a present legal or constructive obligation as a result of past events and where it is more likely than not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Matters where it is uncertain that these conditions are met include a potential prosecution by authorities such as the Health and Safety Executive.

**Contingent assets**

In addition to contractual recoveries related to our construction contracts in respect of Glasgow Recycling and Renewable Energy Centre that are reflected in the financial statements, there are further possible recoveries that are contingent on events in the future that are not wholly within the Group's control. These contingent assets of £25m have not been recognised as at 30 September 2019. Further details of this matter were provided in the Annual Report and Accounts for the year ended 31 March 2019.



**Notes to the condensed half year financial information (continued)**
**20. Related party transactions**

The Group's significant related parties during the period were its joint venture in Lakeside Energy from Waste Holdings Limited and its joint venture in INEOS Runcorn (TPS) Holdings Limited, for which disclosures were made in the Pennon Group plc Annual Report and Accounts for the year ended 31 March 2019.

There were no material changes during the half year to September 2019 in the nature of transactions with these related parties.

**21. Change in accounting policy on leases**
***Adjustments recognised on the adoption of IFRS 16***

This note explains the impact of the adoption of IFRS 16 'Leases' on the Group's financial statements, and it discloses the new accounting policies that have been adopted from 1 April 2019, where they are different from those applied in earlier periods.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 'leases'. These liabilities were measured at the present value of the remaining leases payments, discounted using the Group's weighted average Incremental Borrowing Rate of 3.6%.

Following adoption of IFRS 16, the Group no longer distinguishes between an on the balance sheet finance lease and an off the balance sheet operating lease. For Leases previously classified as finance leases, the Group recognised the carrying amount of leased assets and lease liabilities immediately prior to transition as the carrying amount of the right-of-use asset and lease liability at the date of initial application. The measurement principles of IFRS 16 only apply after this date.

As permitted under IFRS 16 the Group will present right-of-use assets and lease liabilities within property, plant and equipment and borrowings respectively. This approach is consistent with the Group's previous presentation of Finance leases under IAS 17.

At 31 March 2019 the Group had non-cancellable operating lease commitments of £195.7m. These predominantly relate to leases of properties occupied by the Group in the course of carrying out its businesses.

On transition on 1 April 2019, the Group recognised the following items in the balance sheet:

- right-of-use assets - increase by £107.7m
- prepayments - decrease by £0.5m
- lease liabilities - increase by £121.2m
- accruals – decrease by £4.4m
- deferred tax assets - increase by £1.6m
- retained earnings – decreased by £8.0m

**PENNON GROUP PLC**
**Notes to the condensed half year financial information (continued)**
**21. Change in accounting policy on leases (continued)**

A reconciliation of the lease liability recognised at 1 April 2019 to operating lease commitments at 31 March 2019 is shown below:

	<b>£m</b>
IAS 17 operating lease commitments	195.7
Less: contracts to which the short-term leases exemption has been applied	(0.1)
Less: contracts to which the low-value leases exemption has been applied	(1.6)
Add: adjustment due to different assessment of lease term	0.6
Less: Impact of discounting at weighted average discount rate of 3.6%	(73.4)
<b>Operating Lease liabilities recognised at 31 March 2019</b>	<b>121.2</b>
Add: finance lease liabilities recognised at 31 March 2019	1,560.4
<b>IFRS 16 lease liability as at 1 April 2019</b>	<b>1,681.6</b>
Of which:	
Current lease liabilities	72.5
Non-current lease liabilities	1,609.1
	<b>1,681.6</b>

Associated right-of-use assets for selected land and building leases were measured on a retrospective basis as if the IFRS 16 had always applied from lease inception. All remaining right-of-use assets were measured at the amount equal to the lease liability, adjusted by prepaid or accrued lease payments under IFRS 16 transition provisions relating to leases recognised on the balance sheet at 31 March 2019.

