Full Year Results 2018/19

Pennon

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Chris Loughlin

Group Chief Executive

Pennon
Bringing resources to life

Delivered strong results in a responsible and sustainable way

Viridor

- Focus on de-risked infrastructure model, backed by index linked long-term contracts
- Successful ERF(1) build out and operations >90% availability
- Confidence in long-term market outlook – growth opportunities
- Investment in plastics recycling

South West Water

- Uniquely achieved fast-track status in successive price reviews
- Continuing sector leadership throughout this period – cumulative RORE(2) 11.8%
- Operational resilience despite extreme weather
- Confidence in continued outperformance next period – outperformance in all areas

Growth driving attractive dividend sustainability

(1) ERF – Energy Recovery Facility
(2) RORE – Return on Regulated Equity - see slide 35 for further details

Trusted, Collaborative, Responsible, Progressive – living our core values

Pennon

Our core values are embedded in our sustainable way of operating

- Prioritising the interests of customers, employees and the environment
- Delivering outstanding service to customers and communities
- Significant sustainable investment for growth across water and waste sectors

FTSE4Good

BUSINESS IN THE COMMUNITY

CDP DISCLOSURE INSIGHT ACTION

Focused on strong financial control, sound administration and good governance

- Board alignment with stakeholders reflected in our approach
- Appropriate gearing, sustainable financing framework in place
- Paying fair share of UK tax

A4S ACCOUNTING FOR SUSTAINABILITY

Fair Tax

Value creation for stakeholders

- A well established sector leading dividend policy
- Sharing financial outperformance between customers and shareholders – giving customers a stake and say

new deal

Susan Davy
Chief Financial Officer

2018/19 Financial Highlights

Robust financial performance

Pennon

Underlying EBITDA

+7.2% (1)

Earnings Per Share

+13.6% (2) Underlying

+6.5% Statutory

Strong Balance Sheet

Effective Interest Rate 3.6%

Dividend Per Share

+6.4% (3)

(1) Before non-underlying items, see slide 12
(2) Adjusted EPS before deferred tax, non-underlying items and proportionately adjusted for the return due on the perpetual capital securities
(3) Dividend policy of 4% + RPI to 2020. RPI 2.4% at March 2019

Pennon
Robust financial performance

Underlying(1)	2018/19 £m	2017/18 £m	Change
Revenue	1,478.2	1,393.0	+6.1%
EBITDA (A)	546.2	509.6	+7.2%
Adjusted EBITDA(2)	592.7	562.3	+5.4%
Depreciation and Amortisation	(195.2)	(185.7)	(5.1%)
Operating Profit	351.0	323.9	+8.4%
Net Interest	(83.2)	(74.5)	(11.7%)
Share of JV Profit After Tax	12.4	9.4	+31.9%
Profit Before Tax (B)	280.2	258.8	+8.3%
Non-underlying Items Before Tax(3) (C)	(19.9)	4.1	-
Statutory Profit Before Tax	260.3	262.9	(1.0%)
Tax	(37.7)	(41.0)	+8.0%
Statutory Profit After Tax	222.6	221.9	+0.3%
Underlying Earnings Per Share(4) (p) (D)	57.8	50.9	+13.6%
Statutory Earnings Per Share (p) (D)	51.1	48.0	+6.5%
Dividend Per Share(5) (p)	41.06	38.59	+6.4%

(1) Before non-underlying items, see slide 12
(2) Underlying EBITDA plus share of Joint Venture EBITDA and IFRIC 12 interest receivable
(3) Non-underlying items are adjusted for by virtue of their size, nature or incidence to enable a full understanding of financial performance
(4) Adjusted EPS: before deferred tax, non-underlying items and proportionately adjusted for the return due on the perpetual capital securities
(5) Dividend policy of 4% + RPI. RPI 2.4% at March 2019
(6) GMP – Guaranteed Minimum Pension

A EBITDA growth momentum
- Strong performance across our Water and Waste operations
- Focus on efficiencies

B Profit before tax growth
- Strong results driven by Viridor ERF build out and performance
- Efficient finance costs – effective rate 3.6%

C Non-underlying items
- Derivatives associated with SWW 2040 bond
- GMP(6) pension equalisation
- Interserve provision – reflecting credit quality

D EPS ahead of 2017/18
- On both an underlying and statutory basis benefiting from lower hybrid charge than prior year

Viridor
Delivering growth underpinned by ERF portfolio

Underlying[1]	2018/19 £m	2017/18 £m	Change
Revenue[2]	**852.7**	785.7	+8.5%
EBITDA	**178.9**	150.2	+19.1%
ERFs	**154.8**	123.7	+25.1%
Landfill	**4.8**	5.6	(14.3%)
Landfill Gas	**20.6**	23.3	(11.6%)
Recycling	**14.9**	15.0	(0.7%)
Contracts, Collections & Other	**39.0**	39.3	(0.8%)
Indirect Costs	**(55.2)**	(56.7)	+2.6%
Depreciation and Amortisation	**(78.0)**	(71.6)	(8.9%)
Share of JV Profit After Tax	**12.4**	9.4	+31.9%
Net Interest	**(24.8)**	(17.2)	(44.2%)
Profit Before Tax	**88.5**	70.8	+25.0%
Capital Expenditure[3]	**241.7**	213.0	+13.5%
Share of JV EBITDA[4]	***31.9***	*38.9*	*(18.0%)*
IFRIC 12 Interest Receivable	***14.6***	*13.8*	*+5.8%*
Adjusted EBITDA[5]	***225.4***	*202.9*	*+11.1%*

(1) Before non-underlying items, see slide 12
(2) Including landfill tax and construction spend on service concession arrangements
(3) Including construction spend related to service concession arrangements
(4) Joint venture EBITDA impacted by disposal of VLGM in 17/18
(5) Underlying EBITDA plus share of Joint Venture EBITDA and IFRIC12 interest receivable
(6) Excluding impact of liquidated damages and sites opening part way through year

New ERF capacity on stream

- 3 new ERFs operational in 2018/19
- Investment in additional throughput capacity at Glasgow
- Increased like for like[6] performance vs 2017/18
- Robust performance from JVs - additional stake in Runcorn I ERF acquired

Optimising landfill

- 2 landfill sites closed in the year – forecasting 6 sites remaining open for the medium / long term
- Invested in landfill gas for greater collection efficiency

Delivering in recycling

- Performance in line with expectations and PY guidance
- EBITDA margin/tonne improving
- Optimising contracts and asset base

Focus on cost base

- Driving 17% reduction in real terms in indirect costs since 2015/16

South West Water
Strong outperformance – momentum continues

Underlying[1]	2018/19 £m	2017/18 £m	Change
Revenue[2]	**581.0**	571.3	+1.7%
Operating Costs	**(213.9)**	(210.4)	(1.7%)
EBITDA	**367.1**	360.9	+1.7%
Depreciation and Amortisation	**(116.0)**	(113.1)	(2.6%)
Operating Profit	**251.1**	247.8	+1.3%
Net Interest	**(70.5)**	(67.3)	(4.8%)
Profit Before Tax	**180.6**	180.5	+0.1%
Capital Expenditure	**154.0**	184.2	(16.4%)
Return on Regulated Equity:			
WaterShare RORE[3]	**11.6%**	11.1%	+0.5%
Ofwat RORE[4]	**12.0%**	12.5%	(0.5%)

Revenue – dry weather driving increases

- Net tariff increase of 1.0%[5]
- Increase in metered volumes 1.4% as a result of dry weather

Momentum in efficiency

- Continuing efficiencies minimising c.£5m costs of extreme weather and replenishment of water resources in H2
- Cost increases below average inflation – 3.1% for the year
- Continued progress on debt collection – bad debt fallen to c.0.4% of revenue

Strong RORE

- Maintaining momentum, cumulative K6 position 11.8% - broadly consistent with Ofwat approach
- On track to deliver c.£300m of Totex outperformance by 2020

(1) Before non-underlying items, see slide 12
(2) Includes wholesale revenue for non-household customers
(3) Financing outperformance based on average forecast RPI for K6 of 2.8%
(4) Ofwat's definition of financing outperformance calculated based on average RPI of 1.1% for 2015/16, 2.1% for 2016/17, 3.7% for 2017/18 and 3.1% for 2018/19.
(5) Net tariff increase reflects the net position post Wholesale Revenue Forecast Incentive Mechanism (WRFIM) pass back of £12m for 2018/19

Financial performance underpinned by efficiency initiatives delivering across the Group

£237m

SWW Totex savings

K6 to date

Sector leading Totex outperformance for South West Water

- £237m cumulative Totex efficiencies – on track to deliver c.£300m over K6
- Underpins SWW efficient cost base leading into K7

c.£27m

SWW/BW Synergies

K6 in total

Bournemouth Water synergies on track

- c.£27m secured since integration with SWW
- Maintaining industry leadership in customer service

c.£17m p.a.

Group efficiencies

From 2019

Group wide efficiencies

- c.£17m p.a. secured in line with expectations

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Non-underlying items

	2018/19 £m	2017/18 £m
Derivatives (A)	5.8	(2.4)
GMP equalisation (B)	(3.0)	-
Interserve provision (C)	(22.7)	-
Greater Manchester reset	-	6.5
Profit Before Tax	**(19.9)**	4.1
Tax on non-underlying items	5.0	3.4
Profit After Tax	**(14.9)**	7.5

(A) Derivatives

- Movements in fair value of long-dated derivatives associated with South West Water 2040 bond

(B) Guaranteed Minimum Pension (GMP) equalisation

- £3.0m pension charge

(C) Interserve provision

- Interserve provision reflects assessment of credit loss – IFRS 9
- Considered publically available information
- Further £22.7m in 2018/19 recognising credit risk associated with outstanding recoverable
- Total provision £28.7m against £72m gross receivable

Corporation Tax

A responsible approach to tax – managing tax efficiently for the benefit of customers and shareholders

	2018/19 £m	2017/18 £m
Current Year		
Current Tax	32.4	29.7
Deferred Tax	23.2	20.7
	55.6	50.4
Prior Year		
Current Tax	(3.0)	(3.6)
Deferred Tax	(9.9)	(2.4)
	(12.9)	(6.0)
Total Underlying Tax Charge	**42.7**	44.4
Non-underlying items[1]	**(5.0)**	(3.4)
Total Statutory Tax Charge	**37.7**	41.0

Fair Tax

- First water and waste infrastructure business to secure accreditation
- Demonstrates transparency and best practice across the Group
- Total tax contribution[2] £281m for 2018/19

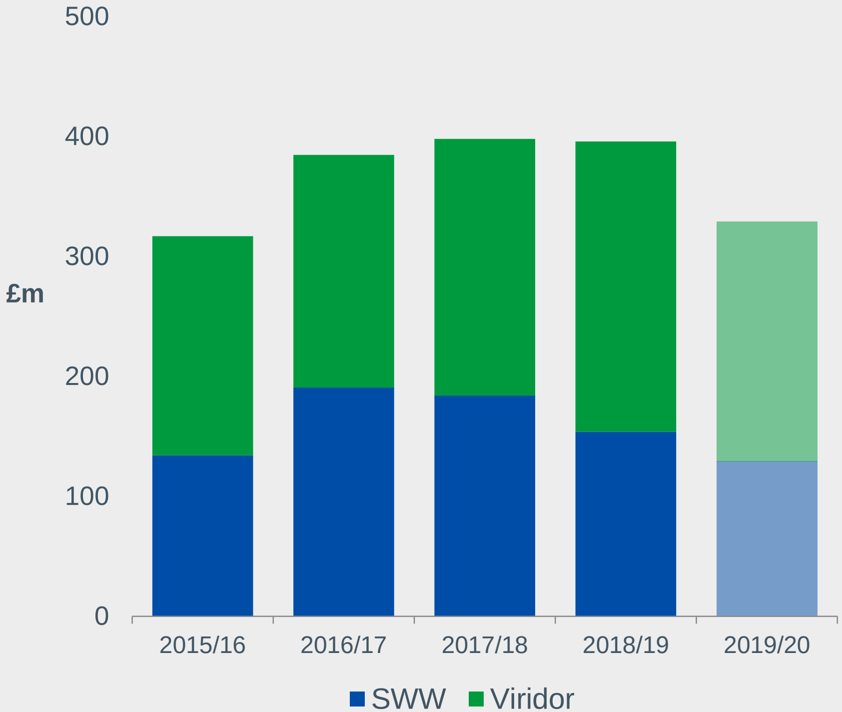
Tax charge reflects investment profiles

- Current year current tax effective rate of 11.6% (2017/18 11.5%)
- Lower than the UK headline rate of 19%, reflecting capital allowances (including ERFs)

(1) £5.5m current tax credit and (£0.5m) deferred tax charge
(2) Includes landfill tax collected and borne, VAT, business rates, employment taxes, corporation tax, fuel excise duty, carbon reduction commitment, environmental payments and climate change levy

Capital investment

Continued investment for growth across the Group



Group Capex(1)

	2018/19 £m	2017/18 £m
Total Water	**154**	184
Total Viridor	**242**	213
Total PWS/Other	**-**	1
Total	**396**	398

Key elements of Group expenditure in 2018/19

- Completion and commissioning of Mayflower WTW
- Network resilience improvements
- Completion of Dunbar and Beddington, expansion of Glasgow
- Construction of Avonmouth

(1) Including construction spend related to service concession arrangements, capitalised interest (£15.2m in 2018/19), ERF maintenance capital expenditure net of amounts subject to legal contractual process.

