



Annual Report
and Accounts
2015

PENNON
GROUP PLC

Who we are

Pennon Group Plc is one of the largest environmental and resource management groups in the UK. We are at the top end of the FTSE 250 and we have assets of around £5.4 billion and a workforce of over 4,500 people.

Our businesses

Water and wastewater services

South West Water Limited, the provider of water and wastewater services for Devon, Cornwall and parts of Dorset and Somerset.

Bournemouth Water Limited, the provider of water services for parts of Dorset and Hampshire. Acquired April 2015.

Resource recovery, recycling and renewable energy

Viridor Limited, one of the leading UK resource recovery, recycling and renewable energy businesses.

Our vision

To be a pre-eminent developer, manager and operator of environmental and resource infrastructure and related services. To provide a first class service to our customers. To achieve positive outcomes for the communities in which we operate. To provide sustainable value for our shareholders.

Our mission

To enable and encourage the people and businesses we serve to be more sustainable. To adopt sustainable practices in our management of the environment. To invest in new and innovative technologies for the benefit of our businesses and stakeholders.

Our strategy

To innovate, drive out inefficiencies and identify opportunities for growth. To provide high quality, reliable services and a safe working environment for our people and the communities we serve.

OUR BUSINESS IS FOCUSED ON MEETING THE NEEDS OF OUR CUSTOMERS, THE COMMUNITIES WE SERVE AND THE ENVIRONMENT. THIS IS HOW WE CREATE SUSTAINABLE SHAREHOLDER VALUE.



Strategic
overview



South West
Water



Viridor



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To view our online report visit:
www.pennonannualreport.co.uk/2015

Group highlights

Revenue

£1,357.2m +2.7%

Profit before tax

(before exceptional items)

£210.7m +1.6%

(statutory basis £197.0m)

Assets

£5.4bn

Dividend

+4.9%

£1.7bn
cash and committed
facilities to fund
capital programme

£407m
invested in key
infrastructure

Highlights of the year

- 4.9% dividend increase – consistent delivery of shareholder value
- Substantial progress in delivery of major capital programmes. Cumulative expenditure on Viridor Energy Recovery Facility (ERF) business to date £839 million, leaving c. £460 million to invest. Efficient capital delivery closedown for South West Water's K5 (2010-2015) regulatory period (6% efficiency)
- Over £1.7 billion cash/committed facilities at 31 March 2015, including £830 million new/refinanced facilities sourced during the year – committed funding in place for South West Water to 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 raising £100.3 million.

Strategy in action

- Policy announced of annual dividend increase of 4% above RPI inflation up to 2020
- Continued focus on our environmental infrastructure businesses undertaking sustainable activities which make a positive impact on communities and the environment
- £407 million invested in key infrastructure supporting the development of the UK economy
- Group well funded with efficient long-term financing and well positioned for the future.

Key performance indicators⁽¹⁾

Profit before tax

before exceptional items (£m)

2010/11	188.5
2011/12	200.5
2012/13	190.0
2013/14	207.3
2014/15	210.7

+1.6%

Earnings per share

before exceptional items and deferred tax (pence)

2010/11	42.3
2011/12	47.3
2012/13	40.3
2013/14	42.6
2014/15	39.8⁽²⁾

-6.6%

Dividend per share

(pence)

2010/11	24.65
2011/12	26.52
2012/13	28.46
2013/14	30.31
2014/15	31.80

+4.9%

Interest rate on average net debt

(%)

2010/11	4.4
2011/12	4.2
2012/13	4.0
2013/14	3.8
2014/15	3.4



⁽¹⁾ These are the key performance indicators (KPIs) we use to measure the performance of our businesses as described in our business model on page 10

⁽²⁾ Basic earnings per share (statutory basis) 32.3p.

Group businesses

South West Water

The water and wastewater services provider for Cornwall, Devon and parts of Dorset and Somerset, South West Water finished the K5 regulatory period (2010-2015) with another year of strong operational and financial performance.

