
Pennon

Full Year Results 2020/21

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Susan Davy
Group Chief Executive

Creating value for shareholders and stakeholders

Attractive growth in UK water

A purpose led business – delivering our New Deal for K7

- Pioneering a new relationship with customers
- Robust operational and financial performance

A sustainable future



Bringing water to life



Trusted



Responsible



Collaborative



Progressive

Shareholder
value creation

£3.7 billion

Viridor net sale proceeds

Positioning the Group sustainably

Sustainable
balance sheet

£1.2bn ⁽¹⁾
De-gearing

Additional pension
contributions

£0.1bn
Responsible employer

Reinvesting in UK water

Supporting
organic growth

£0.1bn
Green Recovery
(De-gearing SWW)

Accretive
acquisition

£0.4bn
Bristol Water

Recognising shareholder support

Return to
shareholders

£1.5bn | **£0.4bn**
Special dividend | Up to
Share buyback

Sector leading dividend
policy sustained

CPIH + 2%
Future dividend increased by
c.9% reflecting Bristol Water



Paul Boote
Group Finance Director

**Realising
value for
shareholders**

Profit on sale
of Viridor
£1.7billion

Shareholder
return

£1.5bn Special dividend	Up to £0.4bn Share buyback
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**2020/21
Financial
performance
in line with
expectations
for the
continuing
Group**

**£157
million**
Profit
Before
Tax

2.5%
Effective
interest
rate

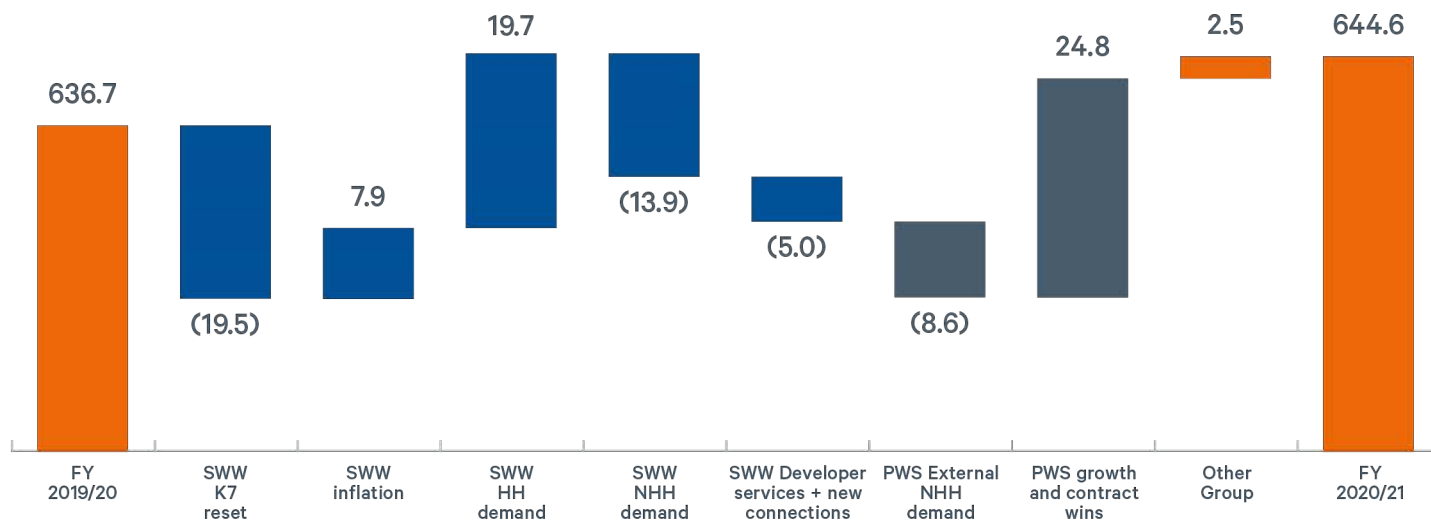
31.9p
Earnings
per share
(adjusted)

21.74p
Dividend
per share



Revenue

(£m)



Profit before tax – in line with expectations

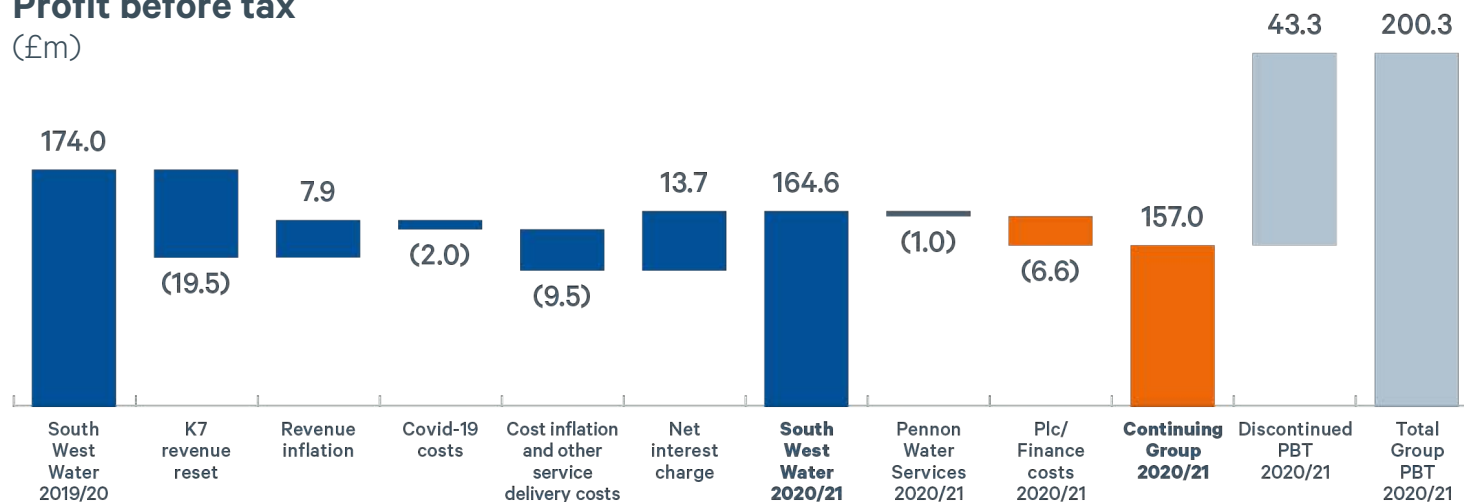
South West Water

- K7 revenue reset
- Modest profit impact of Covid-19
- Interest rate reduction following hedging reset

