20 May 2015

Pennon Group Preliminary Results 2014/15

Delivering sustainable profit and dividend growth

Pennon Group Chairman Ken Harvey said:

"The Group has delivered a resilient set of results for 2014/15. South West Water's EBITDA was higher than last year despite the tariff freeze, thanks to a strong focus on cost efficiency, and as expected Viridor's EBITDA exceeded last year. Viridor has made excellent progress in its Energy business bringing five new Energy Recovery Facilities on stream in the year. Pennon is well positioned to continue to deliver profitable growth and consistent, sustainable cash returns to shareholders. The Board was pleased to announce in March the continuation of the current dividend policy, targeting 4% year-on-year growth above RPI inflation to 2020."

	2014/15	2013/14	Change
Group Revenue	£1,357.2m	£1,321.2m	+2.7%
Group EBITDA(1)	£411.0m	£407.3m	+0.9%
South West Water EBITDA(1)	£331.3m	£330.9m	+0.1%
Viridor EBITDA(1)	£80.4m	£76.3m	+5.4%
Viridor Underlying EBITDA(2)	£135.3m	£125.9m	+7.5%
Group Profit Before Tax and exceptional items	£210.7m	£207.3m	+1.6%
Group Profit Before Tax	£197.0m	£158.7m	+24.1%
Exceptional items post-tax	(£11.0m)	(£39.7m)	+72.3%
Capital Investment(3)	£407.3m	£434.1m	(6.2%)
Earnings per share(4)	39.8p	42.6p	(6.6%)
Dividend per share	31.80p	30.31p	+4.9%

(1) EBITDA: Earnings before interest, tax, depreciation, amortisation and exceptional items

(2) EBITDA plus share of joint venture EBITDA and IFRIC 12 interest receivable

(3) Including construction spend on service concession arrangements

(4) Before net exceptional charges and deferred tax. Basic earnings per share (statutory basis) 32.3p

Financial Highlights:

- Revenue up by +2.7% to £1,357.2m

- EBITDA[1] up by +0.9% to £411.0m
  - South West Water up +0.1% to £331.3m, despite 2014/15 tariff freeze thanks to continued cost efficiency
  - Viridor EBITDA up +5.4% to £80.4m, with Energy Recovery Facilities (ERFs) contributing significantly

- Profit before tax[2] up +1.6% to £210.7m
  - South West Water up +3.3% to £167.9m
  - Viridor up +0.4% to £27.7m

- Net exceptional post-tax charge of £11.0m
  - impairment of a small number of landfill sites, and underperforming contracts, partly offset by a reduction in environmental provisions and reduced retirement benefit obligations following pension scheme benefit changes

- Net debt stable at £2,197.1m, implying Net Gearing of 61.9%[3]
  - reflects Pennon Group's efficient financing
  - convertible bonds of £125m fully converted; 20.9m Pennon shares issued
  - financing of £100.3m cash consideration for Bournemouth Water via successful equity placing after year end

- Strong liquidity and financing position
  - cash and committed facilities of £1,741m, of which £771m in cash balances

- Earnings per share[4] down (6.6%) to 39.8p
  - reflecting underlying impact of tariff freeze, which will be recovered on an NPV neutral basis over 2015 – 2020

- Full year dividend up +4.9% to 31.80p
  - policy of 4% year-on-year dividend growth over RPI inflation to continue to 2020

(1) EBITDA: Earnings before interest, tax, depreciation, amortisation and exceptional items

(2) Before net exceptional charges. Group statutory profit before tax £197.0m

(3) Net borrowings/(equity + net borrowings)

(4) Before net exceptional charges and deferred tax. Basic earnings per share (statutory basis) 32.3p

Presentation of Results:

A presentation for City audiences will be held today, Wednesday, 20 May 2015, at 11am at Vintners' Hall, 68 Upper Thames Street, London, EC4V 3BG.

A live webcast of the presentation can also be accessed using the following link: pennon-group.co.uk/investor-information/financial-reports-and-presentations.

For further information, please contact:

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About Pennon:

Pennon Group Plc is an environmental utility infrastructure company, which owns South West Water Limited and Viridor Limited. The Group has assets of over £5 billion and a workforce of over 4,500 people.

South West Water provides water and sewerage services to a population of approximately 1.7 million in Devon and Cornwall and parts of Dorset and Somerset.

Viridor is one of the leading UK renewable energy, recycling and waste management companies providing services to local authorities and businesses across the UK. Its strategy is focused on transforming waste, using input materials to produce vital renewable energy, high quality recyclates and raw materials.

On 15 April 2015, Pennon Group acquired Bournemouth Water from Sembcorp Holdings Limited. Bournemouth Water provides water services to a population of approximately 440,000 people in the Bournemouth and Christchurch region.

Further information on Pennon can also be found on the Group's website, www.pennon-group.co.uk

Dividend Payment Information*:

6 August 2015 - Ex-dividend date

7 August 2015 - Record date

14 September 2015 - Scrip election date

2 October 2015 - Payment date

* These dates are provisional and, in the case of the final dividend, subject to obtaining shareholder approval at the 2015 Annual General Meeting

Upcoming Events:

30 July 2015 - Annual General Meeting

End September 2015 – Pre-Close Trading Statement

20 October 2015 – Analyst & Investor Day

27 November 2015 – Half Year Results 2015/16

25 May 2016 – Preliminary Results 2015/16

PENNON
GROUP PLC

GROUP - OVERVIEW

Susan Davy, Group Director of Finance said:

"The Group has delivered a resilient financial performance, underpinned by strong liquidity and efficient long-term financing. This has allowed us to continue our track record of consistent, sustainable cash returns to shareholders."

Strong liquidity position

- Cash resources and committed funding totalling £1,741m and well-placed in current financial market conditions
- Committed funding in place for South West Water to March 2017 and fully funded for build-out of the committed Viridor ERF pipeline
- Cash resources used for the Bournemouth Water acquisition on 15 April 2015 were replenished through an equity placing of £100.3m

Efficient long-term financing strategy

- Group net finance costs decreased by £13.1m to £40.8m from £53.9m(1)
- A diversified funding mix of fixed, floating and index-linked rate borrowings. A substantial portion of debt is finance leasing which provides a long maturity profile and secured credit margins
- Average interest rate for Pennon Group was 3.4% and for South West Water was 3.3%

Capital Investment focused on regulatory expenditure and ERF build out

- Group capital investment decreased 6.2% to £407.3m in 2014/15 from £434.1m in 2013/14
- Cumulative ERF expenditure (before capitalised interest) to date of £839m, with £460m of remaining budgeted expenditure to complete committed projects
- Efficient capital delivery closedown for K5; 6% efficiency

Stable net debt position

- Net borrowings £2,197.1m, an increase of £3.1m compared to last year
- Gearing(2) was 61.9% versus 64.7% in 2013/14

(1) This reduction includes lower interest charges due to the full conversion of the £125m bond
(2) Net borrowings/(equity + net borrowings)

Group tax rate reduced, aligned with reduction in UK corporation tax rate

- Current tax current year charge(1) of £44.7m, lower than last year's £51.8m as a result of lower headline corporation tax rate and higher capital allowances from ERFs
- Deferred tax charge(1) of £18.2m; 2013/14 credit of £25.8m; prior year reflected reductions in corporate tax rate
- Current tax current year tax rate(1) 21.2% down from 25.0% in 2013/14

(1) Before exceptional items

DIVIDENDS

The Board has recommended a final dividend of 21.82p, up 4.3%, subject to shareholder approval at the Annual General Meeting on 30 July 2015. Together with the interim dividend of 9.98p, this will result in a total dividend for the year of 31.80p, an increase of 4.9%[(1)]. This is in line with the previously announced sector leading policy to grow the Group dividend by 4% above inflation per annum.

The final dividend will be paid on 2 October 2015 to shareholders on the register on 7 August 2015. The Company is also intending to offer a scrip dividend alternative. The final date for the receipt of Forms of Election/Mandate in respect of the scrip dividend alternative for the final dividend will be 14 September 2015.

At the time of the Pre-Close Trading Statement on 23 March 2015, the Board announced a continuation of its current dividend policy of year-on-year growth of 4% above RPI inflation to 2020.

[(1)] RPI for the twelve months to 31 March 2015 was 0.9%

ACQUISITION OF BOURNEMOUTH WATER

On the 15 April 2015, Pennon acquired Sembcorp Bournemouth Water Investments Limited, from Sembcorp Holdings Limited including the non-regulated and regulated subsidiaries, for a cash consideration of £100.3m. An equity placing was undertaken to replenish Pennon's cash resources in respect of the acquisition and ensure funding flexibility.

Bournemouth Water is an excellent business fit with South West Water and provides an opportunity to expand South West Water's wholesale capabilities whilst driving synergistic and best practise operations. The combined business will provide an enhanced platform for innovation and growth ahead of market liberalisation.

Bournemouth is one of the highest performing water only companies in the UK across a range of indicators with outstanding customer service reflected in its Service Incentive Mechanism (SIM) scores.

The acquisition represents an incremental 5% growth in regulatory RCV and is modestly earnings enhancing following integration.

The acquisition has been automatically referred to the Competition and Markets Authority (CMA) and a decision is expected to be received from the CMA within its usual timescales. It is anticipated that the merger will create a net benefit for customers and this will form the basis of the case to the CMA.

PENNON GROUP OUTLOOK

The Board’s priority continues to be the creation of shareholder value through its strategic focus on water and sewerage services; and renewable energy, recycling and waste management.

Our successful strategy allows us to deliver consistent, sustainable cash dividends to shareholders. We are targeting a policy of 4% year-on-year dividend growth above RPI inflation to 2020.

South West Water is continuing its strong performance with robust operational delivery and high standards of customer service and financial performance. Early receipt of Ofwat’s Draft Determination has enabled the start of accelerated delivery in 2014/15 of key projects identified in the company’s business plan for K6 (2015-2020). With South West Water’s track record of efficiency and outperformance, the company has a strong foundation to deliver its business plan and will have an opportunity to outperform the assumed returns on equity. South West Water is well prepared for, and supportive of, industry reform.