Growth capex driving increased earnings
Viridor focus on Recycling and Residual Waste

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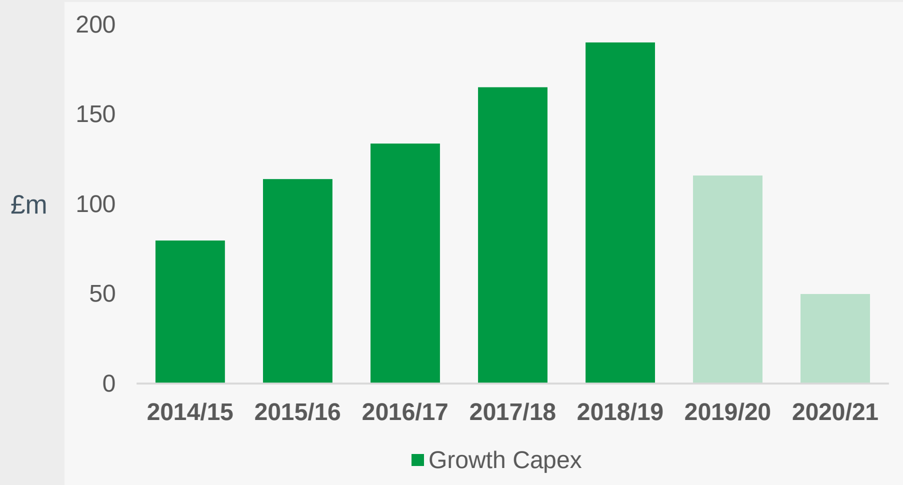
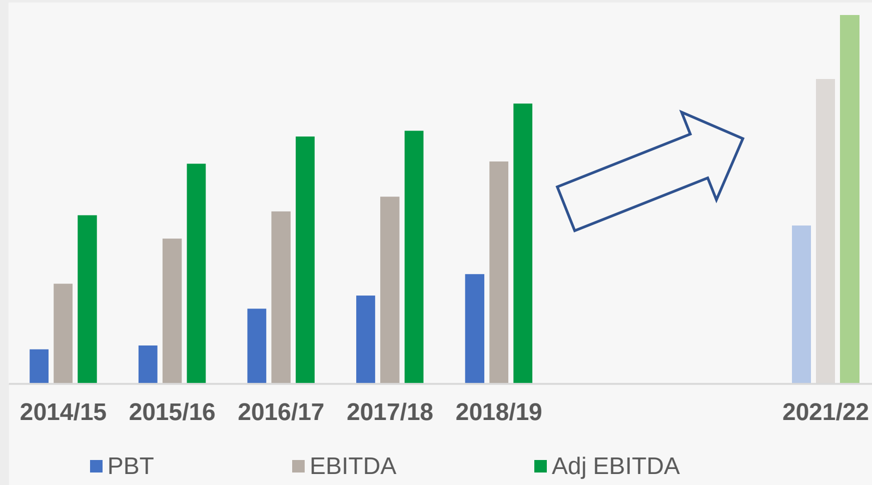


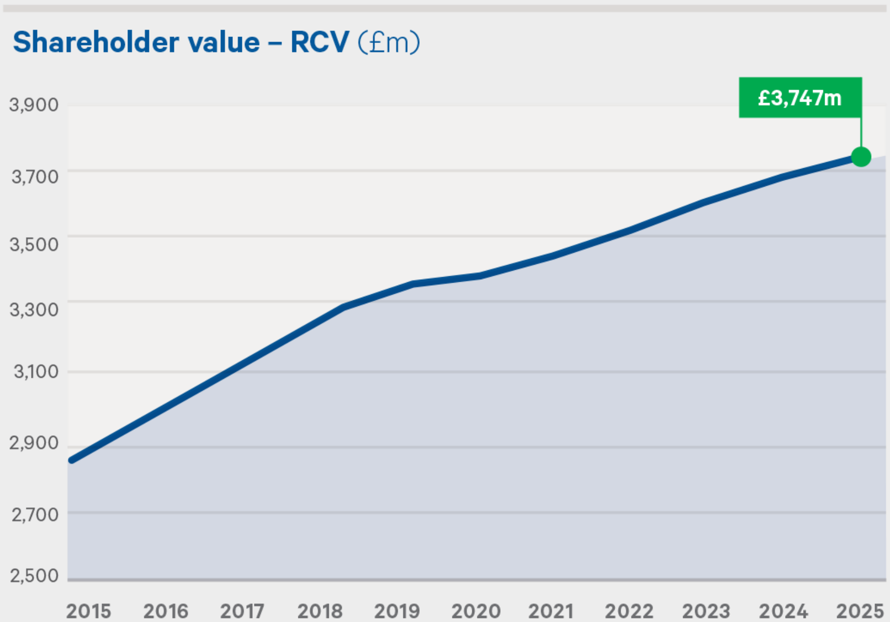


Investment delivering growth

- Investment in committed growth projects driving increased earnings
  - More than doubled 2014/15 to 2018/19
  - Anticipated to increase further as a result of committed expenditure
- Growth capex in near term – completion of Avonmouth and investment in recycling
  - New industry leading plastics recycling facility to contribute from 2020/21

Growth capex driving increased earnings

South West Water – RCV[1] growth over 10 years



Continuing investment in our assets and services

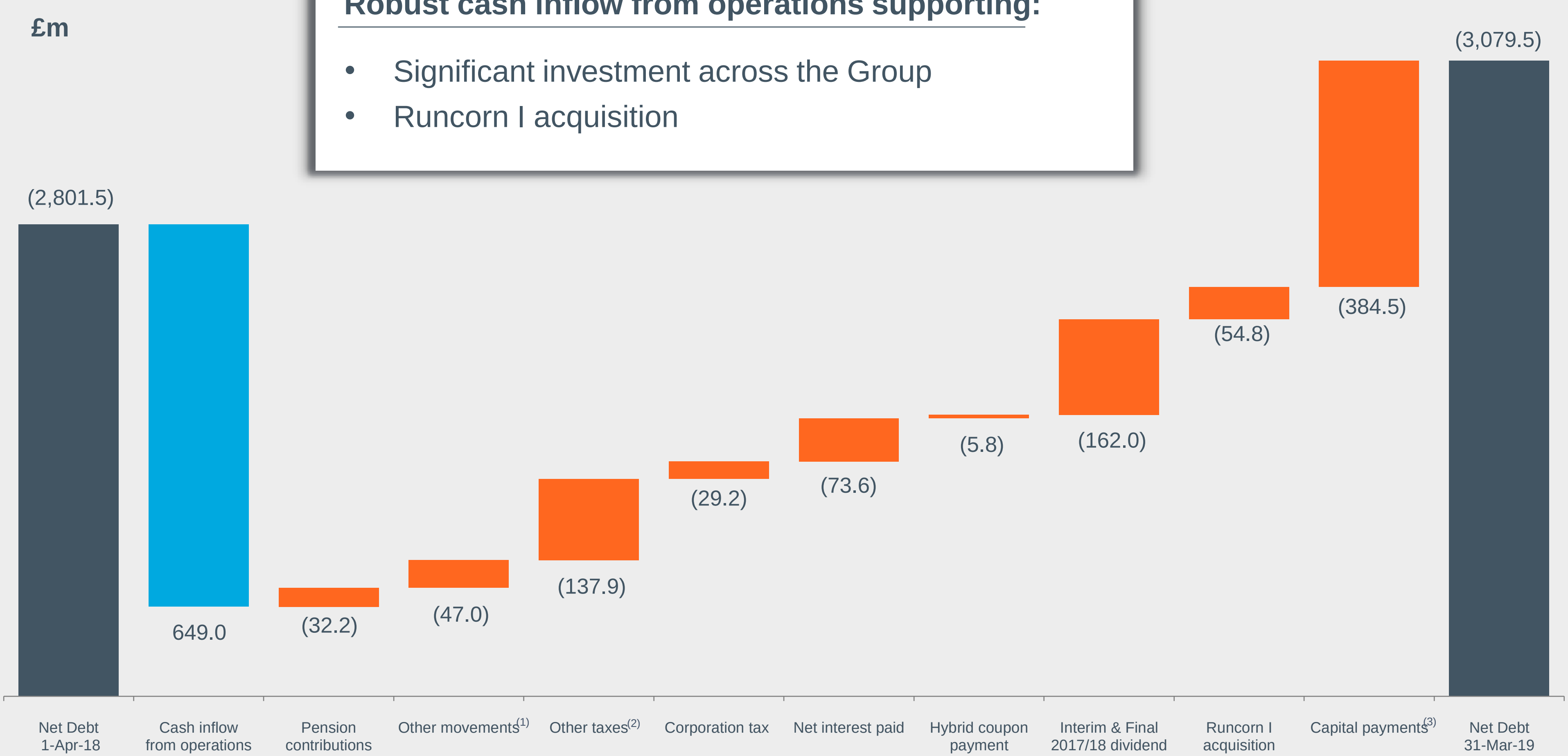
- Significant K7 capital investment planned – above K6 actual expenditure
- 10% nominal growth in RCV in K7 (c.28% over 10 years)
- c.£300m Totex outperformance for K6
- Opportunity for continued Totex outperformance in K7

(1) Nominal shadow RCV (Regulatory Capital Value) adjusted for outperformance over the 2015-20 period, based on forecast RPI consistent with the 2019 Draft Determination

Net Debt Movements
Robust cash inflow from operations

Robust cash inflow from operations supporting:

- Significant investment across the Group
- Runcorn I acquisition



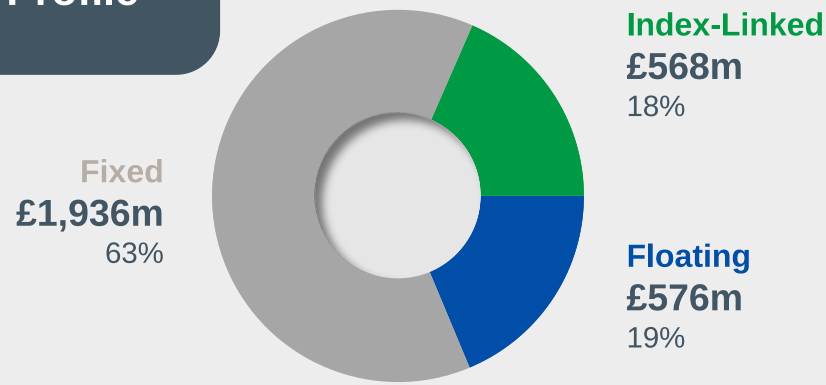
(1) Includes 2017 PMB derivative unwind settlement and non-cash movement in Euro loan due to exchange rates and index linked debt
(2) Other taxes include business rates, employers national insurance, fuel excise duty, carbon reduction commitment, environmental payments, climate change levy and external landfill tax
(3) Includes net of proceeds from sale of property, plant and equipment and spend on service concession arrangements (before amounts subject to legal contractual process)

Balance Sheet

Sustainable funding position underpinning investment

Group Net Debt Profile

at 31 March 2019
£3,080m



- Diversified funding mix, underpinned by finance leases with long maturities
- Average maturity for the Group 18 years

South West Water Funding

- c.25% index-linked – advantageous position aligned with Ofwat notional company, reducing exposure to RPI/CPIH transition risk

Stable Gearing

64.7%
63.1% at 31 March 2018

Group Net Gearing(1)

- Reflects 2017 perpetual capital securities (hybrid) in the Group's capital structure, redeemable in 2020/21
- Headroom for investment c.£725m

58.9%
60.3% at 31 March 2018

Water Business Debt / RCV(2)

- SWW – aligned with Ofwat notional efficient level

(1) Net borrowings / (equity + net borrowings)
(2) Based on Regulatory Capital Value (RCV) at March 2019 and regulatory net debt

Balance Sheet
Sustainable financing delivering efficient financing costs

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Financing secured in 2018/19 of £830m

Sustainability linked financing £600m

- £110m Plc EIB[1] 19 year loan
- £325m Plc loan facilities
- £105m RCFs[1] (Plc and SWW)
- £60m green long funding finance leases