Financial highlights

Revenue

£522.2m +0.4%

Profit before tax

(before exceptional items)

£167.9m +3.3%
(statutory basis £179.7m)

Strategy

At the core of South West Water's strategy is the company's commitment to delivering the services its customers depend upon in the most efficient way possible while minimising its environmental impact.

Highlights of the year

- Successful K5 (2010-2015) delivery achieving financial and efficiency outperformance
- Acceptance of Ofwat's Final Determination following assessment of Business Plan to 2020 as 'enhanced'
- Well placed for K6 (2015-2020) delivery
- Accelerated investment ahead of the new regulatory period
- Consistently high drinking water quality
- 18th consecutive year without water restrictions
- Continued improvements in customer service
- Reduction in number of pollution incidents.

Strategy in action

- Pure Water – providing a reliable, clean and safe supply of drinking water
- Pure Service – delivering responsive and cost-effective customer services that meet customers' needs
- Pure Environment – protecting and enhancing the environment through sustainable actions and initiatives
- Financial Management – outperforming the regulatory contract through resilient business decisions.

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

⁽²⁾ As measured through population equivalent sanitary compliance

⁽³⁾ Change in Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) reporting criteria (see page 51 for details).

Chris Loughlin
Chief Executive,
South West Water



KPIs

EBITDA⁽¹⁾ (£m)

2010/11	286.8
2011/12	305.2
2012/13	317.1
2013/14	330.9
2014/15	331.3 +0.1%

Regulatory capital value As at 31 March (£m)

2011	2,703
2012	2,827
2013	2,916
2014	2,959
2015	2,928 -1.0%

Drinking water quality Mean zonal compliance (%)

2010	99.97
2011	99.99
2012	99.97
2013	99.98
2014	99.96

Customer service Service Incentive Mechanism (%)

2011/12	66.9
2012/13	70.5
2013/14	73.9
2014/15	74.8 +1.2%

Bathing water compliance (%)

2012	91.1
2012	60.3
2013	99.3
2013	91.0
2014	99.3
2014	86.3

■ EU mandatory standard ■ Guideline standard

Wastewater treatment⁽²⁾ (%)

2010	99.55
2011	99.57
2012	99.98
2013	94.38
2014	99.20 +5.1%

RIDDOR incidence rate (per 100,000 employees)

2010	2,008
2011	1,628
2012	565 ⁽³⁾
2013	243 ⁽³⁾
2014	552⁽³⁾ +127.2%

Actual number of incidents was 7 (3 in 2013)

Viridor

One of the UK's leading resource recovery, recycling and renewable energy businesses – achieving further strong progress in its long-term strategy built around its 'Energy' and 'Recycling & Resources' divisions.

Financial highlights

Revenue

£835.9m +4.2%

Profit before tax

(before exceptional items)

£27.7m +0.4%

(statutory basis £1.0m)

Strategy

Viridor's stated company purpose is to give the world's resources new life. Viridor stands at the forefront of transforming waste in the UK, producing energy, high quality recyclates and raw materials.

Highlights of the year

- Five new Energy Recovery Facilities (ERFs) – Exeter, Ardley, Cardiff and Runcorn I & II – delivered
- Construction of ERFs substantially advanced at Peterborough and Glasgow and commenced at Dunbar; Notice to Proceed at Beddington ERF issued
- £25 million investment in new advanced materials recycling facilities at Newhouse and Rochester
- Three star ranking in Business in the Community Corporate Responsibility Index.

Strategy in action

- Viridor has passed its strategic 'point of inflexion'
- Orientation of Viridor business model around 'Energy' and 'Recycling & Resources' divisions is now delivering results
- Viridor's ERF business is now operational with five new ERFs delivered, adding to existing assets. Two-thirds of ERF portfolio capacity now operational
- All operational facilities full at opening. 80% of committed portfolio volumes contracted, of which 75% is long term
- Landfill Energy continues to provide good cash generation – focus on reducing landfill operations, optimising energy production and alternative uses for sites now being realised
- Clear regulatory drivers and expectations for recycling; Viridor well placed to grow market share. Input, Throughput and Output Optimisation (ITOO) programme giving positive momentum for next year.