Pennon Group

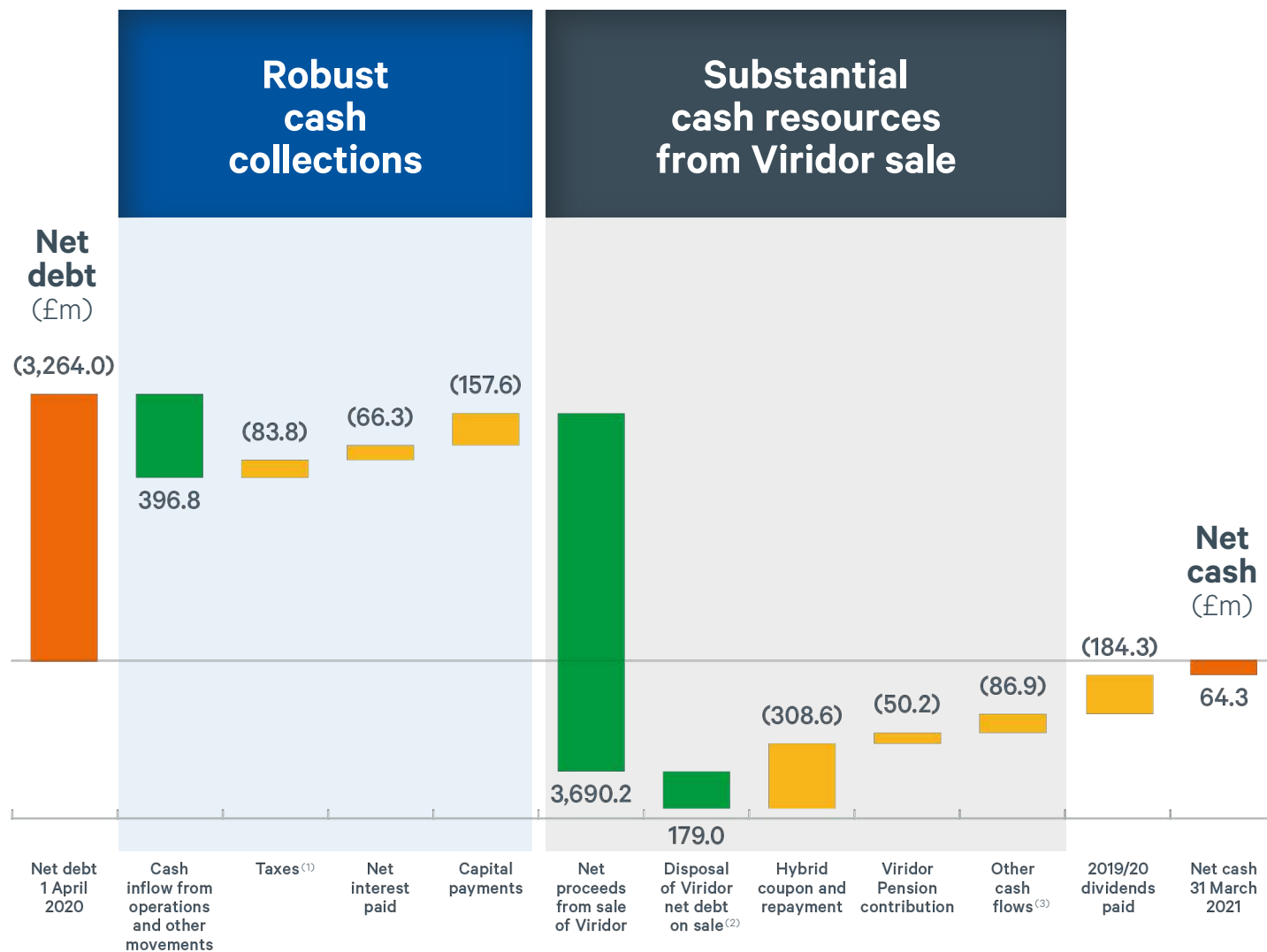
- Continuing Group PBT of £157.0m
- Total Group PBT of £200.3m
- Total statutory Group PAT of £1.8bn

Profit before tax (£m)



Plus Viridor profit on disposal, non-underlying items and tax leading to
Group Statutory Profit After Tax £1.8 billion

Net cash position at March 2021



(1) Taxes include business rates, employers national insurance, fuel excise duty, carbon reduction commitments, environmental payments and climate change levy and corporation tax

(2) Includes disposal of £61.7m of cash balances and £240.7m of lease financing held by Viridor at 8 July 2020

(3) Includes cash flows relating to retirement of Pennon company debt and cash flows from discontinued operations

Advancing critical investments, maximising efficient delivery

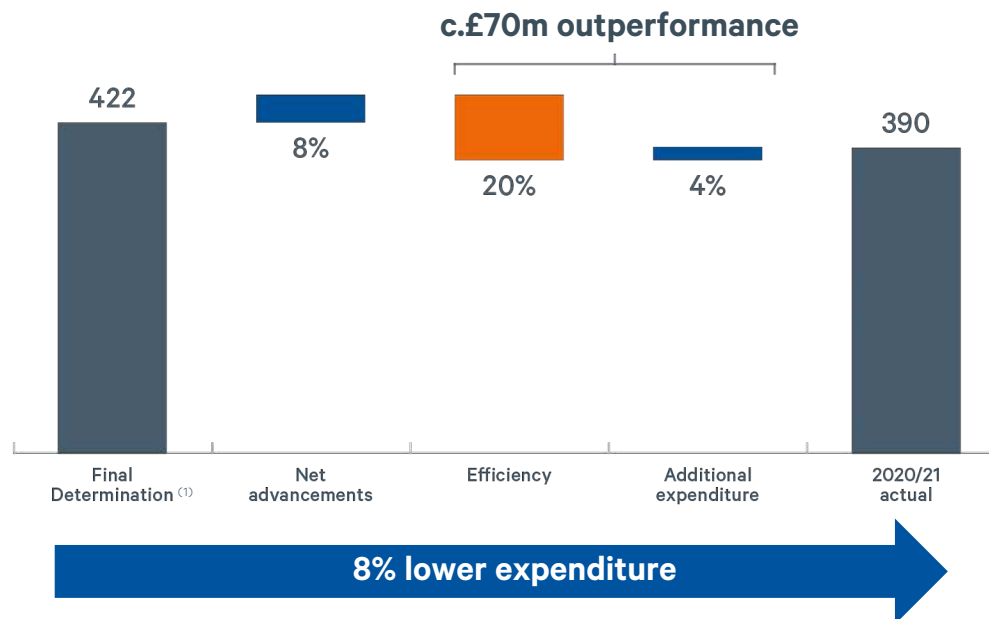
Advancing investment

- Bathing waters – earlier spend to improve water quality
- Network enhancements – to deliver targeted improvements
- Resilience upgrades – to secure water resources and enhanced capacity for peak demand

Efficient delivery

- Bathing waters – economics of scale delivering multiple schemes at the same time
- Full year benefits from efficient delivery with key partners
- Net of additional expenditure to meet performance