- **Supporting capital investments in our environmentally sustainable projects**
- **Linked to Pennon Group's annual ESG performance**
- **Linked to SWW sustainability KPIs**

Other financing agreements £230m

- £100m RCFs
- £100m loan facilities
- £30m long funding finance lease

£1,170m cash & committed facilities
(31 March 2018 £1,171m)

- Provides funding for Viridor's committed growth projects and SWW's regulatory capital programme into K7

(1) EIB – European Investment Bank, RCF – Revolving Credit Facility

Finance Costs

Delivering efficient financing – mitigating risk

2018/19 net finance costs[(1)]

£83.2m

£74.5m 2017/18

2018/19 Group interest rate

3.6%

3.7% 2017/18

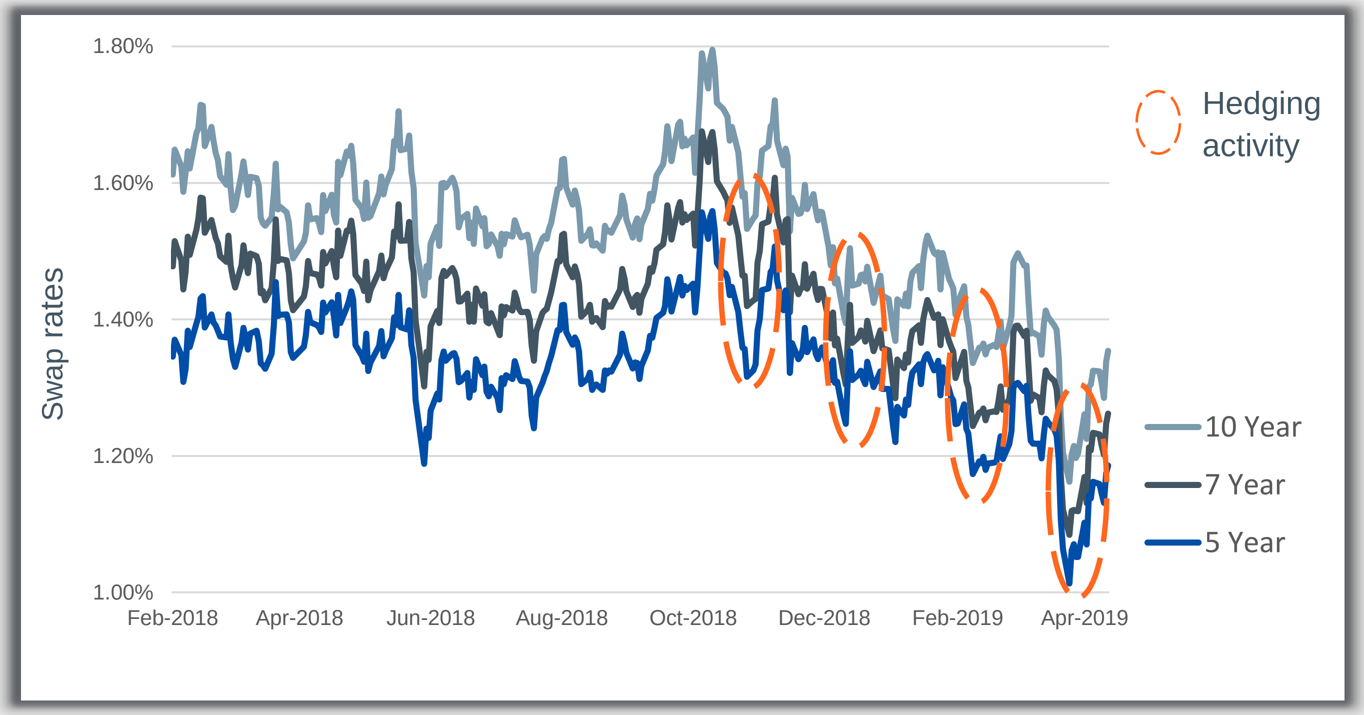
2018/19 SWW interest rate

3.5%

3.5% 2017/18

Interest rate hedging for K7

- Aligned to Ofwat's PR19 methodology
- Rolling 10 year hedges for new debt in K7
- Embedded debt matched to regulatory delivery period
- c.50% of South West Water floating rate net debt hedged for the next regulatory period



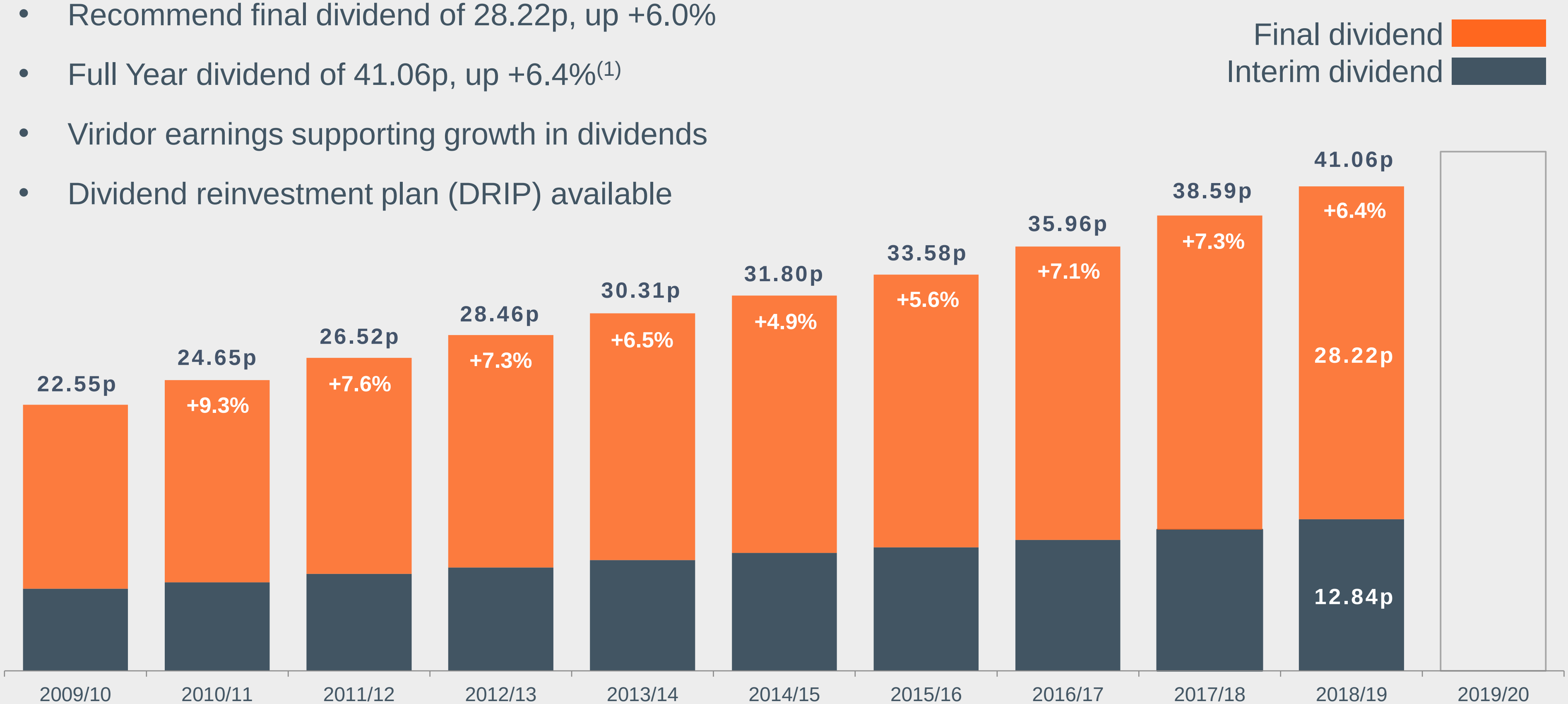
(1) Before non-underlying items – see slide 12

Dividend Growth

Growth driving attractive dividend sustainability

Established 10 year sector leading policy of RPI +4%

- Recommend final dividend of 28.22p, up +6.0%
- Full Year dividend of 41.06p, up +6.4%[(1)]
- Viridor earnings supporting growth in dividends
- Dividend reinvestment plan (DRIP) available



Note: Dividend in pence per share

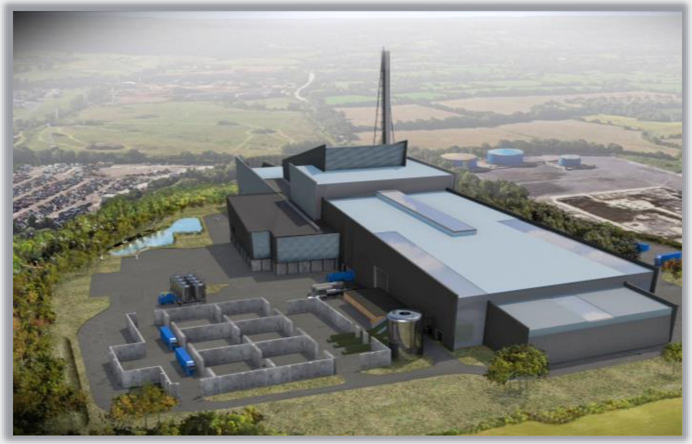
(1) 2018/19 final dividend based on March 2019 RPI of 2.4%

Chris Loughlin
Group Chief Executive

Viridor

Viridor
Bringing resources to life

- **Strong delivery in 2018/19 – platform for continued growth**
- **Excellent track record, successful diversification and growth – capitalising on UK waste strategy**
- **Confidence in long-term market outlook**
  - Government Resources & Waste Strategy aligned to Viridor strategy
  - Plastics on fast-track driven by 'Blue Planet' effect
  - ERF market fundamentals remain strong
  - Landfill continued feature of UK waste
- **Viridor focus on de-risked infrastructure model, investment backed by index-linked long-term contracts**
  - Successful execution of ERF portfolio – options being developed for 3 further ERFs
  - Market opportunities in recycling processing assets emerging – akin to ERF model



Viridor – Residual Waste

ERF portfolio – continued outperformance in 2018/19

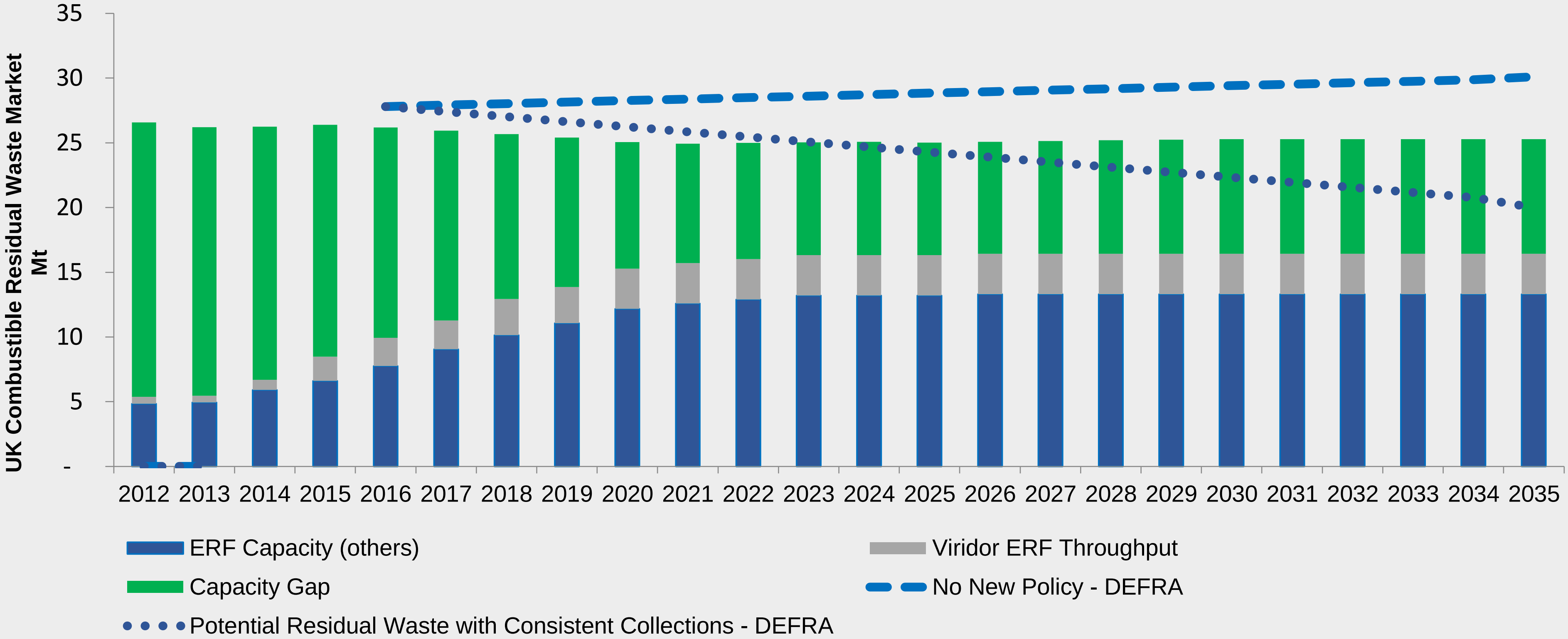
- **Portfolio continuing to deliver in excess of base case**
  - 15% increase in permitted capacity approved at Runcorn I & II
- **Portfolio EBITDA margin c.60%**
- **High availability across fleet**
  - Availability >90% for third consecutive year
  - Top quartile availability for the industry[(1)]