A reconciliation between the opening lease liabilities and right-of-use assets at 1 April 2019 is shown below:

	<b>£m</b>
Lease liabilities following first application of IFRS 16	121.2
Less: adjustment for onerous lease accruals	(1.5)
Less: adjustment for other accruals	(2.9)
Add: adjustment for prepaid lease rentals	0.5
Less: adjustment due to application of IFRS 16 at lease inception	(9.6)
<b>Right-of-use assets on first application of IFRS 16</b>	<b>107.7</b>

In applying IFRS 16 for the first time, the Group has used the following practical expedients and made the following elections permitted by the standard:

- the use of single discount rates to portfolios of leases with similar characteristics
- reliance on previous onerous lease assessments
- account for operating leases with terms less than 12 months as at 1 April 2019 as short-term leases
- the application of hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease
- Applying the modified retrospective approach: the cumulative effect of initially applying IFRS 16 has been calculated as a reduction to retained profits at 1 April 2019 of £8.0m. Under this election no restatement of comparative figures will be made
- Electing to apply the standard to contracts that were previously identified as leases when applying IAS 17

**PENNON GROUP PLC**
**Notes to the condensed half year financial information (continued)**
**21. Change in accounting policy on leases (continued)**

A summary of opening and closing right-of-use assets are shown below:

	<b>As at 30 September 2019 £m</b>	As at 1 April 2019 £m
Land and buildings	<b>97.1</b>	100.6
Infrastructure assets	<b>357.6</b>	360.2
Operational properties	<b>340.6</b>	344.4
Fixed and mobile plant, vehicles and computers	<b>381.0</b>	368.0
Construction in progress	<b>5.2</b>	5.2
<b>Total</b>	<b>1,181.5</b>	1,178.4

The total value of right-of-use assets at 1 April 2019 and 30 September 2019 includes £1,070.7m and £1,077.5m respectively of assets previously classified as 'held under finance leases' within property, plant and equipment in accordance with IAS 17.

Based on the additional lease liability and associated assets recognised at 1 April 2019 it is estimated that the impact on profit for the year ended 31 March 2020 would be a reduction in profit after tax of £1.0 million, resulting from:

- an increase in EBITDA of £13.9m
- an increase in depreciation of £10.9m
- an increase in finance costs of £4.1m; and
- a reduction in corporation tax of £0.1m.

EBITDA increased as operating lease costs previously charged against EBITDA under IAS 17 has been replaced under IFRS 16 with charges for depreciation and interest which are excluded from EBITDA (albeit included in earnings). Short term and low value leasing costs continue to be charged against EBITDA.

Net operating cashflows increased under IFRS 16 as the element of cash paid attributable to the repayment of principal is included in financing cashflows. The net increase / decrease in cash and cash equivalents remains the unchanged.

***Lease accounting policy***

All leases are accounted for by recognising a right-of use-asset and a lease liability except for:

- *Low value assets; and*
- *Leases with a duration of twelve months or less*

***Operating leases under IAS 17***

Contracts previously classified as 'operating leases' are measured at the present value of contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used.

**PENNON GROUP PLC****Notes to the condensed half year financial information (continued)****21 Change in accounting policy on leases (continued)**

After initial measurement lease payments are allocated between the liability and finance cost. The finance cost is charged to profit and loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The interest element of cash payments in respect of these leases is included within interest payments in determining net cash generated from operating activities. The capital element of the cash payment is included within cash flows from financing activities. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or the remaining economic life of the asset if shorter.

When the Group revisits its estimate of lease term (because, for example, it re-assesses an extension option), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which is discounted at the same discount rate that applied on lease commencement. In these circumstances an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

***Finance leases under IAS 17***

Accounting for assets and liabilities previously accounted for as 'finance leases' under IAS 17 will not be impacted.

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Registered in England No 2366640

**PENNON GROUP PLC****DIRECTORS' RESPONSIBILITIES STATEMENT**

The Directors named below confirm on behalf of the Board of Directors that this unaudited condensed half year financial information has been prepared in accordance with IAS 34 "Interim financial reporting" as adopted by the European Union and to the best of their knowledge the interim management report herein includes a fair review of the information required by DTR 4.2.4, DTR 4.2.7R and DTR 4.2.8R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the period and their impact on the unaudited condensed half year financial information; a description of the principal risks and uncertainties for the remaining six months of the current financial year; and the disclosure requirements in respect of material related party transactions.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

The Directors of Pennon Group plc at the date of the signing of this announcement and statement are:

Sir John Parker  
Gill Rider  
Neil Cooper  
Iain Evans  
Claire Ighodaro  
Chris Loughlin  
Susan Davy

For and on behalf of the Board of Directors who approved this half year report on 25 November 2019.