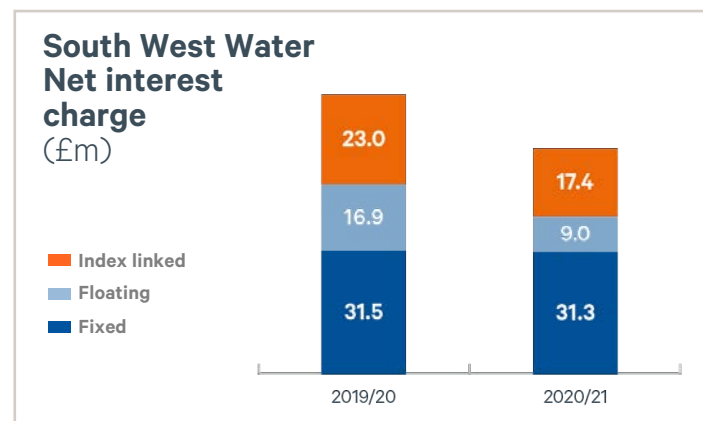
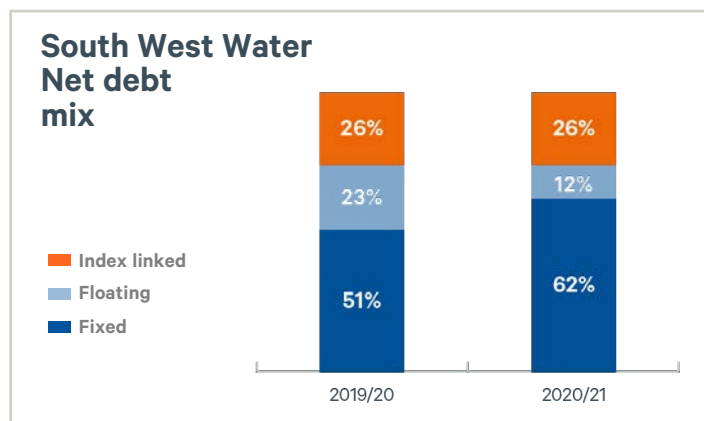
Total expenditure vs regulatory allowance (£m)



**Effective
hedging through
K7 to manage
interest rate risk**

**90 basis point
reduction
in effective
interest rate**

**Interest charge
in the year
reduced by
£13.7 million**



South West Water net debt stable at £2.2 billion

- Effective interest rate of 2.5%
- Average maturity of debt c.19 years
- Gearing of 64.8%, 61.8%⁽¹⁾ reflecting investment in South West Water, supporting Green Recovery funding

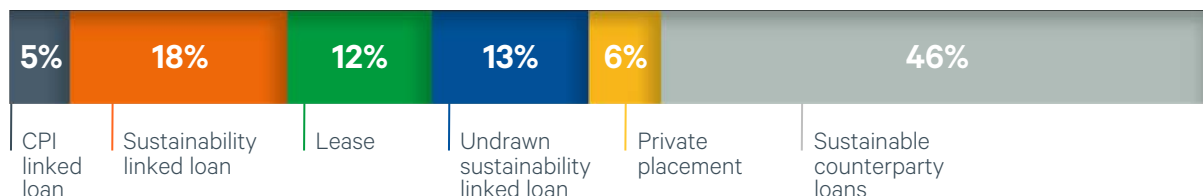
ESG benefits – comprehensive sustainable financing framework

**c.£1billion
raised through
sustainable
financing
framework**

**Tangible interest
saving achieved
through the
framework**

**Seeking to raise
all new financing
through the
framework**

**Diverse
mix of
sustainable
finance**



Sustainable finance progress



Capital allocation – sustainable balance sheet, growth and capital return

£3.7 billion

£1.3 billion

Positioning the Group sustainably

- Debt rationalisation to lower ongoing interest charges
 - Maintaining fixed rate debt
 - Lower make-whole costs optimising shareholder value
- Pension deficit moved to small surplus – reduced risk
- Sustainable gearing
 - Targeting aggregated operating water businesses around 60% and Group level <65% by the end of K7
 - Maintaining flexible and appropriate debt and cash at Group level

£0.5 billion

Reinvesting in UK water

- RCV increase through investment in UK water
 - Bristol Water – EPS accretive and long term value through synergistic totex savings
 - Investment in South West Water, supporting Green Recovery Initiative

£1.5 billion

Special dividend

Recognising shareholder support

- Significant value creation returned to shareholders
 - c.£3.55 special dividend and consolidation

£0.4 billion⁽¹⁾

Share buyback

- Subject to any value accretive opportunities
 - Assessed in line with robust financial disciplines
 - Over the period to 30 September 2022⁽²⁾

(1) Up to £0.4 billion

(2) To start after the payment of the special dividend

Use of proceeds (1) – reinvesting in UK water

£425 million acquisition of Bristol Water

- Value accretive – £556 million⁽¹⁾ RCV representing 16% RCV growth, delivering long term sustainable returns
- Revenues of £118 million⁽²⁾
- Underlying profit before tax of £9 million⁽²⁾
- 6% non-household market share through Water2Business joint venture

Accretive acquisition

c.£0.4billion

Investment in South West Water

- Supporting a Green Recovery for our region
- Accelerating South West Water's de-gearing profile over K7

Organic growth

c.£0.1billion

(1) 31 March 2021 RCV using Final Determination inflation

(2) Based on unaudited results for year ended 31 March 2021

Use of proceeds (2) – positioning the Group sustainably – recognising shareholder support

Pennon Company debt repayment

- c.£180 million of gross debt remaining, reducing to c.£150 million in July 2022
- c.£100 million cash retained at Pennon level

Pennon de-gearing & cash retained

c.£1.2billion

Responsible pension contributions

- Scheme now in small surplus⁽¹⁾
- Over £50 million additional contributions

Pension contributions

c.£0.1billion

Shareholder returns of c.£1.9 billion

- c.£1.5 billion via a special dividend with share consolidation
- Up to £0.4 billion via buyback over the period to 30 September 2022

Return to shareholders

c.£1.9billion

Pennon Group gearing – including Bristol Water debt / RCV⁽²⁾ **67%**

⁽¹⁾ Calculated on both an accounting and technical provisions basis

⁽²⁾ Including fair value adjustments – 70%

Progressive dividend policy

		Pre-share consolidation	Illustrative post-share consolidation
Special dividend		355.00p	NA
2020/21	Interim dividend	6.77p	10.15p
	Final dividend	14.97p	22.46p
	Total dividend	21.74p	32.61p
2021/22 – Increased dividend base	Total dividend	+2.0p	+3.0p
Annual growth	CPIH + 2%, sustainable, sector-leading dividend policy		

- Dividend for full year 2020/21 +3.0%⁽¹⁾ to 21.74p
- Share consolidation, subject to shareholder approval will re-base the 2020/21 final dividend