Outperforming base case expectations[(2)]

(1) Based on Tolvik analysis
(2) Adjusted EBITDA of sites operating for the full year, includes share of joint ventures

Viridor – Residual Waste
ERF market fundamentals remain strong

- **Conservative assumptions – based on third party analysis**
  - Combustible residual market - suitable for ERF treatment, remains robust
  - DEFRA[1] analysis gives a 10mT range depending on speed of implementation of the strategy

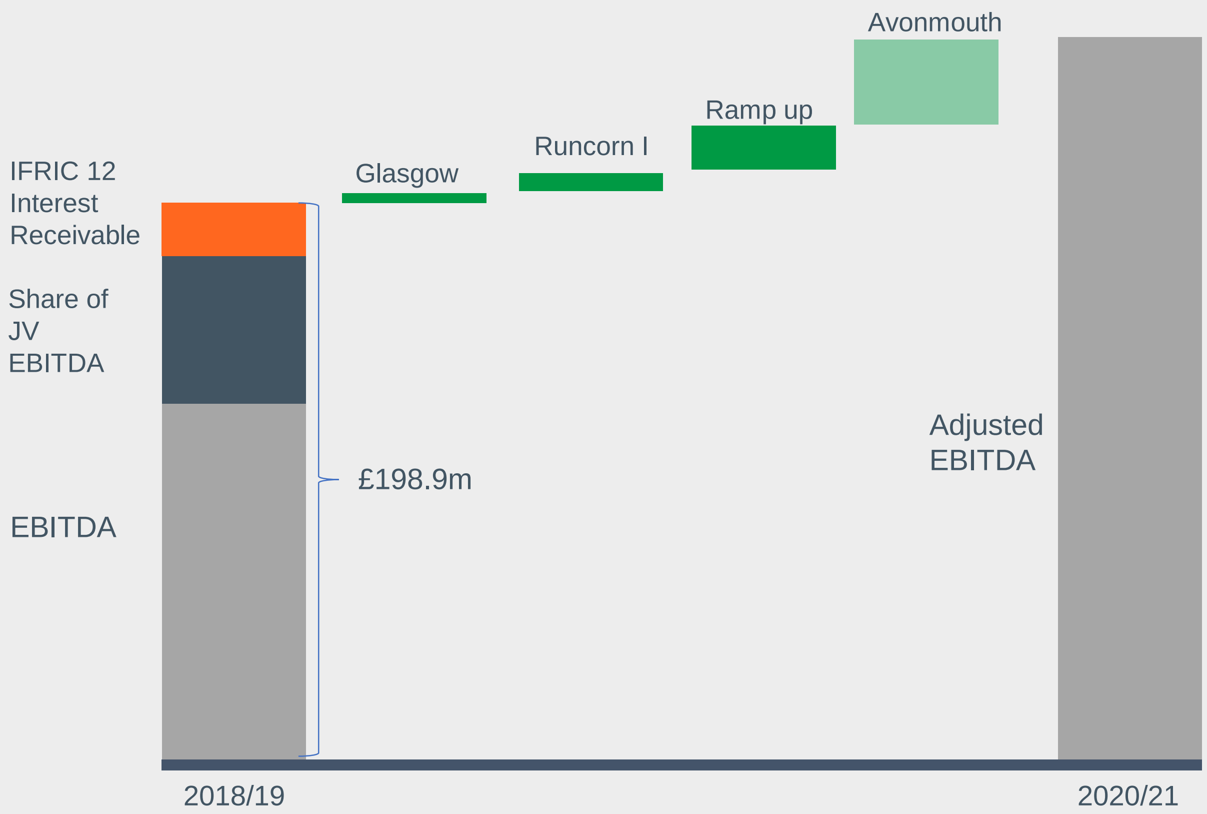


(1) DEFRA 2018 estimates
(2) Net of RDF export forecast

Source: Tolvik, Defra, SEPA, NRW, MSW and Viridor analysis

Viridor capacity gap forecast to be c.7mT[2] in 2035

Viridor – Residual Waste
Growth from existing ERF portfolio



Build out nearing completion

- Additional capacity at Glasgow
- Acquired additional stake in Runcorn I joint venture
- Glasgow, Beddington and Dunbar in operational ramp up
- Avonmouth on track for contribution in 2020/21
  - Secured additional 120kt pa from West of England Partnership
  - 85% contracted
- Targeting 3-5% capacity improvement across the portfolio
- Developing options for new ERFs

Viridor – Residual Waste
Longer term value from landfill

- **Optimising long-term value from landfill**
  - Sale of another closed site for alternative use – mitigating long term liability (H1 2019/20)
  - Responsible operator, managing our legacy
  - Highly engineered and controlled operations
- **Long-term capacity gap for residual waste in the UK**
  - Demand for landfill remains strong, particularly in targeted geographies
  - New cells where commercially attractive
  - Two further closures planned and one site to reopen in 2019/20
  - Opportunities being assessed at other mothballed sites
- **Securing reliable generation from landfill gas**
  - Lower decline in electricity volumes than previous year (c.5%)
  - Improving longer term yields by engine optimisation strategy and preventative maintenance programmes

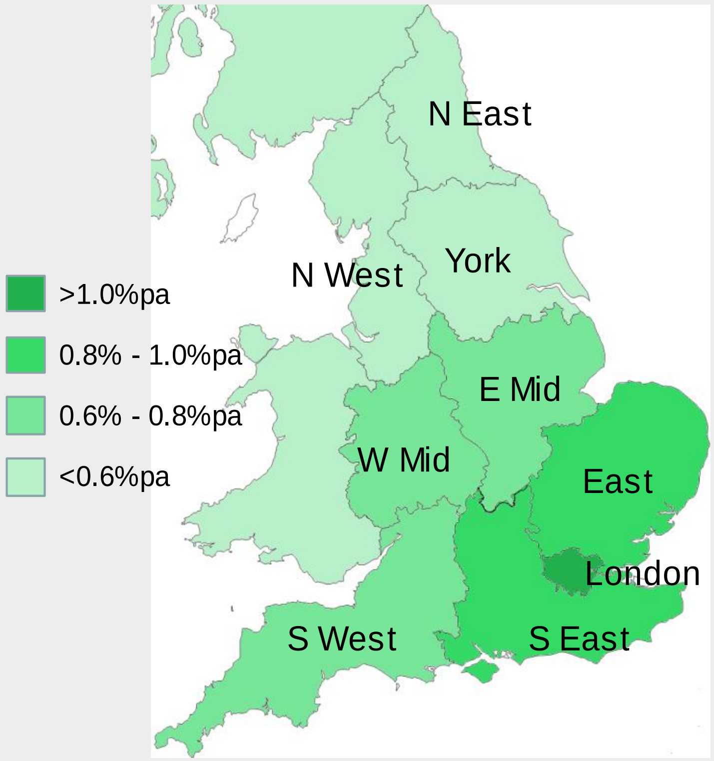
Viridor
Future growth opportunities

- **Developing options for up to 3 new ERFs**
  – Continued forecast under-capacity for residual waste
  – Attraction determined by availability of long-term contracts in line with our model

- **Developing Energy Parks**
  – Further opportunities for heat offtake and private wire for electricity supplies being developed

- **Developing options for plastics recycling**
  – Government policy and market forecasts support investment in plastics recycling facilities
  – 2 further options being developed
  – Cost advantage of co-location with ERF Energy Park

Regional household growth 2016 - 2035



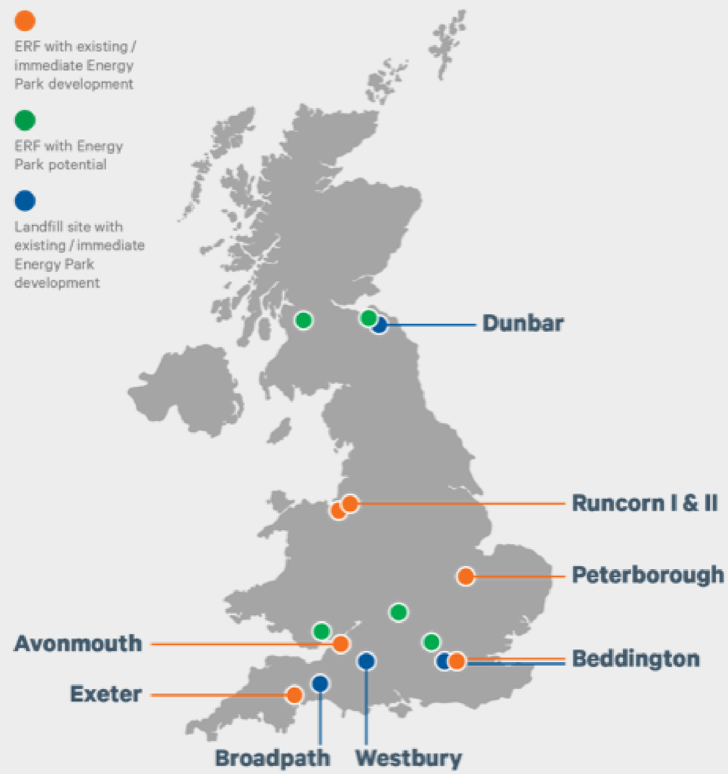
Source: Tolvik

Viridor – Energy Parks

Leveraging value from Viridor asset base

Dunbar	– Landfill gas private wire to Tarmac cement works
Runcorn	– Heat and power off-take to Inovyn
Beddington	– ERF and landfill gas heat off-take into Sutton Decentralised Energy Network for community heating – Opportunity to supply co-located data centre
Peterborough	– ERF heat connection to council depot
Exeter	– Private wire power supply from ERF to SWW
Avonmouth	– New Viridor plastics recycling facility
Westbury & Broadpath	– Solar array at landfill sites

Further opportunities under development at ERFs and landfill sites



Modest energy park capital requirements enhances profitability by c.5-10%

Viridor – Recycling

Recycling market opportunities in plastics processing

- **Government strategy supports investment in new recycling infrastructure**
  - Tax on plastic packaging containing <30% recycled content
  - Responsibility of 100% recycling costs on producers
  - Boosting demand, underpinning market for plastic recyclate
- **Brand leaders moving early**
  - Public declarations on recycled content
- **UK capacity**
  - Two thirds of plastic collected for recycling in the UK is currently exported

46% [1]
Plastic packaging currently recycled

75%
UK target for recycled packaging

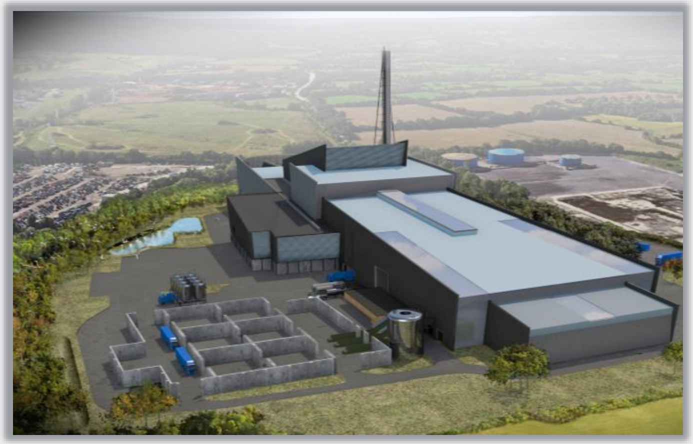
80%
Plastic packaging supply chain signed UK Plastics Pact

1 million
Tonnes of recyclable plastic currently collected in the UK [2]

(1) DEFRA 2017 provisional figures
(2) National packaging waste database

Viridor – Recycling
New industry leading plastics recycling facility

- **Industry leading attractive investment – leveraging our plastics skill set**
  - Co-located at Avonmouth ERF using energy and heat off-takes
  - Energy Park concept gives significant cost advantage
  - £65m investment in de-risked infrastructure model, backed by index-linked contracts
  - Secured ¾ of inputs and ½ of plastic offtake
  - IRR[(1)] hurdle of 15% – business case 7 years, payback <4 years
  - 80kt pa capacity representing 8% of current market requirement
  - Handles multi-stream[(2)] plastics and outputs pellets directly for manufacture