Viridor has now passed its strategic point of inflexion and the company’s financial performance has been in line with expectations as 2014/15 full year EBITDA exceeded 2013/14 despite current market conditions in recycling. The company has made excellent progress in establishing its ERF business with five ERFs coming on stream this year adding to the existing Lakeside and Bolton operational assets. These projects and contracts already contribute to Viridor’s bottom line and reflect the realisation of a strategy, which is expected to contribute c.£100m to Viridor’s EBITDA in 2016/17.

The Group is well positioned for the future.

PENNON GROUP PLC

SOUTH WEST WATER - OVERVIEW

Chris Loughlin, Chief Executive of South West Water said:

"South West Water's enhanced business plan, track record of efficiency and outperformance makes the company well-placed to deliver the 2015-2020 regulatory contract and we will have an opportunity to beat the assumed returns on equity. Pennon has also recently announced the acquisition of Bournemouth Water, a top performing water company which is an excellent business fit with South West Water. The combined business will provide an enhanced platform for innovation and growth ahead of market liberalisation in 2017."

	2014/15	2013/14	Change
Revenue	£522.2m	£520.0m	+0.4%
EBITDA[(1)]	£331.3m	£330.9m	+0.1%
Operating Profit[(1)]	£225.4m	£227.0m	(0.7%)
Profit Before Tax[(1)]	£167.9m	£162.5m	+3.3%
Capital Expenditure	£145.1m	£141.6m	+2.5%

[(1)] Excluding exceptional credit

Performed strongly against the 2010-15 regulatory contract

- Despite impact of a price freeze, delivered growth in revenue and strong cost control
- Cumulative K5 cost increases were lower than inflation and the company focused on delivering efficiencies ahead of the 2009 Final Determination
- Capital efficiency delivered for K5 ahead of expectations
- Due to outperformance South West Water delivered a dividend to Pennon above the 2009 Final Determination assumptions

Well-placed to deliver the 2015-2020 regulatory contract

- South West Water's business plan for the 2014 Price Review received enhanced status from Ofwat
- Based on the company's track record of efficiency and outperformance, well-placed to deliver the K6 regulatory contract
- Attaining enhanced status has allowed the advancement of K6 projects and the targeting of early delivery
- South West Water has the highest potential Return on Regulated Equity (RoRE) in the sector, in excess of 10% for outperformance

Engaged and prepared for future regulatory reform

- Prepared for market liberalisation; developed wholesale and retail strategies
- Supporting development of Upstream reform
- Targeting outperformance of the K6 Final Determination

PENNON GROUP PLC

VIRIDOR - OVERVIEW

Ian McAulay, Chief Executive of Viridor said:

"I'm delighted to say that Viridor has now passed a strategic point of inflexion for the business. The ERF business is now operational with five new ERFs brought on-line during the year. We are well on track to meet our target of c.£100m of EBITDA from ERFs in 2016/17. Viridor is well-positioned in its other businesses given regulatory drivers for recycling from the EU and UK Government, significant cash being generated in Landfill Energy, and Contracts and Collection providing valuable input materials for our ERF and recycling businesses."

	2014/15	2013/14	Change
Revenue(1)(2)	£835.9m	£802.0m	+4.2%
EBITDA(3)	£80.4m	£76.3m	+5.4%
Underlying EBITDA(3)(4)	£135.3m	£125.9m	+7.5%
PBIT + Joint Ventures(3)(5)	£37.9m	£43.6m	(13.1%)
Profit Before Tax(3)	£27.7m	£27.6m	+0.4%
Exceptional items post tax	(£21.4m)	(£39.7m)	+46.1%
Capital Expenditure(2)	£262.2m	£292.4m	(10.3%)

(1) Including landfill tax
(2) Including construction spend on service concession arrangements
(3) Before exceptional items
(4) Includes IFRIC 12 interest receivable and joint ventures' (Lakeside, Viridor Laing Greater Manchester (VLGM) and TPSCo) share of EBITDA. For VLGM, this is the share of IFRS EBITDA plus service concession interest
(5) Interest receivable on shareholder loans plus share of PAT

Financial performance in line with expectations

- 2014/15 EBITDA +5.4% year-on-year to £80.4m and Underlying EBITDA +7.5% year-on-year to £135.3m. Contribution from ERFs more than offsetting the declining trend in landfill and softening of recycling markets

Passed strategic point of inflexion

- Strategic orientation of Viridor business model around 'Energy' and 'Recycling & Resources'
- Five new ERFs – Exeter, Ardley, Cardiff, Runcorn I & II – delivered
- Clear regulatory drivers for recycling from the EU and UK Government, alongside expectations from leading companies, laying the foundations for strong, ongoing demand for recycling over the next fifteen years. Viridor well-placed to grow market share. Input, Throughput and Output Optimisation (ITOO) programme yielding productivity benefits
- Landfill Energy continues to provide good cash generation – focus on reducing landfill operations, optimising energy production and alternative uses for sites now being realised

Energy Recovery Facilities (ERF) business now operational

- Two thirds of ERF portfolio now operational
- Construction substantially advanced at Peterborough and Glasgow. Dunbar also commenced. South London judicial review dismissed and Notice to Proceed with construction imminent
- All plants full at opening - c.80% of the waste inputs required across the committed portfolio secured, of which three-quarters is from long-term contracts
- On track for c.£100m of EBITDA in 2016/17 from ERFs

PENNON GROUP PLC

SOUTH WEST WATER

Overview

South West Water has continued to deliver good operational performance in the final year of K5 (2010-15) alongside further improvements to customer service, supported by robust financial results. 2014/15 concludes the successful delivery of K5, with significant financial outperformance and cost efficiency.

South West Water's track record in delivering efficiency and significant outperformance provides a strong foundation for the new regulatory period with the highest potential returns available within the sector.

On 12 December 2014, South West Water received its Final Determination for K6 (2015-20) from the Economic Regulator, Ofwat. This confirmed the 'enhanced' assessment by Ofwat on 4 April 2014 and the financial benefits of being the only water and sewerage company to achieve the top assessment.

The early assessment gave South West Water greater certainty over the plan, with the Final Determination when received virtually unchanged from the draft. This has enabled the accelerated delivery of key projects during 2014/15 ahead of the start of K6.

Financial Highlights

As anticipated South West Water's revenue for 2014/15 was impacted by the tariff freeze announced last year. However good cost control, the continued delivery of cost efficiency and lower financing costs has resulted in an increase of £5.4m in profit before tax and exceptional items to £167.9m.

Despite the tariff freeze revenue increased marginally by 0.4% to £522.2m driven by increased customer demand and new connections, offset by the effects of customers switching to a metered tariff.

7,600 new customer connections contributed £2.8m of additional revenue. Customer demand was 0.9% higher than last year reflecting the drier weather over the summer and some relatively benign months over winter 2014/15. Customers switching from unmeasured to metered or assessed charges reduced revenue by £4.8m. The impact of this is reducing as the number left to switch falls. 79% of South West Water's domestic customers are now metered.

Total operating costs, including depreciation and restructuring costs, increased by only 1.3% from £293.0m to £296.8m, below the average inflation for the year. The key movements in costs were:

- £6.0m cost increases (including power, business rates and carbon reduction commitment). Cumulative cost increases over K5 continue to be lower than average RPI for the same period
- £1.0m increased depreciation and costs of new capital schemes reflecting growth in the asset base
- £1.9m other costs including those associated with developing our approach to market liberalisation and lower property sales this year
- (£5.1m) additional efficiencies delivered in the year – exceeding expectations.

This strong cost control and increased customer demand has resulted in a marginal increase in EBITDA to £331.3m and Operating Profit decreased by £1.6m to £225.4m, reflecting increases in capital charges as the asset base increases.

Lower RPI on indexed-linked facilities, reduced net pension interest and the impact of leasing reprofiling has resulted in a net interest charge of £57.5m, £7.0m lower than last year. This is net of £2.4m of interest costs on large longer-term projects that have been capitalised in the year.

Profit before tax and exceptional items increased by 3.3% to £167.9m.

Capital expenditure in the year was broadly in line with last year at £145.1m (£141.6m in 2013/14). A key element of the programme this year was the acceleration of K6 projects into 2014/15 to deliver early outcome benefits to customers and the environment. This includes asset enhancements to deliver bathing water quality, investments targeting wastewater compliance and preparatory expenditure on the innovative new water treatment works at North Plymouth.

The focus for the final year of the K5 programme was weighted towards the maintenance of existing assets, increasing infrastructure resilience and delivering environmental improvements.

Investments during the year included:

- safeguarding high quality drinking water through the completion of upgrades at two key water treatment works
- upgrades at wastewater sites to improve compliance

- innovative investments to reduce the number of customers' properties previously highlighted as at risk from flooding.

The robustness of our networks and assets is illustrated by South West Water achieving Ofwat's 'stable serviceability' status across all areas with asset reliability being a key outcome for the next regulatory period.

Regulatory capital value at 31 March 2015 was £2,928m. With an increase in net debt this has led to gearing[(2)] of 62% (31 March 2014: 56%) - within Ofwat's optimum range for K5 and below the nominal range assumed for K6 of 62.5%. Increased projected RCV growth of 19% by 2020[(1)] in K6 reflects the Final Determination including enhanced assessment benefits.

[(1)]Nominal prices assuming 3.2% per annum RPI as per SWW Business Plan for K6

[(2)]South West Water net debt / RCV

Efficiencies

South West Water remains ahead of target in delivering the required operating cost efficiencies for K5. Cumulatively, the efficiency delivered over K5 is 11% ahead of target reflecting the benefit of front-end loading delivery in the K5 period.

Annual operating costs are £27.3m lower as a consequence, with £5.1m cost savings delivered in 2014/15 compared to £3.6m in 2013/14. This reflects an annual equivalent of 3.3% compared to the required 2.8%[(1)]pa average operating costs efficiencies included within the 2009 Final Determination. This is being achieved through South West Water's ongoing improvement programmes with specific initiatives this year in the areas of:

- asset investments and improvements supporting the PUROS[(2)] programme finalised
- energy procurement and usage – continued energy efficiency schemes alongside additional power generation through renewable sources
- restructuring of pension schemes
- right-sourcing and innovative contracting – tendering to achieve the 'right price' including in-sourcing and renewed K6 key and strategic contracts.