Timeline



Operational Highlights

Driving performance, efficiency and growth in UK Water

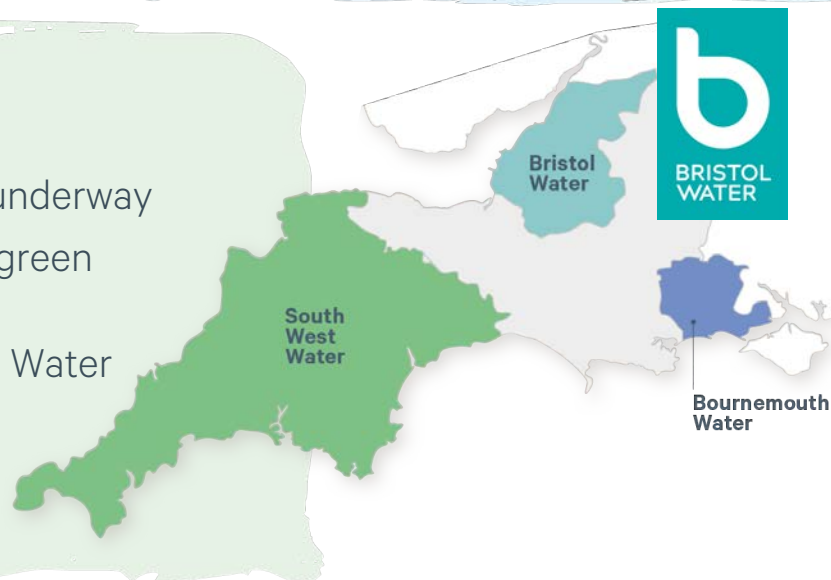


Purpose led business – characterised by our New Deal

- Building a new relationship with customers, delivering on our outcomes and creating a great place to work
- Focusing on the right things, in the right way – enabling us to outperform our business plan and deliver sustainable returns
- Evolving customer share ownership **WaterShare+** – second issuance

Attractive growth in UK water

- Isles of Scilly – essential investments underway
- Organic growth through c.£80 million green recovery environmental investment⁽¹⁾
- Logical, accretive acquisition of Bristol Water



Changing the nature of our relationship with customers, the environment and employees



Delivering more of what matters for our communities

Sharing our success WaterShare+

A stake and a say
in our business



- One in 16 households are now shareholders
- Independent WaterShare+ Advisory Panel – Quarterly meetings in public
- Customers increasing their shareholding

Innovative affordability and WaterCare programme

- **>3,600** virtual customer visits during 2020/21
- **£2.4million** support unlocked for customers
- **11%** increase in customers benefiting from one or more of our social tariffs

Supporting our communities

- Our **Neighbourhood Fund** supports projects focused on improving the wellbeing of people, the environment and communities in the South West
- **Water Saving Community Fund** – supporting new and innovative conservation projects
- Promoting access and education for our communities



Delivering more of what matters to you!

Talented people doing great things for customers and each other

A great place to work

- Officially accredited a Great Place to Work
- Proud to be Britain's most admired utility company



A diverse and inclusive place to thrive



- Hampton Alexander – continued improvement
- Accredited Living Wage Foundation employer
- Gender pay gap significantly below national average
- Committed support to the Purpose Coalition

Investing in future leaders

- 161 apprenticeships awarded to date with 500 planned to 2025
- 100 graduate opportunities over the next 5 years
- 25 young people recruited under Kickstart to date⁽¹⁾
- Supporting the 10,000 black interns initiative

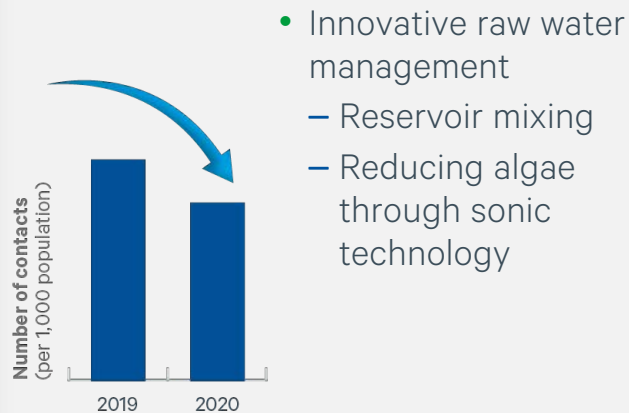
**KICKSTART
SCHEME**



Robust start to K7 – Driving performance and efficiency through innovation

Further improving water quality

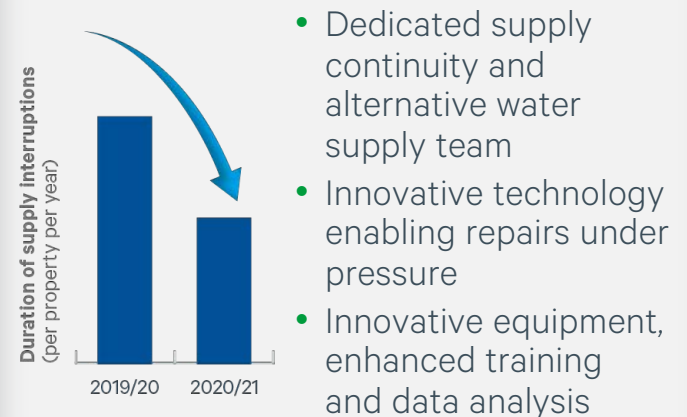
c.20% year on year reduction in taste, smell and colour contacts



Minimising customer supply interruptions

c.40% year on year reduction – two years ahead of target

c.80% reduction in interruptions >12 hours – achieving 2025 target



Resilient operations – continued supply for customers

Water networks tested through increased demand

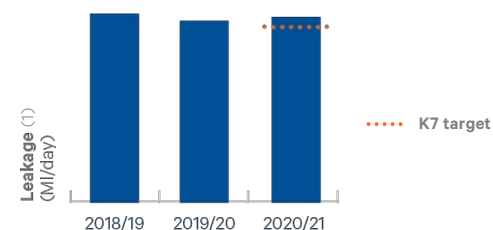
- Regional population increased – high proportion of second homes in Devon and Cornwall
- Increased pumping to rural areas – away from concentrated urban environments
- Record burst activity in early 2021

Robust response to increased network activity

- c.40% more leaks detected

No water restrictions – despite high demand

Leakage target missed – despite increased network activity

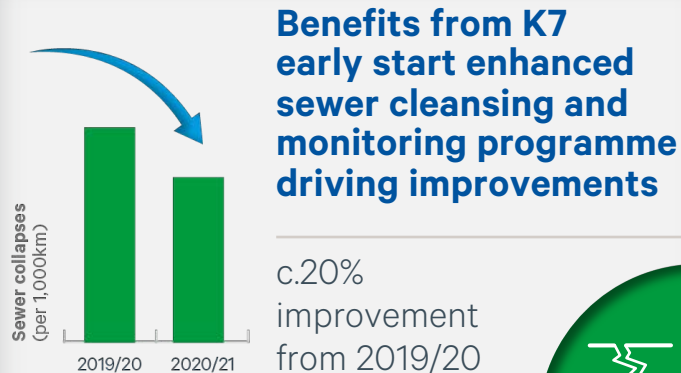


Targeted Action Plan to recover performance

- **Detection and repair** – even more investment to reduce leak running times
- **Focus on customer leaks** – proactive identification and support for supply pipe repairs
- **Data and control systems** – increasing network monitoring and innovative combined smart meters
- **Reducing own use** – making our operations more water efficient
- **Reducing customer usage** – water efficiency initiatives including customer education programmes to reduce demand