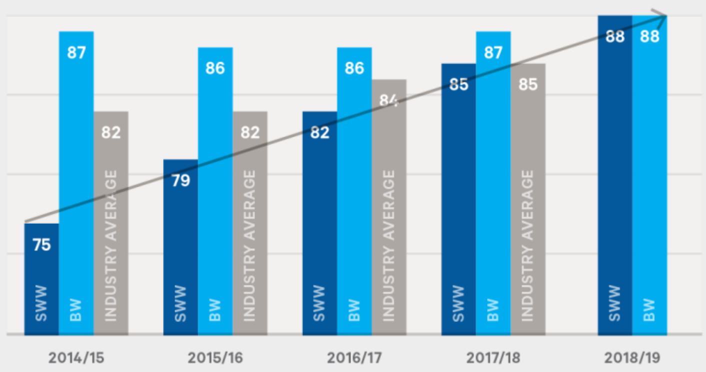
(1) Real, post-tax Internal Rate of Return
(2) Three plastics types - PET, HDPE and polypropylene

South West Water

South West Water
Delivering high quality services – solid platform for next period – K7

- **Resilience to weather extremes**
  - Hottest summer on record and 'Beast from the East' 'freeze and thaw'
  - 22nd consecutive year without water restrictions
  - Leakage target met every year
  - Supply interruptions reduced – lowest ever level

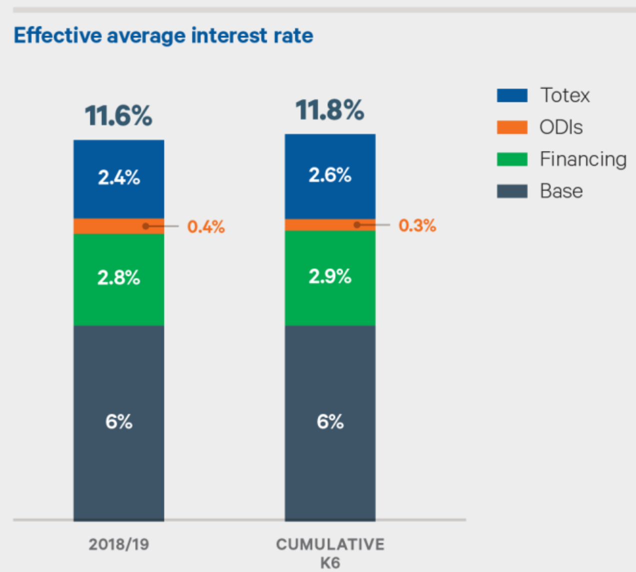
- **Sector leading customer service**
  - Highest ever customer satisfaction
  - SIM at 88 for both regions
  - Ranked 2nd in industry for quality of service(1)
  - Industry leading support to customers in vulnerable circumstances



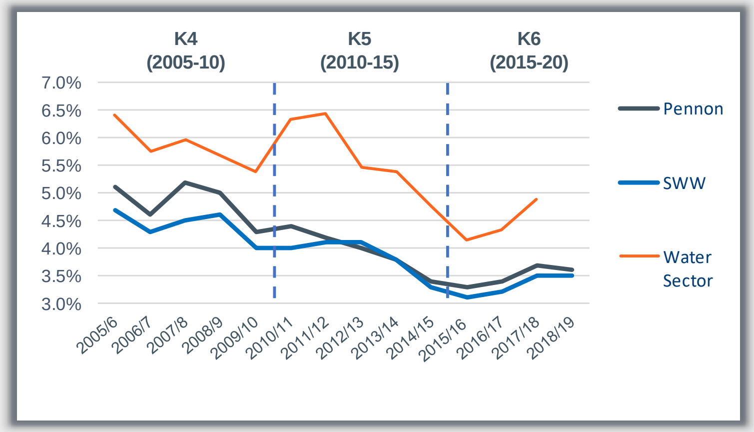
(1) Ranked 2nd water and sewerage company (WASC) for 2018/19 Customer Experience Survey (CES) quality score, a key element of SIM (Service Incentive Mechanism)

South West Water
Sector leading outperformance in this period – K6

- **Consistently highest RORE delivered – 11.8%**
  - Totex: £237m of £300m target delivered to date
  - ODIs: net cumulative reward, £11m to date
  - Financing: continued low effective interest rate, £130m to date
- **Outperformance delivered in each area**
- **Very strong foundation for next period**



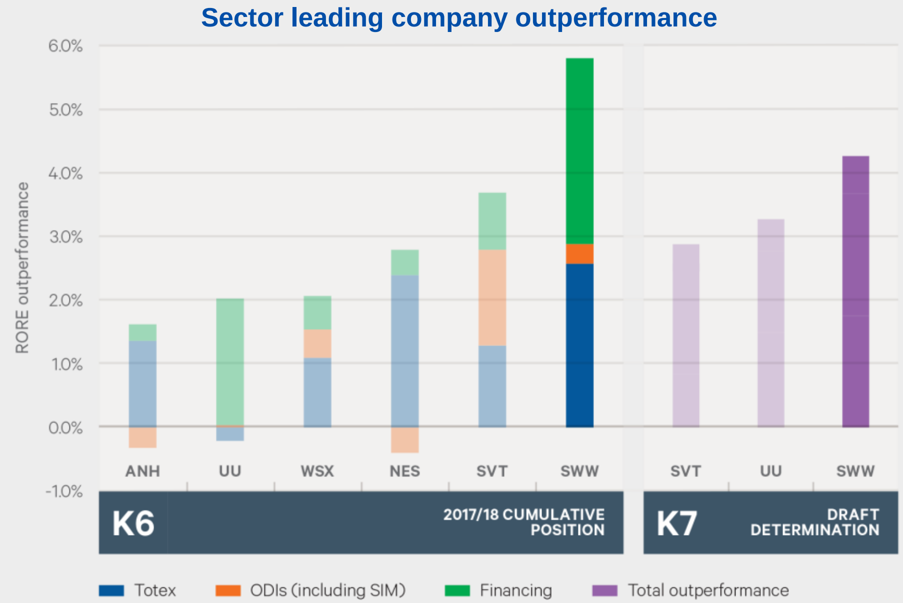
Effective average interest rate

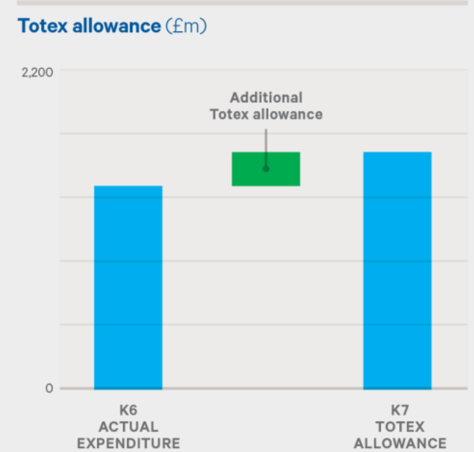


South West Water

Sector leading outperformance – next period – K7

- **Highest outperformance potential next period**
  - Confidence in outperformance in all areas
- **Totex allowances consistent with current period**
  - Allowance higher than current forecast spend
- **Financing outperformance**
  - Efficient financing structure already in place
  - Consistently delivered one of the lowest effective interest rates
- **ODIs – mixture of common and bespoke performance measures**
  - Two thirds common performance ODIs currently upper quartile/above industry average
  - Bespoke ODIs proposed/designed by SWW





South West Water

K7 Draft Determination – ODI outperformance potential for K7

Strong platform for ODI performance in K7

BESPOKE ODIs **Unique rewards for SWW**	Taste, smell and colour contacts Water & wastewater operational contacts resolved first time Water restrictions External sewer flooding Odour contacts from WWTW Sewer blockages	Compliance with sludge standards Resilience (water & wastewater) Biodiversity – enhancement Bathing water quality Abstraction incentive mechanism Number of pollution incidents (water Cat 1-3) Descriptive compliance	**Up to £68m reward**
COMMON ODIs **Current average & upper quartile performance**	Internal sewer flooding Duration of supply interruptions Leakage Per capita consumption Water quality compliance	Unplanned outage at WTW Numeric compliance Number of mains bursts CMex / DMex	**Up to £74m reward**
AREAS OF FOCUS	Sewer collapses Environmental performance / Pollution incidents		**Up to £28m penalty risk**

South West Water

Our plan *"setting the standard for the industry to meet"*

Board pledges – working in the public interest

- Making bills affordable for all
  - Lower in cash terms in 2025 than in 2010
  - Eliminate water poverty by 2025 by extending support measures
  - Ofwat praised our plan for *"high quality customer engagement and affordability"*
- Operational and service leadership
  - Upstream thinking project improving 80% of catchments
  - 15% reduction in leakage
  - Innovative solutions – Alderney and Knapp Mill water treatment works
  - Achieve net zero carbon emissions by 2030

Giving customers a stake and say

WaterShare+

- Ambitious voluntary sharing with customers
  - First of its kind, innovative customer share ownership scheme
  - Quarterly public meetings and customer AGMs

new deal

Deliver efficiency, keeping bills as low as possible and address water poverty

Provide outstanding customer service

Deliver environmental leadership

Empower our customers by giving them a stake and say

Deliver our promises, supporting the regional economy and our communities

South West Water
Fast start to next period

- **Key partnerships in place**
  - Strategic consultants and capital delivery partners confirmed
  - Operational partners in place
  - Other delivery relationships in place including Wildlife Trusts, customer groups and charities
  - Exeter University innovation programme
- **RSI[1] Transformation project already underway –** Ofwat praised *“setting the standard for others to reach”*
- **Sustainable Financing Framework embedded**
- **Preparation for Isles of Scilly transfer well advanced**

(1) RSI – Resilient Service Improvement

Delivered strong results in a responsible and sustainable way

Viridor

- Focus on de-risked infrastructure model, backed by index linked long-term contracts
- Successful ERF[(1)] build out and operations >90% availability
- Confidence in long-term market outlook – growth opportunities
- Investment in plastics recycling

South West Water

- Uniquely achieved fast-track status in successive price reviews
- Continuing sector leadership throughout this period – cumulative RORE[(2)] 11.8%
- Operational resilience despite extreme weather
- Confidence in continued outperformance next period – outperformance in all areas

Growth driving attractive dividend sustainability

(1) ERF – Energy Recovery Facility
(2) RORE – Return on Regulated Equity - see slide 35 for further details