South West Water has delivered capital projects throughout K5 in line with Ofwat, Drinking Water Inspectorate and Environment Agency expectations, and has advanced expenditure into 2014/15 to meet the new and challenging bathing water guidelines.

Through focused planning, innovative scoping and asset solutions and efficient delivery, capital expenditure for K5 is lower than the Capital Incentive Scheme baseline[3] and achieved 6% outperformance against the capital expenditure assumed within the 2009 Final Determination.

(1) Average over K5 (2010-2015)

(2) PUROS – Phased Utilisation of Remote Operating Systems

(3) Based on current published Construction Output Price Index (COPI)

Operational Highlights

Driven by its strategic vision of delivering 'Pure Water, Pure Service, Pure Environment' South West Water targets the provision of high quality water and wastewater services in the most efficient and sustainable way possible. Strong performance this year on key measures provides a good platform for delivering outcomes over K6.

Pure Water

A clean, safe and reliable supply of drinking water is the number one priority for customers and as a result compliance with the tough standards set by the Drinking Water Inspectorate remains a key aim for South West Water. Spend to deliver this outcome is, therefore, a significant proportion of the company's capital programme and this year the upgrade to its largest water treatment works – Restormel – which provides water to 50% of customers in Cornwall was completed and has contributed to South West Water delivering consistently high water quality again this year.

The reliability of our supply is of equal importance and South West Water is continuing to deliver industry-leading leakage performance. Leakage targets have been met every year since their introduction.

The drier weather over the summer period and some relatively benign winter months resulted in an increase in customer demand. South West Water successfully managed its water resources to enable a continued secure supply of water for the region, resulting in the 18th consecutive summer without a hosepipe ban or drought order. The Water Resources Management Plan published in June 2014 highlighted the company's strong water resources position and confidence in a forecast net surplus of water until at least 2040.

Pure Service

From the extensive customer engagement we undertake, we know that customers value a quick and efficient response to requests, problems and queries. Throughout this regulatory period, South West Water has sought to improve the service delivered to customers and deliver tangible improvements. The improving trend in the customer service score (as measured by the Service Improvement Mechanism (SIM)) has almost doubled from the opening 2010/11 position and written complaints are 10% lower than the same period last year.

South West Water continues to build on strategic investment made throughout the K5 period, including enhanced online offerings through 'My Account' account management, 'Beachlive', and improvements to smartphone apps. The focus for customers is a shift from reactive inbound to proactive outbound contacts through sector leading digital communication channels.

The cost of bad debts as a proportion of revenue at 1.7% is a modest reduction on the previous year. South West Water continues to target collection initiatives to further improve the bad debt position including using tracing tools to target former occupiers of newly vacated properties. Enhanced initiatives implemented in the second half of the year have positively impacted the level of collections since these were introduced.

South West Water continues to fund and promote ways to help customers who struggle to pay their debt through initiatives such as the Restart programme, which incentivises customers into regular payment plans. Over 40,000 customers have been assisted through the company's industry leading approach to debt support schemes and we are one of the only companies to have introduced a regional social tariff. Further schemes to support customers are planned for 2015-20.

Pure Environment

The 2014 bathing season ended with high standards of bathing water quality, with 126 (86%) of the region's beaches achieving the EU guideline standard (excellent status) and 144 (99%) of beaches achieving the mandatory standard (good status).

South West Water is committed to working with other organisations and local communities so that residents and visitors alike can continue to enjoy the region's beautiful beaches. Investment to further protect and improve the regions bathing water quality has been completed ahead of the European Union's Revised Bathing Water Directive coming into force in 2015.

A reliable wastewater service and making sure that water and wastewater services can withstand the impacts of extreme weather are both targeted outcomes for K6. South West Water has seen a positive improvement in the associated environmental measures:

- South West Water's 'Even Cleaner Seas' programme at seven locations across the region has included significant investments such as additional storm water storage capacity, improved monitoring and treatment facilities.
- the compliance at wastewater treatment works has significantly improved over the year to 96.1% from 92.5% for the year to March 2014.
- the number of pollution incidents has fallen, with the number of Category 2 (significant) incidents at three compared to 10 over the prior year. There have been no Category 1 (serious) pollution incidents again this year and the number of Category 3 (minor) incidents has fallen by over a third.
- the company continues to invest in ways to minimise the risk of a pollution incident occurring.

South West Water recognises the impact that flooding has on its customers and this year the number of internal sewer flooding incidents has reduced by 18%. The company is continuing to invest in reducing the risk of customers' properties flooding and during the year has invested in a £2m scheme at Colebrook in Devon, which has seen a range of sewer improvements carried out thanks to joint funding between South West Water, the Environment Agency, and Plymouth City Council.

South West Water has maintained its investment in renewable energy throughout the K5 period and has invested in 35 solar PV installations, generating over four million kilowatt hours of solar energy, nine hydroelectric power schemes on the water network and a wind turbine supplying 300,000 kilowatt hours of electricity per year.

K6 Preparation

2015-2020 Final Determination

As the only water and sewerage company to have its K6 (2015-20) business plan assessed by Ofwat as 'enhanced' South West Water received an early Draft Determination on 30 April 2014. The Final Determination received in December 2014 was virtually unchanged from the draft previously received.

The Final Determination confirmed that South West Water benefited from Ofwat's 'do no harm' principle and would not be subject to the reduction in the cost of capital allowance or restrictions on the net ODI benefits.

In addition the benefits received from the 'enhanced' assessment including an initial financial award of £11m reflected as an addition to the RCV with up to 50% reinvested and the enhanced total expenditure (Totex) menu with an extra 5% enhanced sharing rate were confirmed.

The key elements of the Final Determination for K6 are:

- equity returns in excess of 10% for outperformance – the highest potential RoRE in the sector
- appointee vanilla WACC[(1)] of 3.85% (3.7% WACC for wholesale only)
- retail margins of 1.0% and 2.5% for retail household and non-household respectively, equivalent to an RCV return of 0.2%
- RCV growth of 19%[(2)] and no adjustments to the planned K6 capital investment programme of £868m[(3)].

(1) Pre tax debt and post-tax equity weighted average cost of capital

(2) Nominal prices assuming 3.2% per annum RPI as per SWW Business Plan for K6

(3) 2012/13 price base

Implementation

Receiving the milestone of the Draft Determination early enabled South West Water to transition swiftly and smoothly into the next regulatory period. Key elements of planning and implementation have been:

- key projects delivered – acceleration of K6 projects to deliver early outcome benefits to customers and the environment.
- refreshed and realigned strategic contracts – ensuring rightsourcing decisions including in-sourcing or renewing K6 strategic contracts in preparation for the next period.
- robust financing strategy – lowest average rate within the sector and strong funding position for the start of K6
- focus on customer service – sector leading digital communication channels and enhanced affordability schemes for vulnerable customers

In order to align with the differing strategies and approach for wholesale and retail activities South West Water has re-organised and re-focused its business structures.

We have established differing strategies for wholesale and retail activities and have already established shadow reporting consistent with the approach in K6.

The key focus for K6 is to deliver strong Outcome Delivery Incentive (ODI) performance and improvements in customer service, continue to meet legislative and regulatory requirements whilst maximising returns and benefits for customers and investors through delivering Totex savings, net ODI rewards and financing outperformance.

Preparing for regulatory reform

The Water Act 2014 set out a range of reforms for the water sector in England, and enabled retail competition for all non-household customers as well as the potential for further wholesale reforms.

South West Water is well prepared for market liberalisation in 2017 and is supporting the programme to deliver the central market operator as well as developing the requirements of market opening through our internal programme 'marketready' to ensure both the wholesale and retail businesses can operate effectively with the central market operator.

South West Water's established non-household customer brand of 'Source for Business' has been actively engaging with customers both within and outside of the South West region offering enhanced retail services alongside a range of specialist advice and support measures in advance of market opening.

South West Water is engaged in planning for further reform with a key area being the development of potential 'Upstream Reform' and Ofwat's 2020 programme. The future regulatory framework post 2020 as well as ongoing regulatory consultations are key strands of activity for the business.

South West Water Outlook

As South West Water enters the next regulatory period the key focus is to deliver strong outcome performance and improvements in customer service and continue to meet legislative and regulatory requirements. This will maximise returns and benefits for customers and investors through delivering efficient Totex, improved services (net ODI rewards) and financing outperformance.

South West Water is already considering the impacts of future legislative changes which include the potential for 'Upstream Reform'. The company is engaging on key industry consultations on the development of Ofwat's ongoing regulatory reform agenda in order to influence the direction of travel in this area.

VIRIDOR

Overview

The new strategic orientation of the Viridor business model around its ‘Energy’ and ‘Recycling & Resources’ divisions is now delivering results. Viridor stands at the forefront of transforming waste in the UK using input materials to produce high quality energy, recyclates and raw materials.

Viridor’s strategy, built on its purpose of giving resources new life, is to add substantial value through:

- Energy - Viridor’s strategically located network of ERFs now provides an established and growing business serving Public Private Partnership contracts and the commercial sector. Viridor has made strong progress in the development of its ERF asset base with five new ERFs brought on stream during 2014/15, adding to the existing Lakeside and Bolton operational ERF assets. Two thirds of the portfolio capacity is now in operation and 80% is expected to be operational by the end of 2016/17. Energy from waste remains central to the UK’s waste and renewable energy strategies, as the long-term low cost alternative to landfill for treatment and disposal of residual waste, and as a means of providing base load electricity. There are also heat utilisation opportunities. Viridor expects to have c.15% ERF market share by 2020, with its network of strategic facilities driving the company’s long-term profit growth.

- Recycling - Clear regulatory drivers for recycling from the EU and UK Government, alongside expectations from leading companies, are laying the foundations for strong, ongoing demand for recycling services over the next fifteen years. Viridor has established its recycling business over the past five years and currently handles volumes of 1.7m tonnes per annum. Viridor’s focus on ITOO across its recycling activities is yielding improvements, ensuring the production of high quality materials and management of the cost base to mitigate the impact on margins of a softening in recyclate prices.