Robust start to K7 – Driving performance and efficiency through innovation

Reducing sewer collapses



Improved wastewater compliance

Best ever compliance at 99%

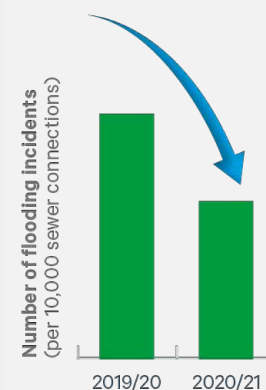
- Continued improvement into K7
- Embedding innovative techniques to enhance treatment processes – piloting use of algae technology and peak load technology

Internal sewer flooding



Educational campaigns influencing customer behaviours

- Hydraulic modelling, enhanced CCTV and dedicated investigation team supporting proactive targeting



- Continuous review process
- c.35% improvement from 2019/20
- Achieving 2025 target in year one of K7

Robust start to K7 – Driving performance and efficiency through innovation

Boosting biodiversity in our regions

- c.20,000 hectares improved in 2020/21
- Early achievement of our 2025 target⁽¹⁾ to plant 100,000 trees
- Continued leadership in nature partnership working
- Partnership with North Devon Biosphere Foundation – targeting water quality, quantity and soil health within the catchment



Bathing water quality improvements

- Accelerated delivery of bathing water improvements – 50% of K7 commitment delivered in first year
- Maintaining excellent quality – supporting the regions economy
- Championing sustainable solutions – sewer separation



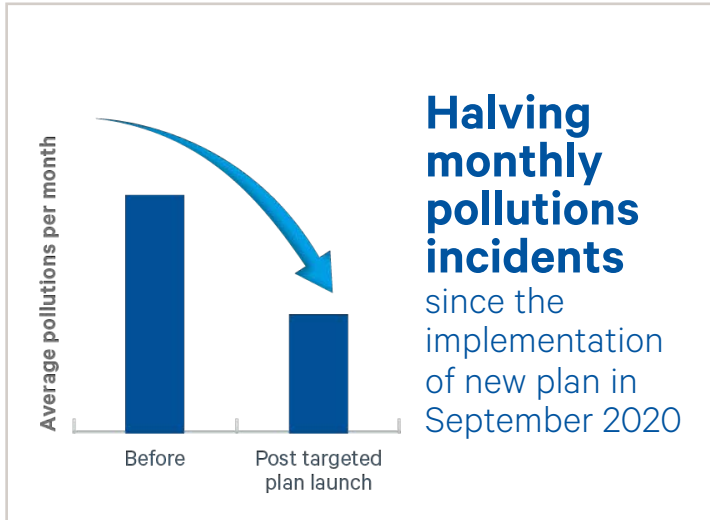
Driving operational excellence – c.80%⁽¹⁾ of Outcome Delivery Incentives delivered



(1) On track or within regulatory tolerances

(2) Ahead of 2025 Final Determination, also including Biodiversity

Dedicated pollutions reduction focus – target improvements



Pollution Incident Reduction Plan – closing the performance gap through innovation

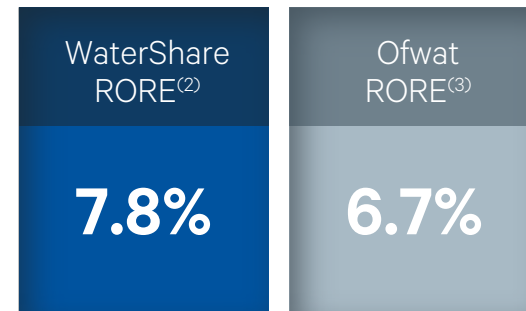
- **Root cause analysis** – enhanced data modelling supporting proactive interventions
- **Control systems and early warning** – dedicated task force – 24/7 incident recovery
- **Asset specific plans** – accelerated investments at key hotspot locations
- **Influencing customer behaviour** – targeted educational campaigns
- **Improving our environmental culture** – additional training, resources and empowerment for local teams – find and fix issues immediately



RORE delivery

Totex efficiencies – 2.5% RORE

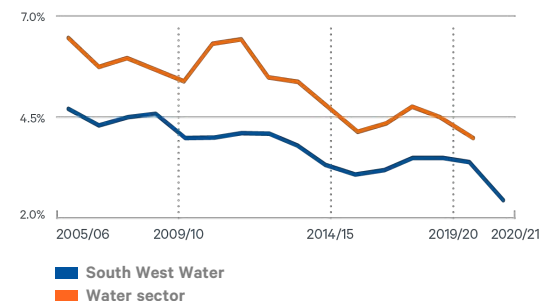
- Overall totex 8% lower than Final Determination
- Reflective of efficiency and advancements (e.g. bathing waters)
- Net of increased expenditure in the areas of focus of pollutions and leakage



Financing outperformance – 2.1% RORE

- Effective interest rate 2.5% – 90 bps reduction from 2019/20
- Lower than Ofwat's allowed cost of debt
- Rolling 10 year hedges for new debt

Water sector effective interest rates



ODIs – 0.7% underperformance RORE

- c.80% of ODIs on track or ahead of target⁽¹⁾
- Net penalty of £8.8 million in 2020/21
- Net reward of £4.4 million excluding wastewater pollutions
- Targeting net reward for ODIs in future years

(1) On track or within regulatory tolerances

(2) WaterShare RORE – Financing outperformance is based on the outturn effective interest rate, translated into an effective real interest rate using K7 forecast CPIH of 2% (consistent with the FD)

(3) Based on Ofwat's K7 approach to RORE, including total tax impacts and using actual average inflation for totex and financing

Confident in our plans for a Green Recovery

c.£80m of environmental investment

- c.3% growth in RCV
- **Improving water quality** for c.160,000 customers – advancing Knapp Mill water treatment works
- **Protecting water resources** for c.250,000 customers and supporting resilience in other parts of the country
- **Empowering customers** to save water, save money and have even safer and resilient supply to their homes – smart metering, tackling customer leakage and lead pipe replacement
- **Transforming river quality** reducing harm from storm overflows and piloting approaches to improving river bathing water quality
- Extending our award winning **land regeneration schemes** reducing flooding, enhancing habitats and reducing carbon footprint

No impact
on customer bills
to 2025

81%
customer acceptance
for our plans

Up to 500
jobs created
across the region

Planned improvement
at further
10,000ha

Sustainable customer growth – differentiated service proposition

Maintaining revenue growth – c.£20 million
annualised new contract wins through 2020/21