Questions

Pennon

Pennon
Appendix

Pennon
Underlying Income Statement

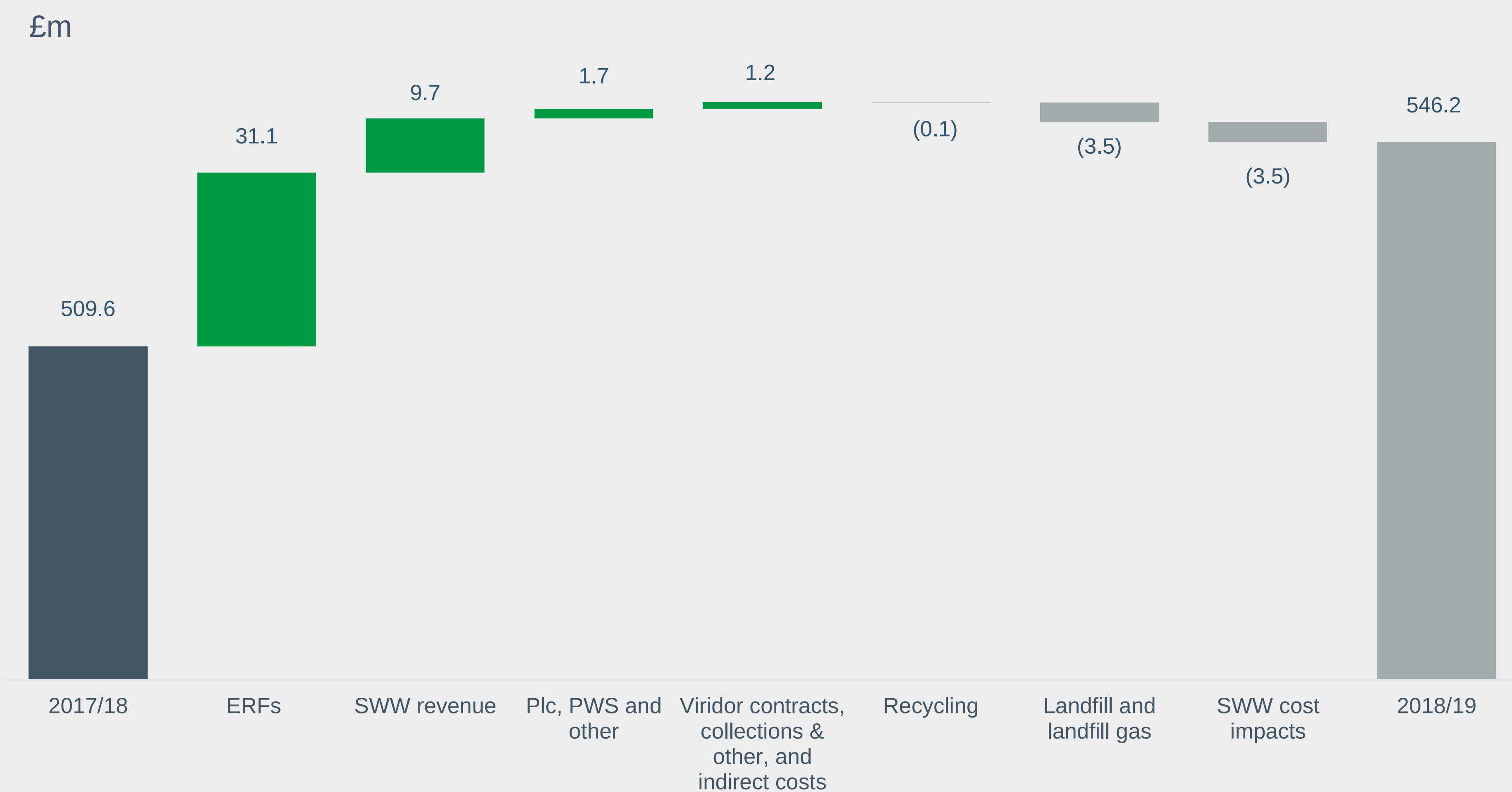
Underlying[1]	2018/19 £m	2017/18 £m	Change
Revenue	**1,478.2**	1,393.0	+6.1%
EBITDA	**546.2**	509.6	+7.2%
Adjusted EBITDA[2]	**592.7**	562.3	+5.4%
Depreciation and Amortisation	**(195.2)**	(185.7)	(5.1%)
Operating Profit	**351.0**	323.9	+8.4%
Net Interest	**(83.2)**	(74.5)	(11.7%)
Share of JV Profit After Tax	**12.4**	9.4	+31.9%
Profit Before Tax	**280.2**	258.8	+8.3%
Taxation	**(42.7)**	(44.4)	+3.8%
Profit After Tax	**237.5**	214.4	+10.8%
Profit attributable to non-controlling interest[3]	**0.3**	0.2	+50.0%
Profit attributable to perpetual capital security holders	**(8.6)**	(20.2)	+57.4%
Profit attributable to ordinary shareholders of the parent	**229.2**	194.4	+17.9%
Add back deferred tax	**13.3**	18.3	+27.3%
Adjusted Earnings[4]	**242.5**	212.7	+14.0%
Adjusted Earnings Per Share[4] (p)	**57.8**	50.9	+13.6%

(1) Before non-underlying items, see slide 12
(2) Underlying EBITDA plus share of Joint Venture EBITDA and IFRIC 12 interest receivable
(3) Reflects the impact of the non-controlling interest in Pennon Water Services
(4) Adjusted earnings and EPS before deferred tax, non-underlying items and proportionately adjusted for the return due on the perpetual capital securities

Pennon
2019/20 technical guidance

Pennon Group		2018/19	Change
Capex	Passed peak of committed ERF capex. Growth capex in near term principally reflects completion of Avonmouth and investment in recycling	£396m	
Dividend	Reflecting policy of RPI + 4% annual increase in dividend	41.06p per share	
Tax rate	Underlying effective tax rate lower than UK headline rate of 19% reflecting capital allowances (including ERFs).	11.6%	
IFRS 16	Minimal impact on profit before tax	-	
South West Water			
Revenue	Impact of net tariff increases and lower metered volumes reflecting 2018 extreme summer weather	£581m	
Opex	2018/19 includes costs associated with extreme weather. Continued efficiency into 2019/20	£214m	
Totex efficiency	On track to deliver c.£300m over K6	£237m cumulative	
RORE	Continued momentum for delivering outperformance in all areas	11.8% cumulative	
IFRS 16	Impact of new standard applicable in 2019/20. Minimal impact on profit before tax. Approximate impact on balance sheet and income statement lines as follows: • £32m Gross assets; £34m Gross liabilities • £2m EBITDA; £1m Depreciation; £1m Interest	N/A	
Viridor			
Revenue	Lower following impact of cessation of Greater Manchester Contract and lower IFRIC 12 construction revenue, partially offset by ERF ramp up and full year operations at new ERFs	£853m	
EBITDA	Impact of ERF ramp up	£179m	
IFRS 16	Impact of new standard applicable in 2019/20. Minimal impact on profit before tax. Approximate impact on balance sheet and income statement lines as follows: • £76m Gross assets; £85m Gross liabilities • £11m EBITDA; £8m Depreciation; £3m Interest	N/A	

Pennon
Group EBITDA



Pennon
Adjusted EPS reconciliation

Adjusted EPS Calculation	2018/19 £m	2017/18 £m
Statutory Profit Before Tax	**260.3**	262.9
Adjusted for:		
Non-underlying Items (pre-tax)	**19.9**	(4.1)
Current Tax	**(29.4)**	(26.1)
Minority Interest[1]	**0.3**	0.2
2013 Hybrid (post-tax)	**-**	(15.7)
2017 Hybrid	**(8.6)**	(4.5)
Profit for Adjusted EPS calc.	**242.5**	212.7
Average Number of Shares (m)	**419.6**	417.9
Adjusted EPS	**57.8**	50.9

Statutory EPS Calculation	2018/19 £m	2017/18 £m
Statutory Profit Before Tax	**260.3**	262.9
Adjusted for:		
Tax (current and deferred)	**(37.7)**	(41.0)
Minority Interest[1]	**0.3**	0.2
2013 Hybrid (post-tax)	**-**	(15.7)
2017 Hybrid	**(8.6)**	(5.8)
Profit for Statutory EPS calc.	**214.3**	200.6
Average Number of Shares (m)	**419.6**	417.9
Statutory EPS	**51.1**	48.0

Hybrid (Perpetual Capital Securities) movements

- 2013 Hybrid – reflects the post-tax charge of redeeming the 2013 hybrid, in March 2018, at 103% of par value plus accrued periodic returns
- 2017 Hybrid – adjusted EPS reflects a proportionate adjustment for the annual periodic return

Pennon
Group capital expenditure reconciliations

Group Capital Investment (Slide 14)	2018/19 £m	2017/18 £m
Viridor	**210.2**	192.8
ERFs	176.2	158.0
Recycling	8.9	3.3
Landfill and Landfill Gas	10.3	14.5
Contracts and Collections	6.9	6.1
Other	7.9	10.9
South West Water	**154.0**	184.2
Clean Water	77.2	95.0
Waste Water	76.8	89.1
Other Group	**0.2**	1.0
Group Capital Additions	**364.4**	378.0
IFRIC 12 Additions(1)	**31.5**	20.2
Capital Investment	**395.9**	398.2

Group Capital Payments (Net debt movements slide 17)	2018/19 £m	2017/18 £m
Viridor	210.2	192.8
South West Water	154.0	184.2
Other Group	0.2	1.0
Group Capital Additions	**364.4**	378.0
Capital creditor (increase)/decrease (inc. non-cash items)	(6.2)	15.8
Grants and Contributions	(2.2)	(2.2)
Proceeds from sale of PPE	(6.3)	(10.6)
IFRIC 12 Payments(2)	34.8	82.9
Total Adjustments	**20.1**	85.9
Capital Payments	**384.5**	463.9

(1) Capital additions on IFRIC 12 ERF capital assets (before amounts subject to legal contractual process)
(2) Capital payments on IFRIC 12 capital assets gross of amounts subject to legal contractual process

Pennon
Diversified funding sources

As at 31 March 2019	£m
Finance Leasing[(1)]	1,560
Bank Bilaterals	452
European Investment Bank Loans	401
Index-Linked Bonds	435
Fixed Rate (SWW 2040) Bond	134
Private Placements	668
Total Gross Debt	**3,650**
Less: Cash/Liquid Investments	(570)
Net Borrowings	**3,080**

- Finance leasing provides a significant amount of long-dated funding

(1) Includes £133m of index-linked finance leasing

Pennon
Impact of low yields at 31 March 2019

Fair value of non-current debt compared to book value	As at 31 March 2019			As at 31 March 2018		
£m	Book Value	Fair Value	Difference	Book Value	Fair Value	Difference
Finance Leases	1,497	1,432	65	1,477	1,350	127
Bank and Other Loans (Including EIB)	817	792	25	520	485	35
Other Bonds and Placements	1,185	1,381	(196)	1,180	1,346	(166)
Total	3,499	3,605	(106)	3,177	3,180	(3)

- **Fair value movements partly reversed post year end as yields increased**
- **Hedging undertaken to manage future interest risk taking advantage of a falling yield environment**
  - c.50% of South West Water floating rate net debt hedged as yields were falling towards the year end
  - Locks in benefit of low yields

Impact of low yields at 31 March 2019 – partly reversed post year end

Pensions	£m
Opening deficit 31 March 2018	**49.5**
Change in actuarial financial assumptions	75.8
Other actuarial changes recognised in SOCI	(58.6)
Other movement	(5.9)
Closing deficit 31 March 2019	**60.8**

Derivative valuation (£m)	2018/19	2017/18
Interest rate cash flow hedges	(14.6)	(9.4)
Interest rate fair value hedges	75.8	72.2
Foreign exchange hedges	0.1	3.0

- c.£76m increase in deficit from change in actuarial financial assumptions due to lower yields reducing discount rate. Partly reversed post year end as yields increased
- Other actuarial changes reduce deficit with latest actuarial data reducing life expectancy assumptions
- Other movements include a c.£13m deficit recovery payment and £3m non-underlying charge resulting from GMP equalisation ruling

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- Respective interest rate hedges have increased in value during the year, due to a lower interest rate yield environment at 31 March 2019. Partly reversed post year end as yields increased
- Foreign exchange movements due to milestones completed on ERF build programmes

Pensions

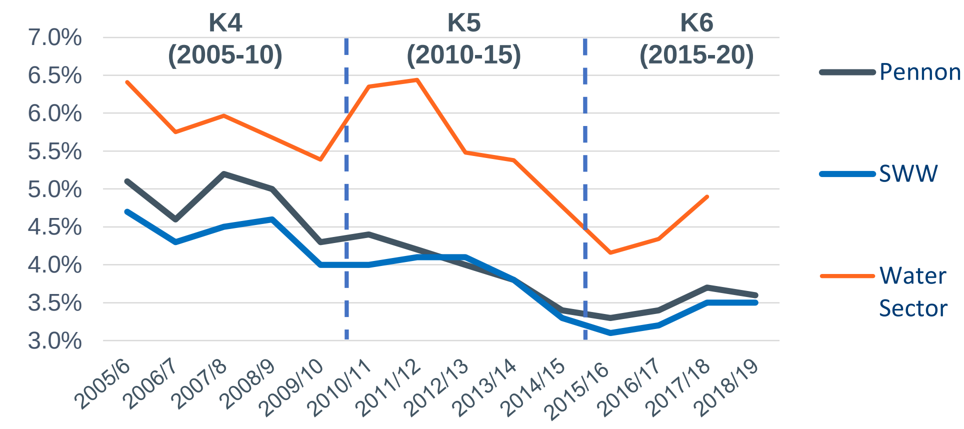
	31 March 2019 £m	31 March 2018 £m
Pension schemes' assets	**934**	898
Pension schemes' liabilities	**995**	948
	61 **= 51 net of tax**	50 = 41 net of tax

Scheme deficit is broadly comparable with 31 March 2018 despite liabilities increasing due to lower bond yields, partly offset by updating to the latest CMI mortality tables

- The aggregate pension schemes' deficit has increased in the year to 31 March 2019 by £11m from £50m to £61m
- This represents a net deficit of c.2%of Group's market capitalisation at 31 March 2019
- Following 2016 actuarial valuation – contributions remain in line with 2014 Final Determination allowances
- For the Group's principal pension scheme the recovery plan includes annual deficit contributions up to 2022, with £13m paid in March 2019. South West Water accounts for around 80% of the principal scheme

Pennon
Net interest analysis[1]

	2018/19 £m	2017/18 £m
Net interest charge:	**(83.2)**	(74.5)
Add: capitalised interest	**(15.2)**	(17.0)
Less: notional interest payable[2]	**12.5**	11.8
Add: interest receivable on service concession contracts	**(14.6)**	(13.8)
Add: interest receivable on shareholder loans to JVs (A)	**(5.3)**	(7.9)
Net interest for average rate calculation:	**(105.8)**	(101.4)
Split between:		
Interest payable (B)	**(94.9)**	(86.9)
Capitalised interest payable	**(15.2)**	(17.0)
Other finance income	**3.6**	2.5
Net interest payable:	**(105.8)**	(101.4)
Average rate of interest	**3.6%**	3.7%
Net interest cover	**4.1x**	4.2x