- Landfill Energy - The focus of the landfill energy business is:
  - to maximise the value of landfill gas power generation across all sites;
  - to manage the ongoing prescriptive decline in landfill inputs by closing 15 sites to new waste inputs over the next five years and focusing on three strategic operational sites;

- to optimise returns on the closed landfill asset base through alternative uses such as photovoltaic installation, energy storage and divestment opportunities

- Contracts and Collections - Continued focus on growing market share in a consolidating sector through its contracts and collections services, which play an essential role in securing inputs for the energy and recycling divisions. It will also help to drive the delivery of the Viridor strategy.

Financial Highlights

Revenue was up 4.2% to £835.9m reflecting ERFs coming into operation and further growth in assets under construction, partly offset by lower recycling revenue down £30.0m due to lower volumes and prices, due to the adverse market conditions as previously flagged.

Before exceptional charges Viridor's earnings before interest, tax, depreciation and amortisation (EBITDA) was up £4.1m at £80.4m (2013/14 - £76.3m). PBIT fell £8.6m (28.5%) to £21.6m. PBIT plus joint ventures decreased by £5.7m (13.1%) to £37.9m. Viridor underlying EBITDA was up £9.4m, +7.5% to £135.3m.

Viridor underlying EBITDA is a non-statutory earnings measure that aggregates all of Viridor's earnings into a single figure, consisting of EBITDA of £80.4m (2013/14 £76.3m) plus IFRIC 12 finance income of £13.5m (2013/14 £8.5m) and share of joint venture EBITDA of £41.4m (2013/14 £41.1m). Viridor's share of non-recourse net debt in the joint ventures, excluding shareholder loans was £204m (Viridor's share including shareholder loans was £302m).

Profit before tax and exceptional charges increased £0.1m (0.4%) to £27.7m reflecting lower PBIT plus joint ventures, offset by reduced interest payable, as a result of increased equity investment in Viridor by Pennon and higher IFRIC 12 interest receivable.

Capital expenditure including spend on service concession arrangements for the year was £262.2m (2013/14 £292.4m).

Operational Highlights

UK context

The UK is required under the EU Landfill Directive to reduce the amount of biodegradable municipal waste going to landfill sites. This is being achieved by a continued drive for recycling, with residual waste increasingly being used for energy recovery. A new and 'more ambitious' EU Circular Economy legislative package is expected in 2015. The package withdrawn in 2014 contained 70% recycling targets, 80% packaging recycling targets and material-specific landfill bans.

The EU Renewable Energy Directive requires the production of 20% of energy from renewable sources by 2020. Energy recovery from waste in all its forms has a clear role within the Government's UK Renewable Energy Roadmap and continues to deliver a substantial proportion of total UK renewable energy generated. Viridor believes that by 2020, UK energy recovery from waste could produce 15 Terawatt hours (TWh) of the total forecasted UK renewable energy generation (120 TWh), accounting for 12%. This is particularly significant given predicted future energy capacity shortages.

The Government's main mechanism for diverting waste from landfill and incentivising recycling and ERF facilities remains landfill tax. The UK and Scottish Governments have confirmed that landfill tax will rise from the current position of £82.60 per tonne in line with inflation. This continues to influence the long-term economics of both recycling and energy recovery. In addition, recyclate costs have been typically significantly lower than the cost of using virgin materials for manufacturers.

Viridor is clearly focused on giving resources new life through recycling and waste based renewable energy. Investment in technology and operational practices, including ITOO, continues to enhance recyclate quality to differentiate Viridor from its competitors and to position it strongly within a consolidating sector. Significant progress has also been made in the delivery of the ERF business, with a substantial asset base now operational in conjunction with associated business capability processes across the whole "source to supply" ERF cycle.

Recycling and Resources

During the year, recycling volumes traded decreased by 151k tonnes (8.4%) to 1.7m tonnes. Recyclate prices, whilst slightly lower for 2014/15, have now stabilised to some degree for most commodities but remain under pressure, reflecting world economic conditions and competitive markets. Overall, average revenues per tonne from recyclate sales and gate fees for the year fell to £86 per tonne, 7.7% lower than for 2013/14. Viridor remains cautious about future recyclate price growth.

As announced at the half year, Viridor has commenced a two-year ITOO programme to provide an enhanced focus on increasing margins by taking action across the recycling value chain. The company is targeting a substantial enhancement in EBITDA margin through improvements in source material quality, asset efficiency, productivity and yield, and specific quality of outputs.

Future actions are focused on these three key parts of the value chain:

- Inputs - Managing and enforcing contractual waste specifications to ensure appropriate input quality, further reduce reject levels and optimise asset processing efficiency;

- Throughput - Implementation of Productivity Centred Maintenance under an asset management optimisation process has commenced to improve availability and productivity at recycling facilities. In 2014/15, two underperforming Materials Recycling Facilities (MRFs) were closed to reduce the cost base and improve portfolio efficiency; and

- Outputs - Aiming for customer-centric quality production aided by investment in technology. A new polymers separation plant at Rochester and a new glass reprocessing plant in Scotland, representing an investment of c.£25m, are now operational.

Viridor continues to operate the most extensive MRF capacity in the UK with accreditations for export to China, and is established as a quality brand in the UK, Europe and other far eastern markets.

Profits in “Contracts & Other” were down slightly across the 15 local authority contracts around the UK (the more significant contracts include Greater Manchester, Glasgow, Lancashire, Somerset and West Sussex) and the Thames Water contract. The decrease reflected lower volumes on some contracts and the expiry of other contracts.

Profits in the collection business were ahead, reflecting the benefits of sustained management action. Collection remains a key focus in securing increased input tonnages for the business

Additional contracts have been won since the year-end but profits are expected to be impacted by the expiry of some old contracts.

PENNON GROUP PLC

Renewable Energy

Energy can be recovered essentially via two methods, either via gas utilisation (notably landfill gas power generation and anaerobic digestion (AD)) or via combustion in ERFs and similar facilities, some of which may be a part of Combined Heat and Power (CHP) schemes.

Landfill gas, biodegradable waste in ERFs and AD accounted for 25% of total UK renewable energy fuel use in 2013 (Digest of UK Energy Statistics 2014).

(a) Landfill gas power generation

Viridor's landfill energy business is being managed to maximise the value of landfill gas power generation, whilst exploring photovoltaic (PV) and cryogenic energy generating developments as alternative uses for landfill sites with existing grid connections.

Gas volumes reached peak production in 2012/13 and have been reducing gradually. In 2014/15 the landfill gas power generation output was marginally down to 602 Gigawatt hours (GWh) (2013/14 606 GWh), reflecting a successful output optimisation programme. Landfill gas power generation EBITDA was £35.8m (2013/14 £37.3m).

Average revenue per Megawatt hour (MWh) was 3.3% higher at £92.72 (2013/14 £89.74) reflecting the higher proportion of Renewables Obligation Certificates (ROCs). The switch from legacy Non Fossil Fuel Obligation (NFFO) contracts to Renewables Obligation Certificates (ROCs) continues with 94% of energy now sold under the higher value ROCs. The remaining 6% NFFO component will migrate to ROCs by 2016/17. Average costs increased to £33.19 per MWh (2013/14 £28.13) due to maintenance costs to improve gas capture and lower volumes. Total landfill gas power generation operational capacity remained at 104MW (excluding 3MW capacity at sub-contract sites in Suffolk).

Future alternative uses for landfill sites are now being assessed as most of our landfill operations accelerate into closure. A 2.75MW PV installation at Westbury landfill was completed during the first half of 2014/15. Other alternative uses are also being explored, including an £8m cryogenic energy storage pilot project at Pilsworth landfill, funded by the Department of Energy and Climate Change, which is underway.

(b) Energy Recovery Facilities (ERFs) and Anaerobic Digestion (AD)

Viridor now has 98MW of renewable energy capacity, primarily from its fleet of ERFs and including its share of its joint venture at Lakeside ERF, Bolton ERF, the Greater Manchester AD operations and the new Viridor Walpole AD plant.

The company has been successfully implementing its strategic plan to deliver the ERF business, which will drive long-term profit momentum. This includes establishing a significant asset base of ERFs, the majority of which are now operational.

Viridor and its partners have a total operational/committed ERF capacity of 2.8m tonnes.

Five plants, being Runcorn I and II, Exeter, Ardley (Oxfordshire) and Cardiff, have been delivered into the operational Energy Division, adding to the existing Lakeside and Bolton operational ERF assets. With the exception of the Runcorn plants, which were delayed in construction, (but protected by Liquidated Damages), all other plants were delivered on time and within or below budget. Two other plants, Peterborough and Glasgow, are more than halfway through construction and Dunbar commenced construction towards the end of the year.

Planning consent for the Beddington ERF in South London was issued in March 2014 with Notice to Proceed with construction now imminent following the final dismissal of a challenge via judicial review.

100% of waste inputs have been secured for all plants at opening and Viridor has now secured c.80% of the required waste inputs for the portfolio of the committed plants, of which three-quarters is from long-term contracts. Achieving a balance between long-term local authority contracts and shorter term commercial waste fuel inputs enables an appropriate level of control over calorific value and therefore throughput and efficiency optimisation, as well as enhancing gate price control.

The Walpole AD plant, which has a 1MW export capacity, is now producing power. A further 'closed loop' opportunity to use digestate as a biofertiliser is being assessed with the Environment Agency.

Joint Ventures

Total share of joint ventures' EBITDA (comprising Viridor Laing (Greater Manchester) (including IFRIC 12 interest), TPSCo and Lakeside) was up 0.7% to £41.4m (2013/14 £41.1m). Total share of joint ventures' profit after tax was £4.9m, up £1.2m from 2013/14.

(a) Viridor Laing (Greater Manchester) (VLGM)

The 25-year Greater Manchester Waste PFI contract (being delivered through VLGM) is the UK's largest ever combined waste and renewable energy project. The company is a joint venture between Viridor and John Laing Infrastructure. Operation of the associated facilities is being carried out on a sub-contract basis by Viridor.