Ian McAulay
Chief Executive,
Viridor



KPIs

EBITDA and underlying EBITDA⁽¹⁾ (£m)

2012/13	77.7
2012/13	Underlying EBITDA 115.9
2013/14	76.3
2013/14	Underlying EBITDA 125.9
2014/15	80.4
2014/15	Underlying EBITDA 135.3

Recycling volumes traded (million tonnes)

2010/11	1.7
2011/12	1.8
2012/13	1.9
2013/14	1.8
2014/15	-8.4% 1.7

Total renewable energy generation (GWh)

2010/11	752
2011/12	760
2012/13	820
2013/14	778
2014/15	+19.9% 933

Total renewable energy capacity As at 31 March (MW)

2011	136
2012	136
2013	137
2014	136
2015	+80.9% 246

Total waste inputs (million tonnes)

2010/11	7.6
2011/12	7.3
2012/13	7.2
2013/14	7.4
2014/15	-2.7% 7.2

Share of profit from recovering value in waste (%)

2010/11	46
2011/12	49
2012/13	35
2013/14	54
2014/15	-20.4% 43

RIDDOR incidence rate (per 100,000 employees)

2010	2,165
2011	1,238
2012	1,429 ⁽²⁾
2013	1,197 ⁽²⁾
2014	-25.7% 889 ⁽²⁾

Actual number of incidents was 28 (37 in 2013)

⁽¹⁾ Earnings before interest, tax, depreciation, amortisation and exceptional items; underlying EBITDA includes IFRIC 12 interest receivable and share of joint venture EBITDA

⁽²⁾ Change in RIDDOR reporting criteria (see page 51 for details).

Chairman's statement



Dear Shareholder

In my final report to you as Chairman of Pennon Group prior to my retirement following the 2015 Annual General Meeting (AGM), I can confirm that this has once again been a successful year for the Group. I am pleased to be handing over to Sir John Parker at a time when Pennon's subsidiary businesses are well positioned for strong future growth.

Since joining the Board 18 years ago there has been a significant number of key achievements that have enabled the Group to develop and grow to become one of the UK's leading utility and resource management companies. Under the guidance of Sir John and the Board, I remain confident in the continued success of the Group and its long-term prospects.

Business performance

Group revenue was up by 2.7% to £1,357.2 million and profit before tax and exceptional items increased by 1.6% to £210.7 million⁽¹⁾. We continue to maintain substantial cash resources and facilities to fund our capital programme and we ended the year with a record level of over £1.7 billion (including £196 million of restricted funds).

South West Water

Once again, I am pleased to report that South West Water delivered strong operational and financial performance and high standards of customer service. The year saw the successful conclusion of the K5 (2010-2015) regulatory period and Ofwat's confirmation of 'enhanced' status for South West Water's Business Plan to 2020. South West Water subsequently accepted the Final Determination in December 2014. I expect this to lead to a tangible financial benefit for Pennon. Key projects have been accelerated and there is an opportunity to achieve the highest potential returns on equity in the sector.

Further details of the company's performance can be found in the Report from the Chief Executive, South West Water on pages 14 to 19.

Viridor

Viridor has made excellent progress in delivering its Energy Recovery Facility (ERF) business, with operations having started at five more ERFs and a further three plants under construction. The ERF business is now contributing meaningfully to growth in profits and cash flow.

Trading conditions in recycling remained under pressure during 2014/15 and, as anticipated, revenue from landfill continued to decline. These developments were monitored closely by the Board throughout the year.

I am pleased to confirm to shareholders that, despite the challenges, EBITDA⁽²⁾ increased compared to the previous year. Outperformance from the fleet of ERFs more than offset the declining trend in landfill and the softening of recycling markets.