Cash collections remain robust despite challenging
environment

Customer centric approach underpinning
outstanding service provision

Maintaining focus on targeting high quality,
sustainable customer base



Total revenue

£162.8m

2019/20 £173.5m

Revenue
(external to the Group)

£81.2m

2019/20 £67.1m

EBITDA

£1.4m

2019/20 £1.9m

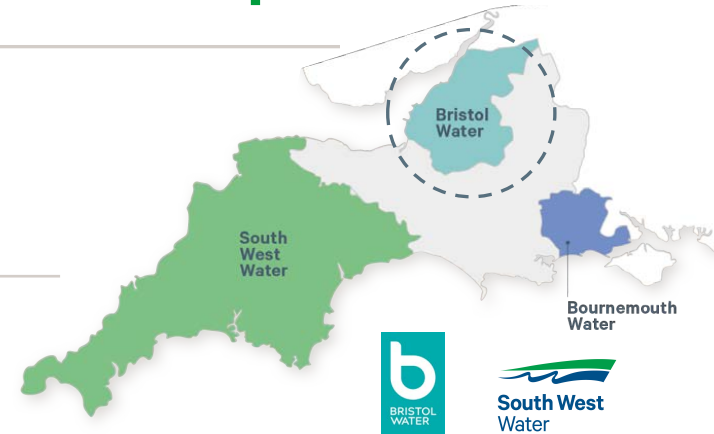
Building on proven track record of successful acquisition and assimilation of Bournemouth Water

Bristol Water – UK based Water Group

- Profitable – earnings enhancing

Excellent business fit with Pennon

- Attractive opportunity to expand wholesale capabilities in the South West
- RCV growth of 16%
- Growing national non-household business retail market share



Population served	c.1.2m	c.2.3m
Properties served	c.0.5m	c.1.1m
Revenue	£118m ⁽²⁾	£563m
RCV⁽³⁾	£556m	£3,424m
Totex allowance	£456.2m ⁽⁴⁾	£1,910m ⁽⁵⁾

	water business	Pennon Water Services
Customer number	c.150,000	c.160,000
Trustpilot score	4.9	4.8
Market share	6%	6%

(1) CMA / Ofwat approval required

(2) Unaudited consolidated results for the year ended 31 March 2021

(3) 31 March 2021 RCV using Final Determination average inflation

(4) Based on CMA water redeterminations in March 2021

(5) Including the impact of IFRS16: Leases

Creating value for shareholders and stakeholders

Attractive growth in UK water

A purpose led business – delivering our New Deal for K7

- Pioneering a new relationship with customers
- Robust operational and financial performance

A sustainable future



Bringing water to life



Trusted



Responsible



Collaborative



Progressive



Appendix

Pennon Group		2020/21	Change
Revenue	<ul style="list-style-type: none"> Increased non-household demand and other services as COVID-19 recovery continues. SWW household demand trending to more typical pre COVID-19 levels with seasonal demand impacts expected to be prolonged due to staycations 	£644.6m	↑
Net cash / (debt)	<ul style="list-style-type: none"> Return of capital to shareholders of up to £1.9bn by 30 September 2022 (£1.5bn special dividend July 2021) Earnings accretive acquisition 	£64.3m	↓
Current tax rate	<ul style="list-style-type: none"> Underlying Continuing Group's effective current tax rate lower than UK headline rate of 19% reflecting capital allowances and relief on pension contributions 	15.1%	↓
South West Water		2020/21	Change
Operating costs	<ul style="list-style-type: none"> Cost reductions reflecting ongoing cost efficiency offset by changes in demand patterns from prolonged seasonal demand impacts of staycations 	£222.4m	–
Net interest	<ul style="list-style-type: none"> Efficient financing impacted by inflationary increases in charges related to index linked debt 	£57.7m	↑
Capex	<ul style="list-style-type: none"> Reflects K7 profile of investment and continued focus on resilience 	£168.2m	↑
RORE	<ul style="list-style-type: none"> Outperformance expected to continue 	7.8%	–
RCV	<ul style="list-style-type: none"> Increase in line with K7 business plan levels of investment 	£3,393m	↑
Pennon Water Services		2020/21	Change
Operating costs	<ul style="list-style-type: none"> Non-household recovery from COVID-19 leading to higher wholesale supply charges 	£161.4m	↑
EBITDA	<ul style="list-style-type: none"> Impact of increased non-household demand on margins Focus on continued cost efficiency with strong collections offsetting potential bad debt impact of COVID-19 	£1.4m	↑

COVID-19 assumptions are based on our ongoing assessment of the impact of the pandemic.

→ Results in line with management expectations

→ K7 revenue reset

→ Sale of Viridor completed

→ Sector leading K7 dividend policy

Underlying continuing operations ⁽¹⁾ (£m)	2020/21	2019/20	Change
Revenue	644.6	636.7	+1.2%
EBITDA	334.7	365.3	(8.4%)
Operating profit	215.3	245.5	(12.3%)
Profit before tax	157.0	183.0	(14.2%)
Non-underlying items before tax ⁽²⁾	(24.9)	10.1	-
Profit before tax	132.1	193.1	(31.6%)
Tax	(24.8)	(70.6)	+64.9%
Profit from continuing operations	107.3	122.5	(12.4%)
Profit for the period from discontinued operations	1,654.7	83.8	-
Profit after tax for the period	1,762.0	206.3	+754.1%
Statutory Earnings Per Share (p)	418.5	47.7	+777.4%
– Adjusted EPS continuing operations (p) ⁽³⁾	31.9	35.2	(9.4%)
– Adjusted EPS continuing & discontinued operations (p) ⁽³⁾	42.1	61.7	(31.8%)
Dividend Per Share (p) ⁽⁴⁾	21.74	42.77	N/A

(1) Measures are presented before non-underlying items

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

(3) Adjusted EPS: before deferred tax and non-underlying items

(4) Dividend policy of CPIH +2%. CPIH 1.0% at 31 March 2021

2020/21		£m
Continuing Group	Underlying profit before tax	A 157.0
	Non-underlying profit before tax ⁽¹⁾	B (24.9)
	Tax (charge) / credit	(24.8)
	Continuing Group profit after tax	107.3
Discontinued operations	Underlying profit before tax	C 43.3
	Underlying tax (charge) / credit	(7.8)
	Underlying profit after tax	35.5
	<i>Non-underlying items⁽¹⁾:</i>	
	Profit on sale of Viridor	D 1,682.7
	Retirement of Penon company debt	E (74.4)
	Other ⁽²⁾	(1.2)
	Tax (charge) / credit	12.1
	Non-underlying profit after tax	1,619.2
	Total Group statutory profit after tax	1,762.0

A Continuing Group profit before tax reflects transition to K7

B WaterShare+ and closure of defined benefit pension scheme to future accrual

C Discontinued operations underlying profit before tax reflects trading to disposal

D Tax exemption on disposal proceeds⁽³⁾

E Debt right-sizing complete – c.£1.1 billion repaid

(1) Non-underlying items are adjusted by virtue of their size, nature or incidence to enable a full understanding of financial performance