As reported previously, solid recovered fuel produced from the waste is being used to generate heat and power at a plant at Runcorn. Phase I is primarily for the Greater Manchester Waste PFI contract and Phase II is available for the market generally, as high landfill tax drives residual waste away from landfill towards recycling and ERFs.

As part of the VLGM contract, a separate contractor was mandated to construct 43 facilities. All of the facilities have now been formally taken over by Viridor.

Viridor's share of VLGM's EBITDA was £3.0m (2013/14 £2.5m). Viridor's share of IFRIC 12 interest was £12.1m (2013/14 £12.5m).

(b) Runcorn I (TPSCo)

Viridor's share of TPSCo's EBITDA was £8.2m (2013/14 £10.9m) reflecting higher costs during final commissioning.

The Runcorn ERF Phase I project was taken over in January 2015.

(c) Lakeside

Lakeside, the first of Viridor's ERF projects, continues to outperform its financial close assumed power generation and waste processing targets. Viridor's share of Lakeside's EBITDA was £18.1m (2013/14 £15.2m).

Results in 2014/15 benefited from different scheduled outage timing (H1 2013/14 vs H1 2015/16) and continued good performance.

(d) Landfill

The business plan now being implemented for the landfill business is seeing operations reduced to a few strategic landfill sites, reflecting the fact that there will still be demand for landfilling of certain materials for the foreseeable future. Other sites are being run to closure and aftercare with an emphasis on maximising the value of electricity generation from landfill gas and reducing costs. Non-strategic sites and closed sites are being assessed for alternative uses – both for energy and for development potential. Three sites were closed in 2014/15 and a similar closure rate is forecast for the next five years taking the number of sites from 18 to 3 by 2020.

The business continues to be cash generative and contributed £15.4m to EBITDA in the year. Volumes were slightly down at 2.5m tonnes.

Average gate fees decreased by 13.6% to £19.92 per tonne. Consented landfill capacity reduced from 57.7 million cubic metres (mcm) at 31 March 2014 to 51.7 mcm at 31 March 2015, reflecting usage during the period and site closures. As previously stated, and provided for, c.39 mcm is not expected to be used. Of the three sites closed in 2014/15, c.3 mcm of void was not utilised. Therefore we are planning to utilise c.16 mcm in on-going operations.

Landfill tax is now increasing in line with inflation and increased on 1 April 2015 from £80 to £82.60.

Indirect costs

Indirect costs increased by 2.9% from £52.0m in 2013/14 to £53.5m in 2014/15 due mainly to increased information technology and staffing costs to support systems replacement across the business.

Viridor Outlook

Viridor has passed its strategic point of inflexion to become one of the UK's leading renewable energy, recycling and resource management companies.

Excellent progress has been achieved in the realisation and delivery of its ERF business. Five major facilities came on-stream in the financial year adding to the existing Lakeside and Bolton operational ERF assets. Three others are under construction and Notice to Proceed with construction of the Beddington facility in South London is imminent.

The drivers and demand for recycling in the UK remain strong, although Viridor remains appropriately cautious about the future prospects for recyclate prices. The company is nonetheless strongly positioned, and remains focused on its ITOO programme to maximise revenues and achieve efficiencies to sustain margins. A further decline in recyclate prices and UK power prices, would impact profitability next year.

Viridor's EBITDA figure in 2014/15 exceeded 2013/14 as expected. The operational ERFs along with those that are under construction are expected to contribute c.£100m to Viridor's EBITDA within the next two years. Viridor is also well positioned in recycling, contracts and collections assets and services.

GROUP FINANCIAL POSITION

Strong liquidity position

The Group had a strong liquidity and funding position as at 31 March 2015 and is well placed in current financial market conditions. The Group has committed funding in place for South West Water to March 2017 and is fully funded for the build-out of Viridor's committed ERF pipeline. Cash resources used for the Bournemouth Water acquisition on 15 April 2015 were replenished through an equity placing of £100.3m.

The Group had cash resources and committed funding as at 31 March 2015 totalling £1,741m comprising:

- cash balances of £771m (SWW £252m), including £196m restricted cash
- undrawn committed facilities of £970m

During the twelve months to 31 March 2015 the Group raised or renewed £830m of new facilities:

- £125m 17 year facility
- £130m Schuldschein
- £80m 13 year facility
- £240m of new finance leases of which £175m are for Viridor ERFs; £65m for SWW
- £255m of new term loans and Revolving Credit Facilities (RCF) of which £225m are for SWW

Since 31 March 2015, the following facilities have been signed:

- new £130m EIB loan for SWW
- new £40m RCF for SWW
- renewal of £50m term loan for Plc

The £125m convertible bonds due 2014 have all converted during the period leading to an issuance of 20.9m new Pennon shares.

The fair value of the Group's non-current borrowings was £74m lower than the principal value reflecting the benefits of securing interest rates below the current market rate. The figure is lower than 31 March 2014 due to the fall in gilt rates. The Group's average debt maturity is 23 years.

Efficient long-term financing strategy

Group net finance costs decreased by £13m to £41m from £54m. This reduction includes lower interest charges due to the full conversion of the £125m bond, a reduction in rates and higher IFRIC 12 interest receivable reflecting ongoing ERF capital investment.

The Group funding strategy utilises a mix of fixed, floating and index-linked rate borrowings. A substantial portion of debt is finance leasing which provides a long maturity profile and secured credit margins. Net interest cover as at 31 March 2015 was 6.0 times (2013/14: 5.2 times).

The Group has fixed the substantial majority of South West Water's existing floating rate debt to the end of K6. The rates reflect the fall in interest rates since 2009 taken account of by Ofwat in setting the cost of capital for K6. In addition, £393.1m of South West Water's debt is index-linked at an overall real rate of 1.7%.

At Pennon Group level, the average rate achieved on all fixed rate debt was 3.4% for 2014/15. For South West Water this figure was 3.1%.

Capital expenditure focused on regulatory expenditure and ERF build out

Group capital investment decreased 6.2% to £407.3m in 2014/15 from £434.1 in 2013/14.

Cumulative ERF expenditure (before capitalised interest) to date is £839m, leaving £460m left to invest. South West Water has delivered an efficient capital closedown for K5 with 6% efficiency.

The Group is making significant ongoing capital investment to support future growth.

Stable net debt position

Group net debt has remained stable at £2,197m, from £2,194m in 2013/14, while Group net gearing(1) has decreased to 61.9% from 64.7% following conversion of the convertible bond.

South West Water's net debt to RCV increased to 62.1% from 55.6%.

Net debt includes £786m (before capitalised interest) for ERFs operational or under construction (Runcorn II, Oxford, Exeter, Cardiff, Glasgow and Dunbar).
(1)Net borrowings/(equity + net borrowings)

Pensions

The Group's defined benefit pension schemes had a deficit (net of deferred tax) under IAS 19 at 31 March 2015 of £47.7m (£59.6m gross), a reduction of £19.7m on the 31 March 2014 balance.

Schemes' asset values increased from £608.4m at 31 March 2014 to £692.7m at 31 March 2015 due to favourable investment performance and cash contributions of £22.4m. This was partly offset by liabilities increasing from £687.7m to £752.3m over the same period.

The net deficit represents c.2% of the Group's current market capitalisation.

During the year, the Group reviewed the long-term sustainability of its main defined pension benefit scheme and agreed to changes in benefits with the scheme trustee following extensive employee engagement.

An exceptional credit of £14.9m (£11.9m net of tax) relating to past service cost has been recognised in operating profit following changes in scheme design, in particular the introduction of a cap on increases in pensionable pay.

The March 2013 actuarial valuation was completed during the year.

Taxation

Pennon takes seriously its responsibility for paying its fair share of tax.

The mainstream corporation tax charge for the year (before prior year and exceptional items) was £44.7m (2013/14 £51.8m) giving an effective current tax rate of 21.2% (2013/14 25.0%) which is close to the current UK statutory corporation tax rate of 21%. The reduced charge compared to last year reflects the increase in pension contributions, increased capital allowances and the 2% reduction in the corporation tax rate.

Before exceptional items deferred tax for the year was a charge of £18.2m (2013/14 credit £25.8m). The 2013/14 credit included the impact of the reductions in the rate of corporation tax enacted in July 2013.

The tax credit on the exceptional items of £13.7m amounted to £2.7m (2013/14 credit of £8.9m), of which a £0.6m debit (2013/14 nil) relates to corporation tax.

Exceptional Charges

During the year, the Group reviewed the long-term sustainability of its main defined pension benefit scheme and agreed to changes in benefits with the scheme trustee following extensive employee engagement. An exceptional credit of £14.9m relating to past service costs has been recognised in operating profit following changes in scheme design, in particular the introduction of a cap on increases in pensionable pay.

The profitability of a small number of landfill energy sites has been impacted by higher than anticipated site costs and lower than expected volumes due to site specific circumstances. As a result, a net exceptional impairment charge of £24.3m has been recognised to write-down the carrying value of landfill energy property, plant and equipment.

Whilst the Viridor contracts and recycling businesses contribute positively towards Viridor profits, a small number of contracts have been assessed as underperforming. On that basis, a provision of £11.0m has been established.

Landfill environmental provisioning has been reassessed resulting in a £6.7m reduction reflecting lower expected restorations costs, partly offset by a reduction in the discount rate.

The net exceptional items have no immediate cash impact.

An associated deferred tax credit of £3.3m and a £0.6m debit relating to corporation tax have been recognised on the above items. The £0.6m debit relating to corporation tax is due to be paid during 2015/16.

BOARD MATTERS

The Board announced in September the planned retirement of David Dupont, Group Director of Finance, as an Executive Director of Pennon Group, on 31 January 2015. Susan Davy, previously Finance and Regulatory Director of South West Water, took over as Group Director of Finance and as an Executive Director of Pennon Group effective on 1 February 2015.

As announced last year, Gerard Connell, Non-executive Director of Pennon Group, will stand down from the Pennon Board at the Annual General Meeting, marking the end of a term of office lasting twelve years. We would like to thank Gerard for his contribution to the Group's success over the years.

Neil Cooper joined the Board on 1 September 2014 as a Non-executive Director and as Chairman of the Audit Committee. Neil is Group Finance Director of William Hill Plc and previously was Group Finance Director of Bovis Homes Group Plc.