A full report can be found in the Report from the Chief Executive, Viridor on pages 22 to 27.

Dividend

In March 2015 the Board announced a continuation of its dividend policy of year-on-year growth of 4% above RPI inflation until 2019/20, reflecting the Board's confidence in the future financial performance of the Group. This amounts to a policy for 10 consecutive years (2010-2020) of 4% real dividend growth to shareholders.

We are recommending a final dividend per share of 21.82p, which represents a 4.3% increase on last year's final dividend. This will result in a total dividend for the year of 31.80p, an increase of 4.9% (reflecting March 2015 inflation of 0.9%) on the total dividend for 2013/14. Following shareholder approval at last year's AGM, we will again be offering a Scrip Dividend Alternative to shareholders in respect of the final dividend for which the timetable is given on page 158.

Sustainability and governance

Environmental, social and governance (ESG) matters are integral to the Group's strategy and business model and the Sustainability Committee of the Board continues to oversee our performance in maintaining a responsible approach to ESG. Our notable achievements during the year include landfill restoration and biodiversity protection, completion of sustainable catchment schemes, continued high standards in bathing water quality and progress made in reducing the number of pollution incidents.

Pennon considers fair treatment of its customers, employees and other stakeholders to be an important factor in creating a sustainable business. The Group has continued to make good progress in achieving high standards of customer satisfaction, increased levels of employee engagement and good community relations. Further information on the Group's approach to sustainability is provided throughout the strategic report and in the Sustainability Committee report for the year on pages 67 to 69.

The Group's governance arrangements continue to be reviewed annually to ensure we develop and improve our governance structures and practices, taking account of market developments and new best practice guidance. The subsidiary boards have their own governance bodies and procedures under the Group framework. Details are set out in the Governance section of this report, on pages 54 and 58.

⁽¹⁾ Statutory profit before tax £197.0m.

⁽²⁾ Earnings before interest, tax, depreciation, amortisation and exceptional items.



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DELIVERING SUSTAINABLE PROFIT AND DIVIDEND GROWTH

Health and safety

Health and safety continues to be a top priority for us. The Group's boards and senior management teams are highly engaged with and supportive of the various initiatives that have been introduced throughout the year.

South West Water continuously reviews its policies and processes in order to minimise the likelihood of an incident and the company remains focused on developing a proactive health and safety culture.

Viridor continues to work towards achieving a step change in culture and attitudes, built around its 'Stop & Think' campaigns, and there has been a steadily improving trend in health and safety reportable incidents over the last three years. Tragically in early June 2015 there was an incident which resulted in the sad death of a Viridor employee. Our thoughts are with his family, friends and colleagues.

Board developments

In April 2015 Sir John Parker joined the Board as Deputy Chairman and will succeed me as Chairman following the AGM this year. Sir John is recognised as one of the most experienced and respected business leaders in the UK, and his previous background in the utilities and waste sectors will be particularly valuable to Pennon and its subsidiary companies. I wish him every success with the future strategic development of the Group.

As announced last year, Gerard Connell, the Board's Senior Independent Director, will also stand down following the AGM, marking the end of a term of office lasting 12 years. We would like to thank Gerard for his considerable contribution to the Group's success over the years and wish him well in his future endeavours. Gill Rider will become the new Senior Independent Director.

During the year we welcomed Neil Cooper to the Board as a non-executive director. Neil has become chairman of the Audit Committee in succession to Gerard Connell.

At the end of January we saw the retirement of David Dupont after more than 12 years as the Group Director of Finance during which he successfully managed the financial affairs of the Group through a period of substantial development and growth. I am pleased to say that Susan Davy, who was finance and regulatory director of South West Water, was appointed as David's successor.

As I prepare to stand down as Chairman of the Group, I am confident that I am leaving a strong Board with a broad wealth of experience and knowledge that is well placed to guide Pennon through its next phase of development and growth.