(2) Includes restructuring costs of (£6.2m), Pension settlement credit of £5.6m, and share based costs (£0.6m)

(3) Reflect Substantial Shareholder Exemption (SSE)

Corporation tax – transparent tax strategy

Corporation tax (£m)	2020/21	2019/20
Current year		
Current tax	(23.7)	(28.6)
Deferred tax	(6.2)	(6.7)
	(29.9)	(35.3)
Prior year		
Current tax	0.7	0.3
Deferred tax	(0.4)	(3.4)
	0.3	(3.1)
Total underlying tax	(29.6)	(38.4)
Non-underlying items ⁽¹⁾	4.8	(32.2)
Total tax	(24.8)	(70.6)
Discontinued operations statutory tax	4.3	(24.6)
Total statutory tax	(20.5)	(95.2)



Fair Tax Mark reflects our contribution to society through our responsible approach to tax

- Current year current tax effective rate of 15.1% in FY 2020/21 – consistent with the prior period (2019/20 15.6%)
- Lower than the UK headline rate of 19%, reflecting capital allowances resulting in deferred tax charge in current period and relief from pension contributions

(1) £3.9m current tax credit and £0.9m deferred tax credit

Income statement – Adjusted EPS reconciliation

Adjusted EPS (£m unless stated)	2020/21	2019/20
Profit before tax	132.1	193.1
<i>Adjusted for:</i>		
Non-underlying items (pre-tax)	24.9	(10.1)
Current tax	(23.0)	(28.3)
Hybrid charge	-	(7.0)
Minority interest ⁽¹⁾	0.2	0.1
Profit for adjusted EPS calc	134.2	147.8
Average number of shares (m)	421.1	420.2
Adjusted EPS (p)	31.9	35.2
Discontinued operations profit before tax	1,650.4	108.4
Non-underlying items (pre-tax)	(1,607.1)	(3.8)
Current tax	(0.2)	9.5
Adjustment for full year depreciation charge in the disposal Group	-	(2.6)
Profit for adjusted EPS calc	43.1	111.5
Average number of shares (m)	421.1	420.2
Adjusted EPS (p)	10.2	26.5
Total Group adjusted EPS (p)	42.1	61.7

(1) Reflects the impact of the non-controlling interest in Pennon Water Services

Balance sheet – Group capital expenditure

Group capital investment (£m)	2020/21	2019/20
South West Water	168.2	161.0
Clean Water	85.8	87.4
Wastewater	82.4	73.6
Other Group	0.3	0.6
Capital additions	168.5	161.6
Discontinued operations	36.7	177.6 ⁽¹⁾
Total Group capital investment	205.2	339.2
Group capital payments (£m)		
Group capital additions	168.5	161.6
Capital creditor (increase)/decrease (incl. non-cash items)	(6.9)	5.6
Grants and contributions	(3.7)	(2.7)
Proceeds from sale of PPE	(0.3)	(0.7)
Group capital payments	157.6	163.8
Discontinued operations	32.3	176.1 ⁽¹⁾
Total Group capital payments	189.9	339.9

(1) 2019/20 discontinued operations includes £17.1m Viridor capital additions on IFRIC 12 ERF capital assets

Balance sheet – Sustainable, diversified funding sources

Balance as at 31 March 2021 (£m)	Pennon Group	South West Water
Finance leasing	1,439	1,439
Bank bilaterals	303	253
European Investment Bank loans	237	237
Index-linked bonds	440	397
Fixed rate (SWW 2040) bond	135	135
Private placements	301	160
Total debt	2,855	2,621
Less: cash/liquid investments	(2,919)	(422)
Net (cash) / borrowings	(64)	2,199

Balance sheet – Pensions

Pensions (£m)	31 March 2021	31 March 2020
Pension schemes' assets	911	934
Pension schemes' liabilities	902	943
Net pension scheme's assets/(liabilities)	9	(9)
Tax	(2)	2
Net of tax pension scheme's assets/(liabilities)	7	(7)

**Responsible
employer
contributions
of £36m in
H1 2020/21**

**Net
post-tax
asset**

**Employer
contributions more
than offsetting
unfavourable
movement in
corporate bond
yields**

Balance sheet – Fair value of debt

Balance as at 31 March 2021 (£m)	Pennon Group		
	Book value	Fair value	Difference
Bank bilaterals	303	315	(12)
European Investment Bank loans	237	221	16
Index-linked bonds	440	550	(110)
Fixed rate (SWW 2040) bond	135	203	(68)
Private placements ⁽¹⁾	301	308	(7)
Total debt (excluding leases)	1,416	1,597	(181)
Leases ⁽²⁾	1,439	1,302	137
Total borrowings	2,855	2,899	(44)

	South West Water		
	Book value	Fair value	Difference
Bank bilaterals	253	257	(4)
European Investment Bank loans	237	221	16
Index-linked bonds	397	550	(153)
Fixed rate (SWW 2040) bond	135	203	(68)
Private placements	160	165	(5)
Total debt (excluding leases)	1,182	1,396	(214)
Leases ⁽²⁾	1,439	1,302	137
Total borrowings	2,621	2,698	(77)

(1) Includes £6m of other borrowings related to Pennon Water Services

(2) Includes £36m of operating leases under IFRS 16: Leases

South West Water

Resilient performance despite challenges from global pandemic

→ K7 revenue reset

→ Net demand increase from Covid-19

→ Continued totex and financing outperformance

Underlying ⁽¹⁾ (£m)	2020/21	2019/20	Change
Revenue ⁽²⁾	563.0	570.3	(1.3%)
Operating costs	(222.4)	(206.1)	(7.9%)
EBITDA	340.6	364.2	(6.5%)
Depreciation and amortisation	(118.3)	(118.8)	+0.4%
Operating profit	222.3	245.4	(9.4%)
Net interest	(57.7)	(71.4)	+19.2%
Profit before tax	164.6	174.0	(5.4%)
Non-underlying items	(24.0)	15.0	-
Profit before tax	140.6	189.0	(25.6%)
Capital expenditure	168.2	161.0	+4.5%

WaterShare RORE⁽³⁾
2020/21

7.8%

Ofwat RORE⁽⁴⁾
2020/21

6.7%

(1) Measures presented are presented before non-underlying items

(2) Includes wholesale revenue for Non-household customers

(3) Financing outperformance based on the outturn effective interest rate on net debt translated into an effective real interest rate using K7 forecast CPIH of 2% (consistent with the FD)

(4) Based on Ofwat's K7 approach to RORE, including total tax impacts and using actual average inflation for totex and financing