Ken Harvey, Chairman said:
"On 20 March this year, I announced my decision to retire from the Pennon Board on 31 July 2015 following the Company's Annual General Meeting. It has been my privilege to serve as Chairman since March 1997. I will be succeeded by Sir John Parker who, with effect from 1 April 2015, joined the Board as an independent Non-executive Director and as Deputy Chairman.

"Sir John is the chairman of Anglo American Plc, Deputy Chairman of DP World and a Non-executive Director of the Airbus Group and Carnival Corporation & Plc. He has recently stepped down after three years as the President of the Royal Academy of Engineering. He has chaired five FTSE 100 companies and has served as CEO, Chairman or Non-executive Director in more than twenty major UK and overseas companies."

Ken Harvey
Chairman
20 May 2015

FINANCIAL TIMETABLE FOR THE YEAR ENDED 31 MARCH 2015 AND UPCOMING EVENTS

20 May 2015	2014/15 Preliminary Results (unaudited)
Early July 2015	Annual Report & Accounts published
30 July 2015	Annual General Meeting
6 August 2015 *	Ordinary shares quoted ex-dividend
7 August 2015 *	Record date for final cash dividend
14 September 2015 *	Scrip election date for final dividend
End September 2015	Pre-Close Trading Statement
2 October 2015 *	Final cash dividend paid and Scrip shares issued
20 October 2015	Analyst & Investor Day
27 November 2015	Half Year Results 2015/16
25 May 2016	Preliminary Results 2015/16

* These dates are provisional and, in the case of the final dividend subject to obtaining shareholder approval at the 2015 Annual General Meeting.

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. Forward-looking statements are identified in this Report by words such as "anticipate", "aim", "believe", "continue", "could", "due", "estimate", "expect", "forecast", "goal", "intend", "may", "plan", "project", “remain”, "seek", "should", "target", "will" and related and similar expressions, as well as statements in the future tense. 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. Undue reliance should not be placed on forward-looking statements which are made only as of the date of this document. 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 law, regulation or decisions by governmental bodies or regulators including uncertainties arising from market reform affecting South West Water; general business and economic conditions in the UK and globally; the availability and cost of finance; poor operating performance or a failure or interruption of the Group's operating systems or the inability to carry out network operations or damage to infrastructure; failure or increased costs of capital projects or acquisitions or joint ventures not achieving predicted revenues or performance; reduced customer base, increased competition affecting prices or reduced demand for services or over capacity in some markets; and information technology and business continuity systems and processes failing. Risks will be described in greater detail in the Pennon Group Annual Report to be published at the beginning of July 2015. Such forward looking statements should therefore be construed in light of such risks, uncertainties and other factors 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.

PENNON
GROUP PLC

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. Details of any share dealing facilities that the Company endorses will be included in Company mailings.

PENNON GROUP PLC

PENNON GROUP PLC

Consolidated income statement for the year ended 31 March 2015

	Note	**(Unaudited)** Before exceptional items 2015 £m	**(Unaudited)** Exceptional items (note 5) 2015 £m	**(Unaudited)** Total 2015 £m	Before exceptional items 2014 £m	Exceptional items (note 5) 2014 £m	Total 2014 £m
Revenue	4	**1,357.2**	**-**	**1,357.2**	1,321.2	-	1,321.2
Operating costs							
Manpower costs		**(164.3)**	**14.9**	**(149.4)**	(161.4)	-	(161.4)
Raw materials and consumables used		**(103.8)**	**-**	**(103.8)**	(111.6)	-	(111.6)
Other operating expenses		**(678.1)**	**(4.3)**	**(682.4)**	(640.9)	(5.7)	(646.6)
Earnings before interest, tax, depreciation and amortisation	4	**411.0**	**10.6**	**421.6**	407.3	(5.7)	401.6
Depreciation, amortisation and impairment		**(164.4)**	**(24.3)**	**(188.7)**	(149.8)	(42.9)	(192.7)
Operating profit	4	**246.6**	**(13.7)**	**232.9**	257.5	(48.6)	208.9
Finance income	6	**44.0**	**-**	**44.0**	43.3	-	43.3
Finance costs	6	**(84.8)**	**-**	**(84.8)**	(97.2)	-	(97.2)
Net finance costs	6	**(40.8)**	**-**	**(40.8)**	(53.9)	-	(53.9)
Share of post-tax profit from joint ventures		**4.9**	**-**	**4.9**	3.7	-	3.7
Profit before tax	4	**210.7**	**(13.7)**	**197.0**	207.3	(48.6)	158.7
Taxation	7	**(57.4)**	**2.7**	**(54.7)**	(9.5)	8.9	(0.6)
Profit for the year		**153.3**	**(11.0)**	**142.3**	197.8	(39.7)	158.1
Attributable to:							
Ordinary shareholders of the parent		**137.3**	**(11.0)**	**126.3**	182.2	(39.7)	142.5
Perpetual capital security holders		**16.0**	**-**	**16.0**	15.6	-	15.6
Earnings per ordinary share (pence per share)	8						
- Basic				**32.3**			38.8
- Diluted				**32.2**			38.6
- Before net exceptional charges and deferred tax				**39.8**			42.6

PENNON GROUP PLC

PENNON GROUP PLC

Consolidated statement of comprehensive income for the year ended 31 March 2015

	(Unaudited)					
	Before exceptional items 2015 £m	**Exceptional items (note 5) 2015 £m**	**Total 2015 £m**	Before exceptional items 2014 £m	Exceptional items (note 5) 2014 £m	Total 2014 £m
Profit for the year	**153.3**	**(11.0)**	**142.3**	197.8	(39.7)	158.1
Other comprehensive (loss) / income						
Items that will not be reclassified to profit or loss						
Remeasurement of defined benefit obligations	**(2.1)**	**-**	**(2.1)**	26.2	-	26.2
Income tax on items that will not be reclassified	**0.4**	**-**	**0.4**	(10.2)	-	(10.2)
Total items that will not be reclassified to profit or loss	**(1.7)**	**-**	**(1.7)**	16.0	-	16.0
Items that may be reclassified subsequently to profit or loss						
Share of other comprehensive income from joint ventures	**1.1**	**-**	**1.1**	4.8	-	4.8
Cash flow hedges	**(36.8)**	**-**	**(36.8)**	32.8	-	32.8
Income tax on items that may be reclassified	**5.7**	**-**	**5.7**	(7.0)	-	(7.0)
Total items that may be reclassified subsequently to profit or loss	**(30.0)**	**-**	**(30.0)**	30.6	-	30.6
Other comprehensive (loss) / income for the year net of tax	**(31.7)**	**-**	**(31.7)**	46.6	-	46.6
Total comprehensive income for the year	**121.6**	**(11.0)**	**110.6**	244.4	(39.7)	204.7
Total comprehensive income attributable to:						
Ordinary shareholders of the parent	**105.6**	**(11.0)**	**94.6**	228.8	(39.7)	189.1
Perpetual capital security holders	**16.0**	**-**	**16.0**	15.6	-	15.6

PENNON GROUP PLC

Consolidated balance sheet at 31 March 2015

	Note	(Unaudited) 2015 £m	2014 £m
ASSETS			
Non-current assets			
Goodwill		**339.3**	339.3
Other intangible assets		**56.4**	30.6
Property, plant and equipment		**3,578.8**	3,450.4
Other non-current assets		**291.1**	230.3
Derivative financial instruments		**60.2**	25.9
Investments in joint ventures		**0.1**	0.1
		4,325.9	4,076.6
Current assets			
Inventories		**15.0**	12.1
Trade and other receivables		**287.7**	278.2
Derivative financial instruments		**8.1**	2.6
Financial assets at fair value through profit		**0.1**	0.4
Cash and cash deposits	13	**771.0**	613.1
		1,081.9	906.4
LIABILITIES			
Current liabilities			
Borrowings	13	**(113.6)**	(273.9)
Derivative financial instruments		**(19.5)**	(20.8)
Trade and other payables		**(277.7)**	(298.8)
Current tax liabilities		**(52.2)**	(37.7)
Provisions		**(32.9)**	(33.3)
		(495.9)	(664.5)
Net current assets		**586.0**	241.9
Non-current liabilities			
Borrowings	13	**(2,854.5)**	(2,533.2)
Other non-current liabilities		**(110.1)**	(82.8)
Financial liabilities at fair value through profit		**(57.3)**	(15.6)
Derivative financial instruments		**(46.0)**	(3.9)
Retirement benefit obligations		**(59.6)**	(79.3)
Deferred tax liabilities		**(235.9)**	(227.1)
Provisions		**(194.4)**	(179.0)
		(3,557.8)	(3,120.9)
Net assets		**1,354.1**	1,197.6
Equity			
Share capital	10	**162.4**	151.3
Share premium account		**118.6**	4.9
Capital redemption reserve		**144.2**	144.2
Retained earnings and other reserves		**634.1**	602.4
Total ordinary shareholders' equity		**1,059.3**	902.8
Perpetual capital securities	11	**294.8**	294.8
Total equity		**1,354.1**	1,197.6