Efficient, effective interest rate
- Group – 3.6%
- South West Water – 3.5%

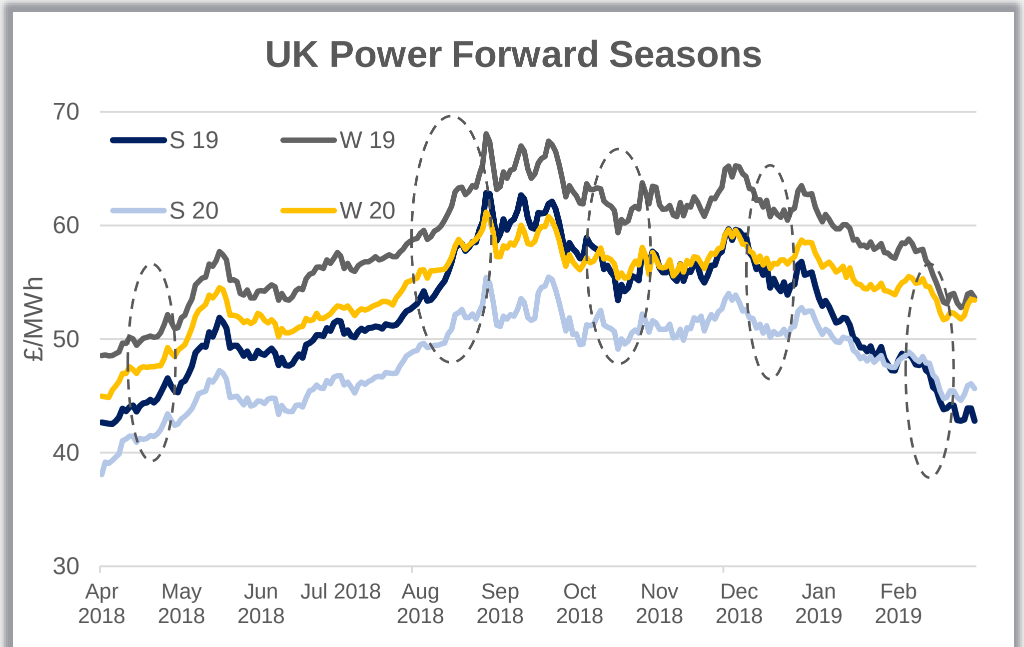
(A) Decrease reflects impact of Greater Manchester

(B) Increase reflects higher Group borrowings

(1) Before non-underlying items as set out in slide 12
(2) Includes pensions net interest and discount unwind on provisions

Pennon
Significant energy generation

Pennon



Pennon hedging

The Group continues to maintain its net hedged position in accordance with Group policy - the Group is c.95% hedged for 2019/20, c.55% for 2020/21 and c.20% for 2021/22

- **Total Group energy generation of 1.65TWh in 2018/19**
  - 11 ERFs(1) – 1.2TWh
  - 25 Hydro Turbines – 11.4GWh
  - 52 Solar PV installations(2) – 10.2GWh
  - 6 CHP – 6.3GWh
  - 1 wind turbine – 0.1GWh
  - Anaerobic digestion – 2.5GWh
  - Landfill gas – 418.8GWh
- **Utilising existing grid connections at landfill sites**
  - Continuing to identify opportunities to maximise value from our grid connections
- **Portfolio management strategy**
  - The portfolio management team continues to actively manage the Group net energy generation position in liquid markets
  - The natural hedge within the Group is maintained at around a third of generation
  - Forward hedges have been put in place in the liquid market to Winter 2021

(1) Includes % share of joint ventures at Lakeside and Runcorn
(2) This includes 4.61GWh of output from two private wire schemes - Polmaugan (Restormel) and Wadebridge Renewable energy network (Nanstallon)

Year End Results 2018/19
Pennon Water Services[1] financial highlights

	2018/19 £m	2017/18 £m
Revenue	**173.7**	165.9
EBITDA	**1.0**	1.0
Depreciation and Amortisation	**(0.7)**	(0.6)
Operating Profit	**0.3**	0.4
Net Interest	**(1.9)**	(1.5)
Profit Before Tax	**(1.6)**	(1.1)

>160,000
Customer accounts

c.11,700[2]
New accounts won since market opening

Growing in a competitive market

- 20% of revenue secured in national tendered contracts and additional contracts for SMEs, with good retention track record

Operational focus on delivering future cost base efficiency

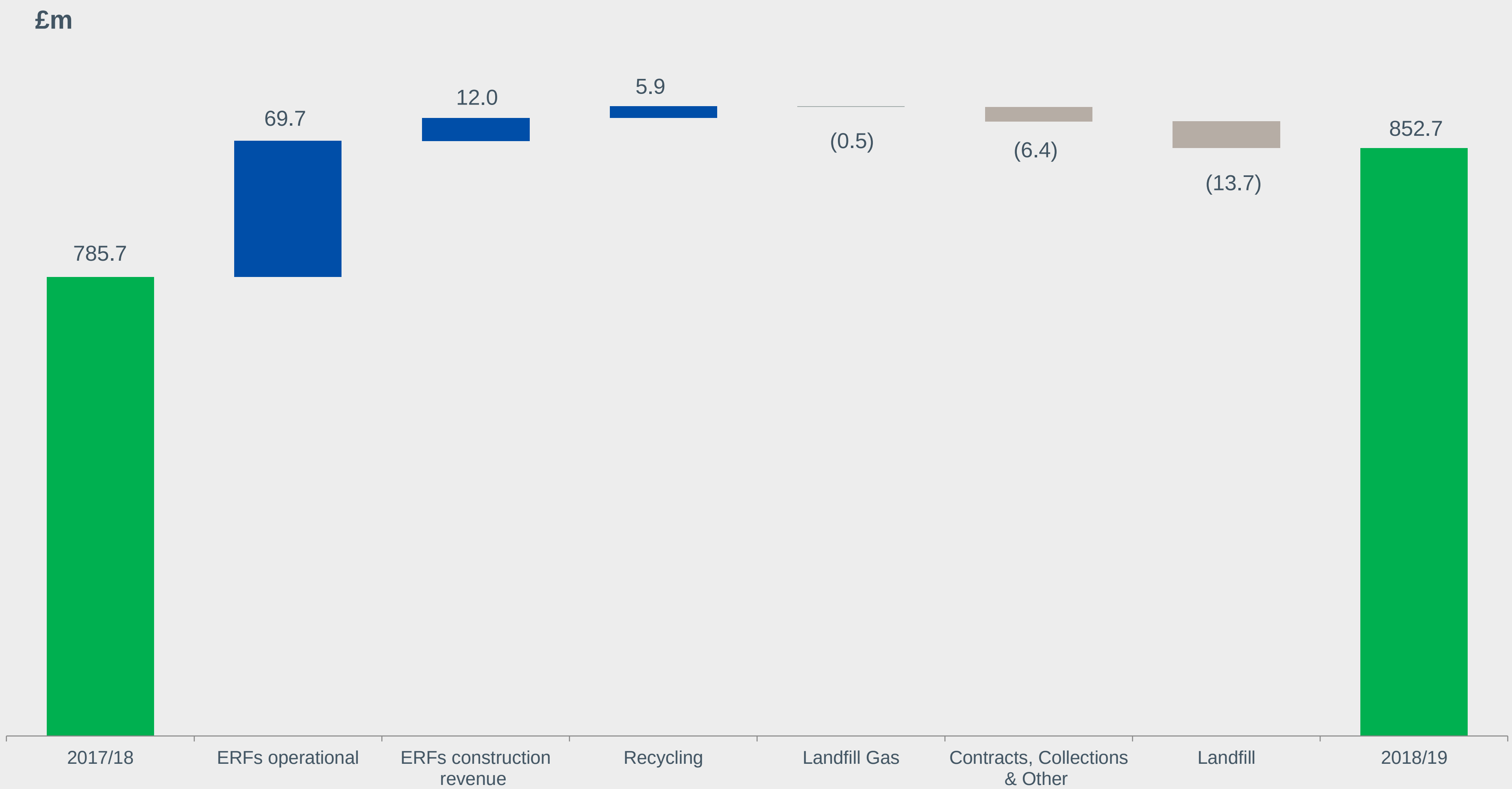
- Focusing on balancing customer mix between Nationals and SME customers
- Reducing unit cost of supply

(1) 80:20 venture with South Staffordshire Group
(2) As at 31 March c.11,785 new accounts, net growth c.1,955

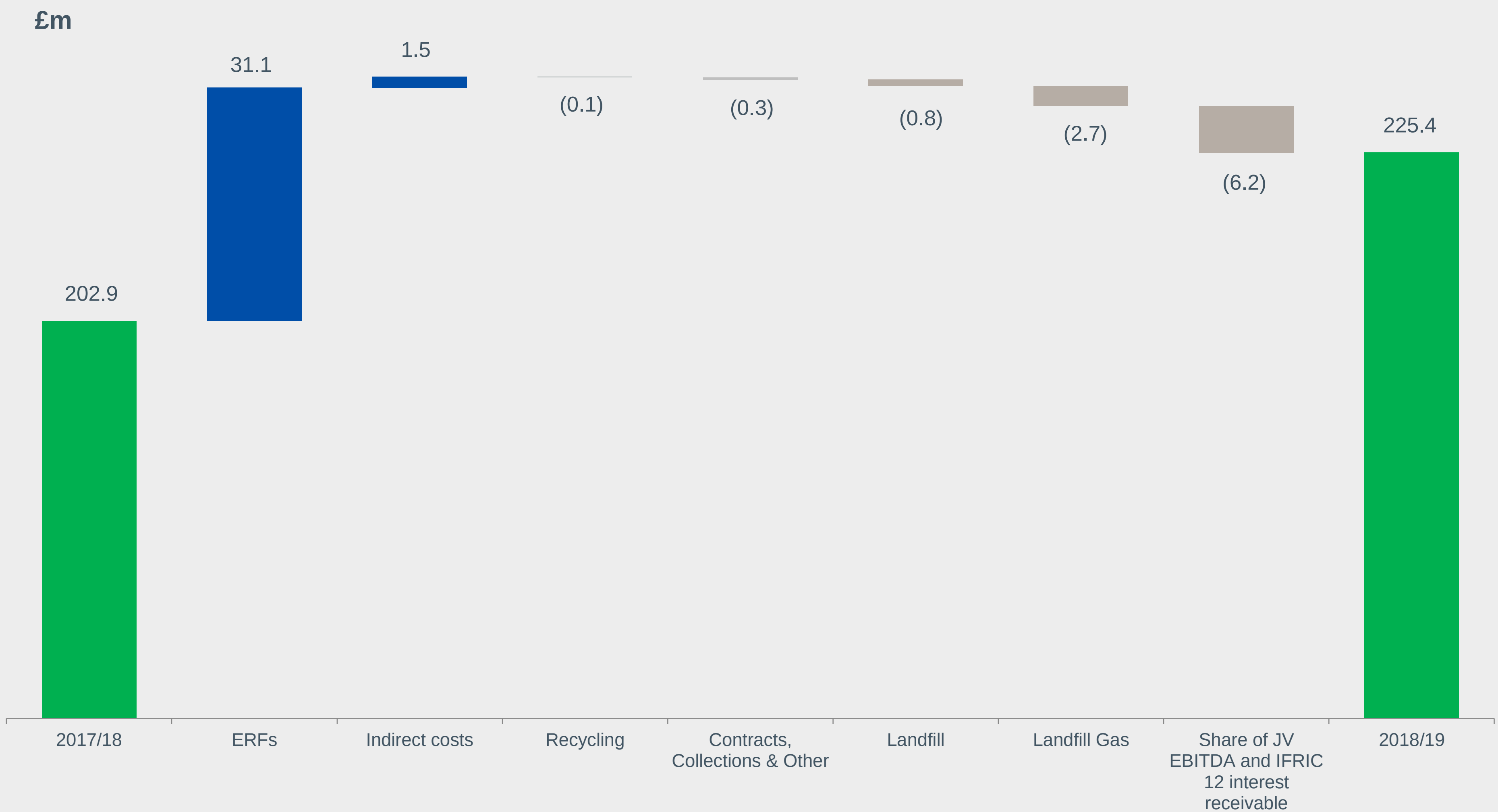
Viridor
Appendix

Pennon

Viridor
Revenue



Viridor
Adjusted EBITDA



Viridor
ERFs (including Joint Ventures)