C Loughlin  
Group Chief Executive Officer

S J Davy  
Chief Financial Officer

## **INDEPENDENT REVIEW REPORT TO PENNON GROUP PLC**

### **Introduction**

We have been engaged by the Company to review the condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 30 September 2019 which comprises the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated statement of changes in equity, the Consolidated statement of cash flows and related notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

### **Directors' Responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

### **Our Responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP  
Leeds  
25 November 2019

## Alternative performance measures

Alternative performance measures (APMs) are financial measures used in this report that are not defined by International Financial Reporting Standards (IFRS). The Directors believe that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group as well as enhancing the comparability of information between reporting periods. As the Group defines the APMs they might not be directly comparable to other companies' APMs. They are not intended to be a substitute for, or superior to, IFRS measurements.

### (i) Underlying earnings

Underlying earnings are presented alongside statutory results as the Directors believe they provide a more useful comparison on business trends and performance. Note 5 in the condensed half year financial information provides more detail on non-underlying items, and a reconciliation of underlying earnings for the current year and the prior year is as follows:

#### Underlying earnings reconciliation 30 September 2019

£m	Underlying	Non-underlying items			Earnings per share (p)
		Pension past service credit	Derivative fair value movement	Statutory results	
EBITDA (see below)	283.9	2.2	-	286.1	
Operating profit	180.7	2.2	-	182.9	
Profit before tax	142.9	2.2	18.0	163.1	
Taxation	(24.4)	(0.4)	(4.8)	(29.6)	
Profit after tax (PAT)	118.5	1.8	13.2	133.5	
PAT attributable to perpetual capital holders				7.0	
Non-controlling interests				(0.1)	
PAT attributable to shareholders				126.6	30.1
Deferred tax before non-underlying items				15.6	3.8
Non-underlying items post tax				(15.0)	(3.6)
Proportional adjustment on perpetual capital returns				3.5	0.8
Underlying earnings				130.7	31.1

#### Underlying earnings reconciliation 30 September 2018

£m	Underlying	Non-underlying item		Earnings per share (p)
		Derivative fair value movement	Statutory results	
EBITDA (see below)	274.0	-	274.0	
Operating profit	178.5	-	178.5	
Profit before tax	142.5	(8.9)	133.6	
Taxation	(19.3)	1.7	(17.6)	
Profit after tax (PAT)	123.2	(7.2)	116.0	
PAT attributable to perpetual capital holders			8.6	
Non-controlling interests			(0.1)	
PAT attributable to shareholders			107.5	25.6
Deferred tax before non-underlying items			6.9	1.7
Non-underlying items post tax			7.2	1.7
Proportional adjustment on perpetual capital returns			4.3	1.0
Underlying earnings			125.9	30.0

## Alternative performance measures (continued)

### (ii) EBITDA

EBITDA (Earnings before interest, tax, depreciation and amortisation) is used to assess and monitor operational underlying performance. An adjusted EBITDA is also presented that includes Viridor's share of EBITDA from its joint ventures and finance income on service concession arrangements. This measure is presented to aggregate earnings from all the Viridor ERFs which are accounted for differently depending upon the contractual relationships, as shown in the reconciliation below.

#### Adjusted EBITDA reconciliation

	Half year ended 30 September 2019 £m	Half year ended 30 September 2018 £m
Statutory EBITDA	286.1	274.0
Non-underlying items	(2.2)	-
Underlying EBITDA	283.9	274.0
IFRIC 12 interest receivable <sup>(1)</sup>	7.4	7.3
Joint venture EBITDA <sup>(1)</sup>	20.2	13.4
Adjusted EBITDA	311.5	294.7

(1) These adjustments relate to the waste management business, resulting in adjusted waste management EBITDA of £120.0m (H1 2018/19 £99.1m).



## Alternative performance measures (continued)

### (iii) Consistent accounting basis financial performance

From 1 April 2019 the new accounting standard IFRS 16 'Leases' has been adopted, which results in all leases, whether operating or financing leases under the previous IAS 17 classifications, being treated on a consistent basis within the reported results with the lease being recognised as a liability on the balance sheet along with an associated right of use asset, subject to limited exceptions for short term leases and leases of low value assets, as explained in note 21. As the new standard is effective from 1 April 2019 and the Group has elected to apply the modified retrospective transition approach, our reported results for H1 2018/19 are not restated and reflect pre-IFRS16 accounting standards. For the current financial year FY 2019/20 only, to aid the comparability of reported results with the prior period, the impact of IFRS 16 has been excluded as shown in the reconciliation below to provide performance comparison to the previous reporting period on a consistent accounting basis. These results on a consistent accounting basis are referred to throughout this document.