Diversity

The Board continues to promote equality and diversity across the Group. Prior to the year-end we achieved our target of 25% female representation. Since then, due to Board transition, we have fallen below this level, but I am pleased to say we are set to achieve the target once more following the retirements that will happen after the AGM.

More information on the Board's diversity policy can be found within the Nomination Committee's report, on page 70.

Outlook

Our priority continues to be the creation of shareholder value through our strategic focus on water and wastewater services, and recycling, renewable energy and resource management.

Early receipt of Ofwat's Draft Determination by South West Water enabled the acceleration of key projects in 2014/15 that were 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. In addition South West Water is well prepared for, and supportive of, industry reform.

Viridor is making excellent progress in developing further its ERF business with five ERFs having come on stream in the year. These projects and associated contracts already contribute to Viridor's profitability and reflect the realisation of a strategy that is expected to contribute c. £100 million to Viridor's EBITDA in 2016/17.

In April 2015 we acquired Bournemouth Water, one of the highest performing water-only companies in the UK. The Board believes the acquisition will be highly complementary to South West Water's business, subject to clearance from the Competition and Markets Authority. Further detail can be found in the Report from the Chief Executive, South West Water on page 14.

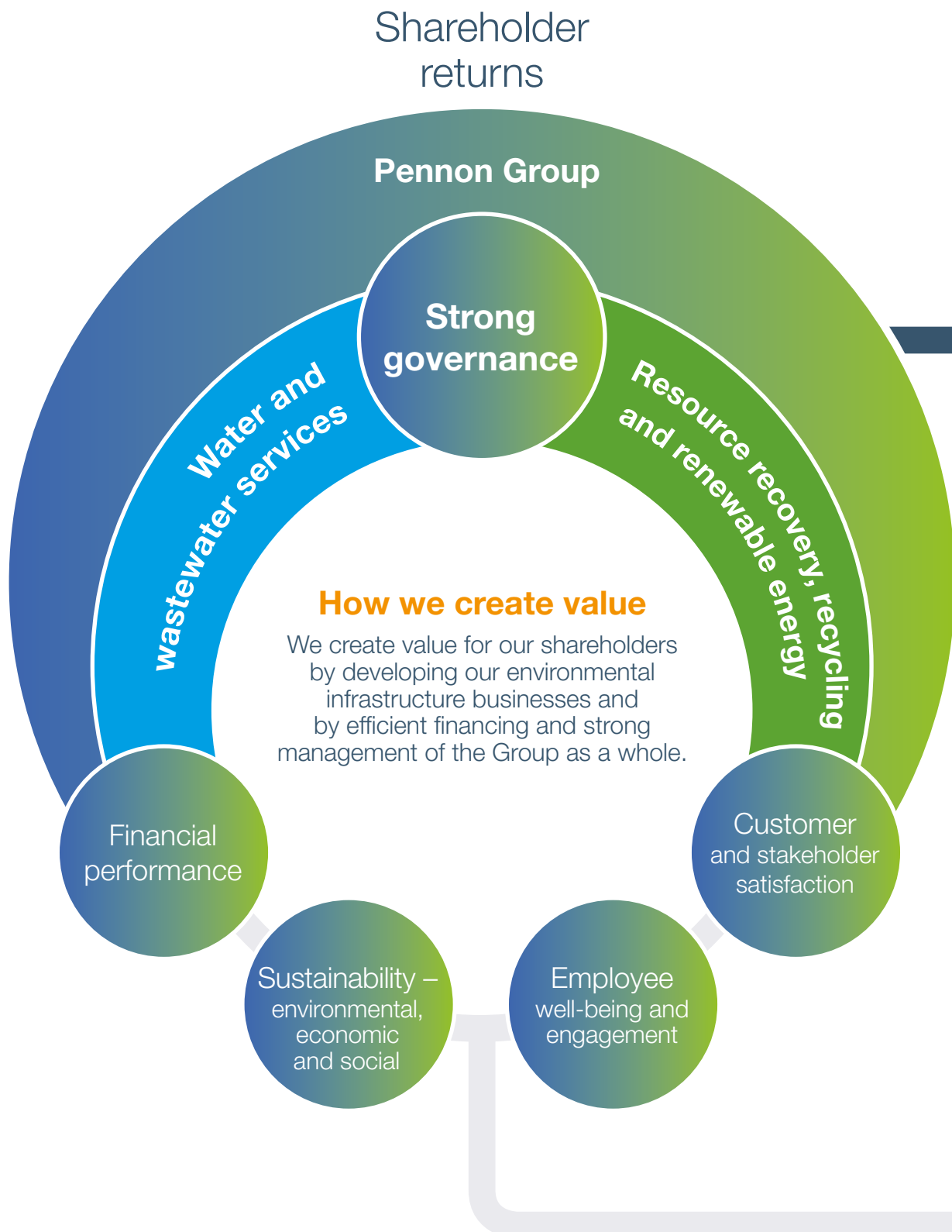
The Group, with long-term financing, continues to be well positioned for the future and the Board remains confident about the future success of the Group.