Site	Capital Cost (1)	Gross capacity		Status	Base load municipal contract	Actual/expected commissioning
	£m	Tonnes (000)	Electricity MWe			
Lakeside(2)	150	410	38	Fully operational	Merchant	Commissioned
Exeter	47	60	3	Fully operational	Exeter	Commissioned
Oxford (Ardley)(3)	204	300	24	Fully operational	Oxfordshire	Commissioned
Cardiff (Trident Park)(3)	207	360	28	Fully operational	Gwyrdd (SE Wales)	Commissioned
Runcorn I(3)	236	375	28(4)	Fully operational	Greater Manchester	Commissioned
Runcorn II(3)	216	375	41	Fully operational	Merchant	Commissioned
Peterborough	72	80	7	Fully operational	Peterborough	Commissioned
Glasgow(5)	176	250	15	Operational ramp-up	Glasgow	Commissioned
Dunbar	177	300	23(6)	Operational ramp-up	Clyde Valley	Commissioned
Beddington	199	275	26	Operational ramp-up	South London	Commissioned
Avonmouth	252	320	34	Construction in progress	Somerset	2020/21
Grand Total		**3,105**	**267**			

(1) Capital cost excludes capitalised interest
(2) Joint ventures economic interest (Lakeside 50%: Runcorn I 75% from December 2018, 37.5% previously)
(3) Planning constraints relaxed at Oxford, Cardiff and Runcorn I & II combined allowing up to 327,000, 425,000 and 1,100,000 tonnes of waste respectively
(4) Plus heat 51MWth
(5) Includes increased capacity expenditure and tonnage throughput
(6) Plus heat 17MWth

Viridor

ERF capital expenditure[1] – Efficient investment to deliver growth

£m	Cumulative spend at 1 April 2018	Capital investment in 2018/19	Cumulative spend to 31 March 2019	Remaining spend to completion	Amounts subject to recovery[2]	Total project spend	Original planned project spend
ERF projects in operation							
Exeter	47	-	47	-	-	47	47
Oxford (Ardley)	204	-	204	-	-	204	210
Cardiff (Trident Park)	207	-	207	-	-	207	223
Peterborough	72	-	72	-	-	72	72
Runcorn	216	-	216	-	-	216	216
Total in operation	**746**	**-**	**746**	**-**	**-**	**746**	**768**
ERF projects under construction in 2018/19							
Glasgow	238	35	273	-	(97)	176	176[3]
Dunbar	133	35	168	9	-	177	177
Beddington (South London)	157	23	180	19	-	199	199
Avonmouth	82	90	172	80	-	252	252
Total including under construction	**1,356**	**183**	**1,539**	**108**	**(97)**	**1,550**	**1,572**
Peterborough financed by local authority	(72)	-	(72)	-	-	(72)	(72)
Total impact on Net Debt	**1,284**	**183**	**1,467**	**108**	**(97)**	**1,478**	**1,500**

(1) Excluding capitalised interest, £12.4m in 2018/19 and £98.6m cumulatively
(2) Incremental costs – contractually entitled to recover under certain circumstances. Gross value before credit risk provision
(3) Includes £21m additional spend for increased capacity

Viridor
Glasgow ERF (GRREC)

Pennon

Construction spend
£ 273m

Benefit to Viridor

Construction cost related to additional throughput
£21m

Recovered from incremental income related to increased throughput over life of contract

Incremental construction cost – non-conformances
£97m

Contractual recovery from ICL net of credit provision

Gross contractual recoverable from ICL
£72m

Provision[1]
£(29m)

Net contractual recoverable from ICL
£43m

Potential further recoveries related to construction

Contingent asset[2]
£ 25m

Planned construction cost
£155m

Recovered from planned operating income over life of contract

(1) £6m recognised in underlying earnings in previous years, £23m recognised as a non-underlying charge in 2018/19
(2) Successful recovery of the contingent asset would result in an immediate recognition of income

Viridor
Joint venture performance

2018/19 £m	Runcorn I Tranche 1[1]	Runcorn I Tranche 2[2]	Runcorn I Total	Viridor Laing[3]	Lakeside	Total
Share of JV PAT	**2.5**	**0.8**	**3.3**	**-**	**9.1**	**12.4**
Interest on Shareholder Loans	**3.6**	**0.6**	**4.2**	**-**	**1.1**	**5.3**
Shareholder Loans	30.6	34.4	65.0	-	7.7	**72.7**
Share of non-recourse net debt	-	-	-	-	25.5	**25.5**
Share of EBITDA	*10.5*	*2.7*	*13.2*	-	*18.7*	***31.9***
2017/18						
Share of JV PAT	**2.2**	**-**	**2.2**	**(0.1)**	**7.3**	**9.4**
Interest on Shareholder Loans	**4.1**	**-**	**4.1**	**2.6**	**1.2**	**7.9**
Shareholder Loans	32.5	-	32.5	-	8.2	**40.7**
Share of non-recourse net debt	-	-	-	-	31.6	**31.6**
Share of EBITDA	*14.5*	*0.0*	*14.5*	*7.5*	*16.9*	***38.9***

(1) Original investment in TPSCo joint venture
(2) Additional investment in TPSCo joint venture acquired in December 2018, recorded at fair value on acquisition
(3) Viridor Laing joint venture disposed on 30 September 2017 as part of Greater Manchester contract reset

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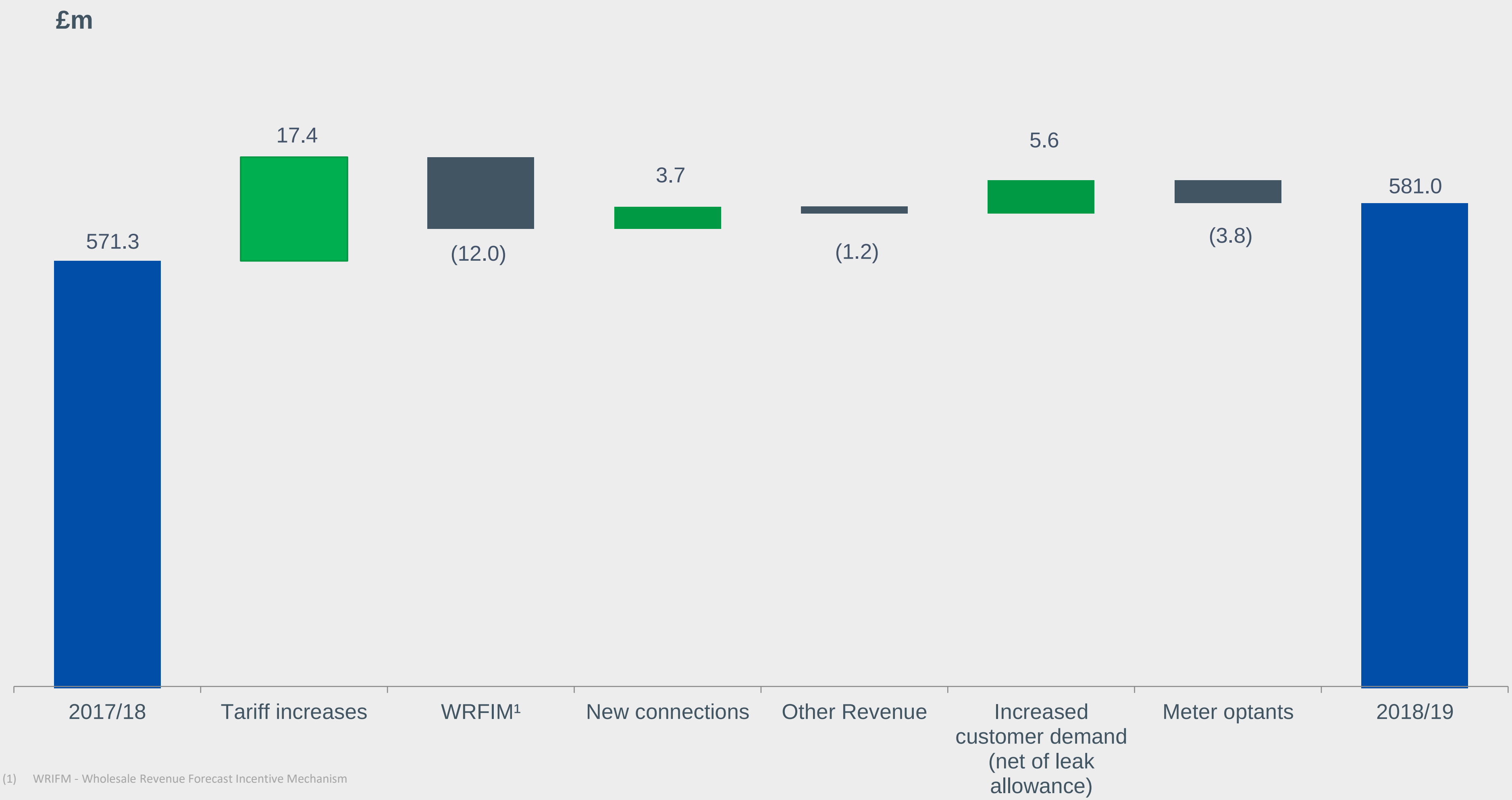
Appendix

South West Water
Revenue



(1) WRIFM - Wholesale Revenue Forecast Incentive Mechanism

South West Water
EBITDA

South West Water

2018/19 ODI performance levels – cumulative net reward position for K6

GOOD PERFORMANCE[1]

Water quality standard
Taste, smell and colour contacts
Water operational contacts resolved 1st time
Water restrictions
Supplies interrupted due to flooding
External & Internal sewer flooding
Supply interruptions

Bathing water quality
Water & waste asset reliability
Sustainable abstractions
Leakage level
Descriptive compliance
Water Cat 1&2 pollution incidents

£18.4m REWARD

IMPROVING PERFORMANCE

Wastewater numeric compliance[2]
Service Incentive Mechanism (SIM)[2]

Wastewater Cat 1&2 pollution incidents
Water Cat 3&4 pollution incidents
Customers paying a metered bill

NO PENALTY

AREAS OF FOCUS

Wastewater operational contacts resolved 1st time
Wastewater pollution incidents Cat 3&4
Odour contacts

£7.1m CURRENT PENALTY

Cumulative ODI outperformance net reward: £11.3m[3]

(1) Good performance - in line with committed performance (or within appropriate tolerances) for 2018/19
(2) End of AMP measure only, on track to deliver with no penalty assumed
(3) ODI performance in 2018/19 of £4.1m net reward. £4.9m net reward will be recognised at the end of the regulatory period, with £0.8m net penalty which may be reflected during the regulatory period. Of the cumulative net reward of £11.3m, £14.4m will be recognised at the end of the regulatory period and £3.1m net penalty which may be reflected during the regulatory period

South West Water
Sharing outperformance with customers

Strong focus on sharing financial benefits with customers

- Unique mechanism to share outperformance transparently
- Significant benefits identified for customers to date
- Reinvestment in services, future lower bills
- Future sharing scheme for customers planned in K7 (WaterShare+)

Customer Cumulative to 2018/19 £m	WaterShare	Shareholder Cumulative to 2018/19 £m
80	Net Totex savings(1)	113
11	ODIs	11
19	Other items(2)	-
110	**Total Value Benefit**	**124**

(1) Gross Totex savings (inclusive of retail), net of tax for sharing and performance purposes
(2) Other items including market movements on new financing returned to customer and the impact of new legislation

South West Water
Reconciliation of RORE to financials

Cumulative Totex[1] outperformance of £237m

ODI Outperformance[2]

- Total net reward £4.1m will be recognised at the end of regulatory period
- Rewards: bathing water quality, water restrictions, flooding incidents
- Penalties: pollution incidents
- SIM performance on track – above average performance and no penalty

Cumulative financing outperformance[3] of £130m

Regulated Equity – 62.5% notional gearing

- 2018/19 average RCV of £3,012m in 2012/13 prices

Totex £m	2018/19	2017/18	2016/17	2015/16
Operating Costs	214	210	212	212
Capital Expenditure	154	184	191	134
Totex	368	394	403	346
Totex allowance	428	442	476	401
Totex saving	60	48	73	56
RORE benefit	27	23	35	28

ODIs £m	2018/19	2017/18	2016/17	2015/16
End of period	**4.9**	2.0[4]	3.9	3.6
During period	(0.8)	(0.3)	(0.3)	(1.7)
Net ODI reward	4.1	1.7	3.6	1.9

(1) Phasing of actual expenditure compared to the planned programme is reflected prior to calculating Totex savings
(2) ODI net rewards for 2018/19 – cumulative net rewards of £11.3m
(3) Interest outperformance is based on the outturn effective interest rate on net debt, translated into an effective real interest rate using cumulative K6 forecast RPI of 2.8%, notional debt gearing of 62.5%, and actual tax rates
(4) Reflects prior year reassessment of £0.9m for supply interruptions relating to the extreme cold weather in March 2018

Full Year Results 2018/19

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