Income statement	Half year ended 30 September 2019	Half year ended 30 September 2019 (excluding IFRS 16 impact)	Half year ended 30 September 2019 (IFRS 16 Impact)	Half year ended 30 September 2018	Change (excluding IFRS 16 impact)
<b>Underlying</b>					
<b>£m</b>					
Revenue	712.4	712.4	-	746.7	(4.6%)
Operating costs	(428.5)	(435.6)	7.1	(472.7)	+7.8%
EBITDA	283.9	276.8	7.1	274.0	+1.0%
<i>Water</i>	190.6	189.7	0.9	194.7	(2.6%)
<i>Waste management</i>	92.4	86.2	6.2	78.4	+9.9%
<i>Non-household retail</i>	0.9	0.9	-	0.9	-
Depreciation	(103.2)	(97.3)	(5.9)	(95.5)	(1.9%)
Operating profit	180.7	179.5	1.2	178.5	+0.6%
<i>Water</i>	131.5	131.3	0.2	135.9	(3.4%)
<i>Waste management</i>	48.7	47.7	1.0	42.1	+13.3%
<i>Non-household retail</i>	0.6	0.6	-	0.5	+20.0%
<i>Other</i>	(0.1)	(0.1)	-	-	-
Interest	(45.1)	(43.1)	(2.0)	(40.8)	(5.6%)
Share of post-tax profit from joint ventures	7.3	7.3	-	4.8	+52.1%
Profit before tax (PBT)	142.9	143.7	(0.8)	142.5	+0.8%
<i>Water</i>	96.2	96.6	(0.4)	100.3	(3.6%)
<i>Waste management</i>	41.5	41.9	(0.4)	36.2	+15.7%
<i>Non-household retail</i>	(0.3)	(0.3)	-	(0.5)	(40.0%)
<i>Other</i>	5.5	5.5	-	6.5	(15.4%)
Tax	(24.4)	(24.4)	-	(19.3)	(26.4%)
Profit after tax (PAT)	118.5	119.3	(0.8)	123.2	(3.2%)

## Alternative performance measures (continued)

### (iii) Consistent accounting basis financial performance (continued)

	As at 30 September 2019	As at 30 September 2019 (excluding IFRS 16 impact)	As at 30 September 2019 (IFRS 16 Impact)	As at 31 March 2019 (excluding IFRS 16 impact)	Change
<b>Balance sheet</b>					
<b>£m</b>					
<b>Non-current assets</b>	<b>5,471.6</b>	<b>5,367.6</b>	<b>104.0</b>	5,364.5	+0.1%
Current assets	<b>1,058.4</b>	<b>1,058.9</b>	<b>(0.5)</b>	1,095.0	(3.3%)
Current liabilities	<b>(457.8)</b>	<b>(453.2)</b>	<b>(4.6)</b>	(511.1)	+11.3%
<i>Borrowings</i>	<i>(124.9)</i>	<i>(115.9)</i>	<i>(9.0)</i>	<i>(150.4)</i>	+22.9%
<i>Other current liabilities</i>	<i>(332.9)</i>	<i>(337.3)</i>	<i>4.4</i>	<i>(360.7)</i>	+6.5%
<b>Net current assets</b>	<b>600.6</b>	<b>605.7</b>	<b>(5.1)</b>	583.9	3.7%
<b>Non-current liabilities</b>	<b>(4,463.4)</b>	<b>(4,355.7)</b>	<b>(107.7)</b>	(4,268.6)	(2.0%)
<i>Borrowings</i>	<i>(3,699.1)</i>	<i>(3,589.8)</i>	<i>(109.3)</i>	<i>(3,498.7)</i>	(2.6%)
<i>Other non-current liabilities</i>	<i>(764.3)</i>	<i>(765.9)</i>	<i>1.6</i>	<i>(769.9)</i>	(0.5%)
<b>Net assets</b>	<b>1,608.8</b>	<b>1,617.6</b>	<b>(8.8)</b>	1,679.8	(3.7%)

	As at 30 September 2019	As at 30 September 2019 (excluding IFRS 16 impact)	As at 30 September 2019 (IFRS 16 Impact)	As at 31 March 2019 (excluding IFRS 16 impact)	Change
<b>Net debt</b>					
Net debt	3,296.0	3,177.7	118.3	3,079.5	3.2%

### (iv) Effective interest rate

A measure of the mean average interest rate payable on the Group's net debt, which excludes interest costs not directly associated with Group net debt. This measure is presented to assess and monitor the relative cost of financing for the Group.