Net interest analysis

South West Water (£m)	2020/21	2019/20
Underlying net interest charge:	(56.5)	(71.1)
Adjustment for prior period interest credit ⁽¹⁾	-	(1.2)
Less: pensions net interest	0.4	0.2
Add: capitalised interest	(0.9)	(2.0)
Net interest for average rate calculation	(57.0)	(74.1)
Split between:		
Interest payable	(56.8)	(73.4)
Capitalised interest payable	(0.9)	(2.0)
Other finance income	0.7	1.3
Net interest payable:	(57.0)	(74.1)
Average rate of interest ⁽²⁾	2.5%	3.4%
Net interest cover (times) ⁽³⁾	4.0x	3.5x

2.5%
South West Water
effective interest rate

Lower charge
reflecting lower
inflation environment

Increased
interest cover

(1) Adjustment for the annualised impact of the 2040 derivative settlement on the underlying net interest charge for FY 2019/20

(2) A measure of the mean average interest rate payable on South West Water Limited's net debt, which excludes interest costs not directly associated with South West Water net debt

(3) Underlying South West Water net finance costs (excluding pensions net interest cost) divided by South West Water operating profit before non-underlying items

Financial Outcome Delivery Incentives – 2020/21

	Area of excellence	Outperformance	On target	Marginally below target	Area of focus
Bespoke ODIs	<ul style="list-style-type: none"> Sewer blockages Wastewater resilience Water resilience Biodiversity Retail voids 	<ul style="list-style-type: none"> External sewer flooding Water operational contacts Taste, smell and colour contacts Customers on support tariffs Satisfaction with PSR AMR meters Biodiversity – preventing deterioration Bathing water quality 	<ul style="list-style-type: none"> Odour contacts Abstraction incentive mechanism Water restrictions Scheme delivery (3 ODIs) Customer value for money Customers who find their bill affordable Inclusive provision Biodiversity – compliance Wastewater operational contacts 	<ul style="list-style-type: none"> Descriptive compliance Total wastewater compliance Water pollution incidents Sludge compliance 	<ul style="list-style-type: none"> EPA score
Common ODIs	<ul style="list-style-type: none"> Sewer collapses 	<ul style="list-style-type: none"> Mains repairs Unplanned outages Priority Services 	<ul style="list-style-type: none"> D-MeX Risk of severe drought Risk of sewer flooding WWTW compliance 	<ul style="list-style-type: none"> Water quality C-MeX Per capita consumption 	<ul style="list-style-type: none"> Leakage
Comparative ODIs	<ul style="list-style-type: none"> Internal sewer flooding 	<ul style="list-style-type: none"> Supply interruptions 			<ul style="list-style-type: none"> Wastewater pollutions

Sharing outperformance with customers

Continuing to share financial benefits with customers – building on the success of WaterShare+

- Only company to share embedded debt outperformance
- Delivering totex savings for the benefit of customers and shareholders

Giving customers a greater say

- WaterShare+ Advisory Panel
 - guiding priority areas for investment
 - quarterly public meetings with customers
- Dedicated customer Annual General Meeting

Customer	WaterShare+	Shareholder
2020/21 £m		2020/21 £m
32	Net totex savings ⁽¹⁾	38
0	ODIs	(9)
4	Other items ⁽²⁾	0
36	Total Value Benefit	29

(1) Gross totex savings (inclusive of retail), net of tax for sharing and performance purposes

(2) Other items including financing outperformance on embedded debt net of other items including the impact of new legislation

Reconciliation of WaterShare RORE 2020/21

Totex outperformance of c.£70.0 million⁽¹⁾

- c.20% delivered through operating cost savings, remainder delivered through capital efficiencies

Financing outperformance⁽²⁾ of £33 million

- Effective interest rate 2.5% compared to Ofwat's allowed cost of debt

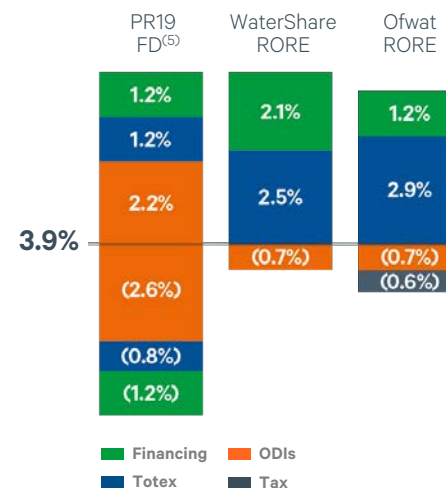
ODI performance

- Net penalty of £8.8 million
- Rewards: internal sewer flooding, sewer blockages, resilience, biodiversity and bathing water quality
- Penalties: wastewater pollution incidents, EPA score and leakage

Regulated Equity

- 60% notional gearing
- 2020/21 average RCV of £3,232 million in K7 Final Determination prices⁽³⁾

Totex £m	2020/21
Operating costs	222
Capital Expenditure	168
Totex	390
Totex allowance ⁽⁴⁾	460
Totex saving	70
RORE benefit	32



(1) Phasing of actual expenditure compared to the planned programme is reflected prior to calculating totex savings

(2) WaterShare financing outperformance is based on the outturn effective interest rate on net debt, translated into an effective real interest rate using K7 forecast CPIH of 2.0%, consistent with the Final Determination

(3) K7 Final Determination based on 2017/18 CPIH deflated prices. RCV includes the impact of IFRS 16: Leases omitted by Ofwat in South West Water's Final Determination

(4) Including net advancements

(5) Ofwat Final Determination RORE based on risk ranges for totex (based on historic sector performance), financing (for a notional company) and P10/P90 assessments for ODIs

Focused cost efficiencies in a competitive market

→ **Business wins
underpinning
revenue**

→ **Revenue
impacted by
Covid-19**

→ **Stable cost
base**

→ **Supporting
our customers
and employees**

Underlying ⁽²⁾ (£m)	2020/21	2019/20	Change
Revenue	162.8	173.5	(6.2%)
<i>SWW wholesale elimination</i>	<i>(81.6)</i>	<i>(106.4)</i>	<i>(23.3%)</i>
<i>Revenue – external to the Group</i>	<i>81.2</i>	<i>67.1</i>	<i>+21.0%</i>
Operating costs	(161.4)	(171.6)	+5.9%
<i>SWW wholesale elimination</i>	<i>81.6</i>	<i>106.4</i>	<i>+23.3%</i>
<i>Operating costs – external to the Group</i>	<i>(79.8)</i>	<i>(65.2)</i>	<i>(22.4%)</i>
EBITDA	1.4	1.9	(26.3%)
Depreciation and amortisation	(0.7)	(0.7)	-
Operating profit	0.7	1.2	(41.7%)
Net interest	(1.7)	(1.6)	(6.3%)
Loss before tax	(1.0)	(0.4)	(150.0%)
Non-underlying items	-	(5.0)	-
Loss before tax	(1.0)	(5.4)	81.5%
Capital expenditure	0.3	0.5	(40.0%)

(1) 80:20 Joint Venture with South Staffordshire Group. Net interest charge payable to Group companies, including parent company guarantee

(2) Before non-underlying items




Pennon

Full Year Results 2020/21