PENNON GROUP PLC

Consolidated statement of changes in equity for the year ended 31 March 2015

	Share capital (note 10) £m	Share premium account £m	Capital redemption reserve £m	Retained earnings and other reserves £m	Perpetual capital securities (note 11) £m	Total Equity £m
At 1 April 2013	149.2	7.0	144.2	476.9	294.8	1,072.1
Profit for the year	-	-	-	142.5	15.6	158.1
Other comprehensive income for the year	-	-	-	46.6	-	46.6
Total comprehensive income for the year	-	-	-	189.1	15.6	204.7
Transactions with equity shareholders						
Dividends paid or approved	-	-	-	(103.9)	-	(103.9)
Adjustment for shares issued under the scrip dividend alternative	2.1	(2.1)	-	34.5	-	34.5
Adjustment in respect of share-based payments (net of tax)	-	-	-	3.8	-	3.8
Distributions due to perpetual capital security holders	-	-	-	-	(20.3)	(20.3)
Current tax relief on distributions to perpetual capital security holders	-	-	-	-	4.7	4.7
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	-	(0.4)	-	(0.4)
Proceeds from treasury shares re-issued	-	-	-	2.4	-	2.4
	2.1	(2.1)	-	(63.6)	(15.6)	(79.2)
At 31 March 2014	151.3	4.9	144.2	602.4	294.8	1,197.6
			Unaudited			
Profit for the year	-	-	-	126.3	16.0	142.3
Other comprehensive loss for the year	-	-	-	(31.7)	-	(31.7)
Total comprehensive income for the year	-	-	-	94.6	16.0	110.6
Transactions with equity shareholders						
Dividends paid or approved	-	-	-	(117.0)	-	(117.0)
Adjustment for shares issued under the scrip dividend alternative	2.6	(2.6)	-	48.0	-	48.0
Convertible bond – equity issuance	8.5	116.3	-	(0.5)	-	124.3
Adjustment in respect of share-based payments (net of tax)	-	-	-	3.5	-	3.5
Distributions due to perpetual capital security holders	-	-	-	-	(20.3)	(20.3)
Current tax relief on distributions to perpetual capital security holders	-	-	-	-	4.3	4.3
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	-	-	-	(0.8)	-	(0.8)
Proceeds from treasury shares re-issued	-	-	-	3.9	-	3.9
	11.1	113.7	-	(62.9)	(16.0)	45.9
At 31 March 2015	**162.4**	**118.6**	**144.2**	**634.1**	**294.8**	**1,354.1**

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Consolidated statement of cash flows for the year ended 31 March 2015

	Note	Unaudited 2015 £m	2014 £m
Cash flows from operating activities			
Cash generated from operations	12	**310.9**	338.0
Interest paid		**(62.0)**	(65.3)
Tax paid		**(21.0)**	(58.1)
Net cash generated from operating activities		**227.9**	214.6
Cash flows from investing activities			
Interest received		**20.3**	26.5
Loan repayments received from joint ventures		**0.3**	0.3
Dividends received from joint ventures		**6.0**	8.5
Purchase of property, plant and equipment		**(298.1)**	(346.7)
Proceeds from sale of property, plant and equipment		**5.7**	5.4
Net cash used in investing activities		**(265.8)**	(306.0)
Cash flows from financing activities			
Proceeds from treasury shares re-issued	10	**3.9**	2.4
Deposit of restricted funds		**(23.0)**	(29.6)
Purchase of ordinary shares by the Pennon Employee Share Trust		**(0.8)**	(0.4)
Proceeds from new borrowing		**345.0**	294.0
Repayment of borrowings		**(123.6)**	(146.1)
Finance lease sale and leaseback		**160.1**	40.5
Finance lease principal repayments		**(99.5)**	(30.3)
Dividends paid		**(69.0)**	(69.4)
Perpetual capital securities periodic return		**(20.3)**	(20.3)
Net cash generated from financing activities		**172.8**	40.8
Net increase/(decrease) in cash and cash equivalents		**134.9**	(50.6)
Cash and cash equivalents at beginning of year	13	**439.9**	490.5
Cash and cash equivalents at end of year	13	**574.8**	439.9

PENNON GROUP PLC

Notes

1. **General information**

Pennon Group Plc is a company registered in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 49. Pennon Group's business is operated through two main subsidiaries. South West Water Limited holds the water and sewerage appointments for Devon, Cornwall and parts of Dorset and Somerset. Viridor Limited's business is renewable energy, recycling and waste management.

The financial information for the years ended 31 March 2015 and 31 March 2014 does not constitute full financial statements within the meaning of section 434 of the Companies Act 2006. The full financial statements for 31 March 2014 were approved by the Board of Directors on 23 June 2014 and have been delivered to the Registrar of Companies. The independent auditors' report on those financial statements was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

2. **Basis of preparation**

The accounting policies adopted in the unaudited 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 2014 (which are available on the Company website www.pennon-group.co.uk), except as described in note 3, and are also in accordance with all International Financial Reporting Standards (IFRS) and interpretations of the IFRS Interpretations Committee applicable for the year ended 31 March 2015 in issue which have been adopted by the European Union.

3. **Accounting policies**

New or revised standards or interpretations, listed below, which were mandatory for the first time in the year beginning 1 April 2014 did not have a material impact on the net assets or results of the Group.

- IFRS 10, 'Consolidated financial statements'. Under IFRS 10, subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

  The new standard IFRS 10 has no financial impact on the Group.

- IFRS 11, 'Joint arrangements'. Under IFRS 11, investments in Joint arrangements are classified as Joint ventures based on contractual rights and obligations each investor has rather than the legal structure of the joint arrangement.

  Under IFRS 11 entities can no longer account for an interest in a joint venture using the proportionate consolidation method and must use the equity method in accordance with IAS 28, Investments in associates.

  The new standard IFRS 11 has no financial impact on the Group. All joint ventures continue to be recognised using the equity method.

- IFRS 12, 'Disclosure of interests in other entities'. IFRS 12 sets out the required disclosures for entities reporting under the two new standards noted above. The new standard requires additional disclosure in relation to subsidiaries, associates and joint arrangements.

  The new standard IFRS 12 has no financial impact on the Group, although further disclosure of joint arrangements will be presented in the 2014/15 financial statements.

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Notes (continued)

3. **Accounting policies (continued)**

Other standards or interpretations which were mandatory for the first time in the year beginning 1 April 2014 did not have a material impact on the net assets or results of the Group.

Standards and interpretations in issue, but not yet effective, are not expected to have a material effect on the Group's net assets or results, except the following set out below:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities, including the relaxation of certain hedging requirements. The complete version of IFRS 9 was issued in July 2014. It will replace the guidance in IAS 39 that relates to the classification and measurement of financial instruments. The standard is effective for accounting periods beginning on or after 1 January 2018 and is subject to EU endorsement.

- IFRS 15, 'Revenue from contracts with customers' relates to revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard will replace IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and is subject to EU endorsement.

The Group is currently assessing the impact of adopting IFRS 9 and IFRS 15 on the Group's financial reporting, which is expected to result in increased disclosure of the Group's revenue.

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Notes (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 and sewerage business comprises the regulated water and sewerage services undertaken by South West Water Limited. The waste management business is the renewable energy, recycling and waste management services provided by Viridor Limited.

	2015 (Unaudited) £m	2014 £m
Revenue		
Water and sewerage	**522.2**	520.0
Waste management	**835.9**	802.0
Other	**10.9**	11.2
Less intra-segment trading *	**(11.8)**	(12.0)
	1,357.2	1,321.2
Segment result		
Operating profit before depreciation, amortisation and exceptional items (EBITDA)		
Water and sewerage	**331.3**	330.9
Waste management	**80.4**	76.3
Other	**(0.7)**	0.1
	411.0	407.3
Operating profit before exceptional items		
Water and sewerage	**225.4**	227.0
Waste management	**21.6**	30.2
Other	**(0.4)**	0.3
	246.6	257.5
Profit before tax and exceptional items		
Water and sewerage	**167.9**	162.5
Waste management	**27.7**	27.6
Other	**15.1**	17.2
	210.7	207.3
Profit/(loss) before tax		
Water and sewerage	**179.7**	162.5
Waste management	**1.0**	(21.0)
Other	**16.3**	17.2
	197.0	158.7

* Intra-segment trading between and to other segments by the water and sewerage and waste management segments is under normal commercial terms and conditions that would also be available to unrelated third parties. Intra-segment revenue of the other segment is at cost.

Geographic analysis of revenue based on location of customers

	2015 (Unaudited) £m	2014 £m
UK	**1,317.6**	1,265.2
Rest of European Union	**10.4**	13.1
China	**25.3**	35.8
Rest of World	**3.9**	7.1
	1,357.2	1,321.2

The UK is the Group's country of domicile and generates the majority of its revenue from external customers in the UK. The Group's non-current assets are located in the UK.

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Notes (continued)

5. Exceptional items

Exceptional items are those that in the Directors' view are required to be separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance.

	2015 (Unaudited) £m	2014 £m
Operating credits / (costs)		
Pension costs – past service (a)	**14.9**	-
Environmental provisions (b)	**6.7**	(5.7)
Underperforming contracts (c)	**(11.0)**	-
Impairment of property, plant and equipment (d)	**(24.3)**	(42.9)
Total net operating costs	**(13.7)**	(48.6)
Tax credit arising on exceptional items	**2.7**	8.9
Net exceptional charge	**(11.0)**	(39.7)

(a) During the year an exceptional credit was recognised relating to changes made to the Group's defined benefit scheme. Changes implemented during the year capped pensionable pay for active members, reducing past service cost.

(b) Landfill environmental provisioning has been reassessed £6.7m lower reflecting lower expected restoration and aftercare costs, partly offset by a reduction in discount rate.

(c) A small number of contracts have been assessed as underperforming. On this basis a provision of £11.0m has been established.

(d) The profitability of a small number of landfill energy sites has been impacted by higher than anticipated site costs and lower than expected volumes due to site specific circumstances. As a result a net exceptional impairment charge of £24.3m has been recognised to write-down the carrying value of landfill energy property, plant and equipment. Included in the net charge are impairment reversals of £9.2m.