	Half year ended 30 September 2019	Half year ended 30 September 2018
Net finance costs after non-underlying items	27.1	49.7
Exclude impact of IFRS 16 (shown above)	(2.0)	-
Non-underlying net finance costs	18.0	(8.9)
Interest receivable on shareholder loans to joint ventures	3.4	2.5
Net interest on retirement benefit obligations	(0.8)	(0.9)
Unwinding of discounts on provisions	(5.0)	(5.4)
Interest receivable on service concession agreements	7.4	7.3
Capitalised interest	6.1	8.3
<b>Net finance costs for effective interest rate calculation</b>	<b>54.2</b>	<b>52.6</b>
Opening net debt	3,079.5	2,801.5
Closing net debt (excluding the impact of IFRS 16)	3,177.7	3,041.9
Average net debt (opening net debt + closing net debt divided by 2)	3,128.6	2,921.7
<b>Effective interest rate</b>	<b>3.5%</b>	<b>3.6%</b>

## Alternative performance measures (continued)

### (v) Interest cover

Underlying net finance costs (excluding pensions net interest cost, discount unwind on provisions and IFRIC 12 interest receivable on service concession arrangements) divided by Group operating profit before non-underlying items.

	Half year ended 30 September 2019	Half year ended 30 September 2018
Net finance costs after non-underlying items	27.1	49.7
Exclude impact of IFRS 16 (shown above)	(2.0)	-
Non-underlying net finance costs	18.0	(8.9)
Net interest on retirement benefit obligations	(0.8)	(0.9)
Unwinding of discounts in provisions	(5.0)	(5.4)
Interest receivable on service concession arrangements	7.4	7.3
<b>Net finance costs for interest cover calculation</b>	<b>44.7</b>	<b>41.8</b>
Operating profit before non-underlying items (excluding IFRS 16 impact)	179.5	178.5
<b>Interest cover (times)</b>	<b>4.0</b>	<b>4.4</b>

### (vi) Capital investment

Property, plant and equipment additions plus IFRIC 12 service concession expenditure (ERFs) less landfill restoration asset (spend accounted for through provisions). The measure is presented to assess and monitor the total capital investment by the Group.

	Half year ended 30 September 2019	Half year ended 30 September 2018
Additions to property, plant and equipment	166.3	192.6
Landfill restoration asset	(3.1)	-
IFRIC 12 additions to other intangible assets – service concession agreements	-	1.9
IFRIC 12 additions to non-current assets – service concession agreements	8.8	6.1
IFRIC 12 additions to current trade and other receivables – prepayments and accrued income	-	2.9
less: IFRIC 12 additions subject to legal contractual process	-	(2.9)
<b>Capital investment</b>	<b>172.0</b>	<b>200.6</b>

### (vii) Capital payments

Payments for property, plant and equipment additions net of proceeds from sale of property, plant and equipment plus IFRIC 12 service concession expenditure (ERFs). The measure is presented to assess and monitor the net cash spend on property, plant and equipment.

	Half year ended 30 September 2019	Half year ended 30 September 2018
Cash flow statements: purchase of property, plant and equipment	194.7	181.9
Cash flow statements: proceeds from sale of property, plant and equipment	(10.6)	(0.5)
IFRIC 12 additions to other intangible assets – service concession agreements	-	1.9
IFRIC 12 additions to non-current assets – service concession agreements	8.8	6.1
IFRIC 12 additions to current trade and other receivables – prepayments and accrued income	-	2.9
<b>Capital payments</b>	<b>192.9</b>	<b>192.3</b>

## Alternative performance measures (continued)

### (viii) Operational cash inflows

Cash generated from operations before construction spend on service concession agreements, pension contributions and other tax payments.

	Half year ended 30 September 2019	Half year ended 30 September 2018
Cash generated from operations per cash flow statements	244.2	151.7
IFRIC 12 additions to other intangible assets - service concession agreements	-	1.9
IFRIC 12 additions to non-current assets - service concession agreements	8.8	6.1
IFRIC 12 additions to current trade and other receivables - prepayments and accrued income	-	2.9
Pension contributions	37.9	8.5
Other tax payments <sup>(1)</sup>	48.9	51.2
Payment in respect of terminated synthetic derivative, related to a prior period non-underlying charge	-	44.3
<b>Operational cash inflows</b>	<b>339.8</b>	<b>266.6</b>

(1) Other taxes include business rates, employers' national insurance, fuel excise duty, carbon reduction commitment, environmental payments, climate change levy and external landfill tax.