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Notes (continued)

6. **Net finance costs**

	2015 (Unaudited)			2014		
	Finance cost £m	**Finance income £m**	**Total £m**	Finance cost £m	Finance income £m	Total £m
Cost of servicing debt						
Bank borrowings and overdrafts	**(32.2)**	**-**	**(32.2)**	(32.5)	-	(32.5)
Interest element of finance lease rentals	**(32.9)**	**-**	**(32.9)**	(35.8)	-	(35.8)
Other finance costs	**(6.5)**	**-**	**(6.5)**	(4.9)	-	(4.9)
Interest receivable	**-**	**11.3**	**11.3**	-	5.3	5.3
Interest receivable on shareholder loans to joint ventures	**-**	**11.4**	**11.4**	-	9.8	9.8
	(71.6)	**22.7**	**(48.9)**	(73.2)	15.1	(58.1)
Other finance income						
Investment income received	**-**	**-**	**-**	-	11.3	11.3
Fair value losses on derivative financial instruments providing commercial hedges	**-**	**-**	**-**	(10.7)	-	(10.7)
	-	**-**	**-**	(10.7)	11.3	0.6
Notional interest						
Interest receivable on service concession arrangements	**-**	**13.5**	**13.5**	-	8.5	8.5
Retirement benefit obligations	**(2.7)**	**-**	**(2.7)**	(4.0)	-	(4.0)
Unwinding of discounts on provisions	**(10.5)**	**-**	**(10.5)**	(9.3)	-	(9.3)
	(13.2)	**13.5**	**0.3**	(13.3)	8.5	(4.8)
Net gains on non-designated financial instruments hedging interest rate risk	**-**	**7.8**	**7.8**	-	8.4	8.4
Net finance costs	**(84.8)**	**44.0**	**(40.8)**	(97.2)	43.3	(53.9)

PENNON GROUP PLC

Notes (continued)

6. **Net finance costs (continued)**

In addition to the above, finance costs of £22.5m (2014 £21.8m) have been capitalised on qualifying assets included in property, plant and equipment.

Other finance income received last year represents enhanced yields from investment income received on deposits held partially offset by fair value losses on derivative financial instruments which provided commercial hedges against these short-term structured deposits. These transactions commenced and matured during the year.

7. **Taxation**

	Unaudited					
	Before exceptional items 2015 £m	**Exceptional items (note 5) 2015 £m**	**Total 2015 £m**	Before exceptional items 2014 £m	Exceptional items (note 5) 2014 £m	Total 2014 £m
Analysis of charge/(credit) :						
Current tax charge	**39.2**	**0.6**	**39.8**	35.3	-	35.3
Deferred tax - other	**18.2**	**(3.3)**	**14.9**	14.3	(10.2)	4.1
Deferred tax – arising on change of rate of corporation tax	**-**	**-**	**-**	(40.1)	1.3	(38.8)
Total deferred tax charge/ (credit)	**18.2**	**(3.3)**	**14.9**	(25.8)	(8.9)	(34.7)
Tax charge/(credit)	**57.4**	**(2.7)**	**54.7**	9.5	(8.9)	0.6

UK corporation tax is calculated at 21% (2014 23%) of the estimated assessable profit for the year.

UK corporation tax is stated after release of prior year current tax credits of £5.5m (2014 £16.5m) and a prior year deferred tax charge of £9.7m (2014 £12.1m).

The 2014 deferred tax credit includes a credit of £40.1m reflecting a reduction in the rate of UK corporation tax.

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

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Notes (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 year, 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 is adjusted to include all dilutive potential ordinary shares.

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

	2015 (Unaudited)	2014
Number of shares (millions)		
For basic earnings per share	**390.9**	367.4
Effect of dilutive potential ordinary shares from share options	**1.8**	1.7
For diluted earnings per share	**392.7**	369.1

Basic and diluted earnings per ordinary share before exceptional items and deferred tax

Earnings per share before exceptional items and deferred tax are presented to provide a more useful comparison of business trends and performance, since deferred tax reflects distortive effects of changes in corporation tax rates and the level of long-term investment. Earnings per share have been calculated:

	2015 (Unaudited)			2014		
	Profit after tax £m	**Earnings per share Basic p**	**Diluted p**	Profit after tax £m	Earnings per share Basic p	Diluted p
Statutory earnings	**126.3**	**32.3**	**32.2**	142.5	38.8	38.6
Deferred tax	**18.2**	**4.7**	**4.6**	(25.8)	(7.0)	(7.0)
Exceptional items (net of tax)	**11.0**	**2.8**	**2.8**	39.7	10.8	10.8
Earnings before exceptional items and deferred tax	**155.5**	**39.8**	**39.6**	156.4	42.6	42.4

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Notes (continued)

9. **Amounts recognised as distributions to equity holders in the year:**

	2015 (Unaudited) £m	2014 £m
Interim dividend paid for the year ended 31 March 2014 : 9.39p (2013 8.76p) per share	**34.8**	31.9
Final dividend paid for the year ended 31 March 2014 : 20.92p (2013 19.70p) per share	**82.2**	72.0
	117.0	103.9

Proposed dividends

	2015 (Unaudited) £m
Proposed interim dividend for the year ended 31 March 2015 : 9.98p per share	**39.8**
Proposed final dividend for the year ended 31 March 2015 : 21.82p per share	**89.7**
	129.5

The proposed interim and final dividends have not been included as liabilities in these financial statements. The proposed interim dividend for 2015 was paid on 2 April 2015 and the proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 30 July 2015.

If approved at the Annual General Meeting the final dividend of 21.82p per share will be paid on 2 October 2015 to shareholders on the register on 7 August 2015.

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Notes (continued)

10. **Share capital**

Allotted, called up and fully paid

	Number of shares		
	Treasury shares	Ordinary shares	£m
At 1 April 2013 Ordinary shares of 40.7p each	2,105,836	364,657,522	149.2
Shares issued under the scrip dividend alternative	-	5,071,608	2.1
Shares re-issued under the Company's Performance and Co-investment Plan	(304,374)	304,374	-
For consideration of £0.4m, shares re-issued to the Pennon Employee Share Trust	(69,336)	69,336	-
For consideration of £1.9m, shares re-issued under the Company's Sharesave Scheme	(438,302)	438,302	-
For consideration of £0.1m, shares re-issued under the Executive Share Option Scheme	(11,134)	11,134	-
At 31 March 2014 ordinary shares of 40.7p each	1,282,690	370,552,276	151.3
	Unaudited		
Shares issued in respect of the £125m convertible bond	-	20,909,635	8.5
Shares issued under the scrip dividend alternative	-	6,365,622	2.6
Shares re-issued under the Company's Performance and Co-investment Plan	(131,685)	131,685	-
For consideration of £0.8m, shares re-issued to the Pennon Employee Share Trust	(99,455)	99,455	-
For consideration of £3.0m, shares re-issued under the Company's Sharesave Scheme	(657,008)	657,008	-
For consideration of £0.1m, shares re-issued under the Executive Share Option Scheme	(5,027)	5,027	-
At 31 March 2015 ordinary shares of 40.7p each	389,515	398,720,708	162.4

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

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Notes (continued)

		2015 (Unaudited) £m	2014 £m
11.	**Perpetual capital securities**		
	GBP 300m 6.75% perpetual subordinated capital securities	**294.8**	294.8

On 8 March 2013 the Company issued £300m perpetual capital securities. Costs directly associated with the issue of £5.2m are set off against the value of the issuance. They have no fixed redemption date but the Company may, at its sole discretion, redeem all, but not part, of these securities at their principal amount on 8 March 2018 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.

The Company paid a periodic return of £20.3m on 8 March 2015. This payment and the associated tax relief of £4.3m have been recognised directly in the perpetual capital security reserve.

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Notes (continued)

12. **Cash flow from operating activities**

Reconciliation of profit for the year to net cash inflow from operating activities:

Cash generated from operations	**2015 (Unaudited) £m**	2014 £m
Profit for the year	**142.3**	158.1
Adjustments for:		
Share-based payments	**3.5**	3.3
Profit on disposal of property, plant and equipment	**(3.7)**	(4.2)
Depreciation charge	**161.7**	147.1
Amortisation of intangible assets	**2.7**	2.7
Exceptional impairment of property, plant and equipment	**24.3**	42.9
Exceptional provision charge	**4.3**	5.7
Exceptional credit from defined benefit pension change	**(14.9)**	-
Share of post-tax profit from joint ventures	**(4.9)**	(3.7)
Finance income	**(44.0)**	(43.3)
Finance costs	**84.8**	97.2
Taxation charge	**54.7**	0.6
Changes in working capital:		
Increase in inventories	**(2.9)**	(1.6)
Increase in trade and other receivables	**(17.1)**	(13.2)
Increase in service concession arrangements receivable	**(71.9)**	(47.5)
Increase in trade and other payables	**5.7**	7.3
(Decrease)/increase in retirement benefit obligations	**(9.6)**	1.9
Decrease in provisions	**(4.1)**	(15.3)
Cash generated from operations	**310.9**	338.0

Total interest paid	**2015 (Unaudited) £m**	2014 £m
Interest paid in operating activities	**62.0**	65.3
Interest paid in investing activities (purchase of property, plant and equipment)	**22.5**	21.8
Total interest paid	**84.5**	87.1

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Notes (continued)

13. **Net borrowings**

	2015 (Unaudited) £m	2014 £m
Cash and cash deposits	**771.0**	613.1
Borrowings – current		
Bank overdrafts	**(0.2)**	-
Other current borrowings	**(81.8)**	(155.4)
Finance lease obligations	**(31.6)**	(118.5)
Total current borrowings	**(113.6)**	(273.9)
Borrowings – non-current		
Bank and other loans	**(706.9)**	(1,077.8)
Other non-current borrowings	**(843.5)**	(304.3)
Finance lease obligations	**(1,304.1)**	(1,151.1)
Total non-current borrowings	**(2,854.5)**	(2,533.2)
Total net borrowings	**(2,197.1)**	(2,194.0)

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

	2015 (Unaudited) £m	2014 £m
Cash and cash deposits as above	**771.0**	613.1
Less : deposits with a maturity of three months or more (restricted funds)	**(196.2)**	(173.2)
	574.8	439.9

14. **Post Balance Sheet events**

On 15 April 2015 Pennon Group Plc acquired 100% of the issued share capital of Sembcorp Bournemouth Water Investments Limited (renamed 'Bournemouth Water Investments Limited') including its non-regulated subsidiaries from Sembcorp Holdings Limited for a cash consideration of £100.3m. Sembcorp Bournemouth Water Investments Limited is the holding company for Sembcorp Bournemouth Water Limited (renamed 'Bournemouth Water Limited').

As part of the Acquisition £86.9m of external net debt and debt-like items have been assumed by Pennon Group Plc.

The acquisition has been accounted for using the acquisition method. Provisional goodwill of c.£66m has been capitalised.

Pennon Group Plc replenished cash resources used for the cash consideration through a placing of 12,084,337 new ordinary shares of 40.7 pence each with institutions at a price of 830 pence per Placing Share, raising gross proceeds of £100.3m.

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