Ken Harvey
Chairman

Pennon Group Plc
22 June 2015

Business model

Our business model is the framework through which we deliver our strategy: to innovate, drive out inefficiencies and identify opportunities for growth; and to provide high quality, reliable services and a safe working environment for our people and the communities we serve.





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How we manage our businesses to create value

We are committed to delivering sustainable shareholder returns, as reflected in our decision to continue the previous dividend policy of year-on-year growth of 4% above RPI inflation to 2019/20, meaning a policy for 10 consecutive years (2010-2020) of 4% real dividend growth to shareholders.

We create shareholder value by focusing on five core areas, underpinned by our commitment to creating and maintaining a sustainable business:



Strong governance

Pennon provides oversight and support to its businesses through a strong governance framework which includes robust processes for internal control and risk management.

More information on risk management and governance can be found below and on pages 53-71.



Financial performance

Our Group has set challenging financial targets through a range of key performance indicators (KPIs). These are set out on page 5.

Our focus in setting such targets is to achieve sustainable performance over the short and long term. Our financial performance is set out in more detail on pages 28 to 33.



Customer and stakeholder satisfaction

Both South West Water and Viridor are fully committed to meeting the needs of their customers and developing and maintaining good relationships with their stakeholders in general. This is the key to the success of each business.

How we respond to our stakeholders' needs and assess customer satisfaction is set out on pages 17, 19, 27 and 40.



Sustainability – environmental, economic and social

We are aware that our businesses can, and do, have a material impact on the environment and the communities in which they operate. To address this we take a responsible and transparent approach to environmental, social and governance matters.

Our sustainable practices not only benefit communities but enable our businesses to be more successful. More information on our environmental, economic and social impacts is provided on pages 41 to 49.



Employee well-being and engagement

We know that the success of our Group is due to the talent, commitment and hard work of our employees and we aim to be a responsible employer.

We are focused on ensuring employee well-being, retention, efficiency and productivity. Essential to this is our commitment to the health and safety of our workforce.

More information on the initiatives we have introduced to improve employee engagement and health and safety in our businesses is set out on pages 18, 27, 50 and 51.

How we manage risk

Essential to achieving our strategic aims and creating value within our businesses is our operating framework, which is based on the principles of good governance.

Our operating framework includes a comprehensive and fully embedded risk management process which assists us in identifying and managing risks and opportunities to deliver the Group's strategy and the other essential elements of our business model.

Further information on our control and risk management environment is described on page 61 and our principal risks and uncertainties and how we mitigate them are set out on pages 34 to 39.



South West Water

Investing in quality

Operational highlights

- Outstanding drinking water quality
- Consistent achievement of leakage targets
- 18th consecutive year without water restrictions
- High standards of bathing water quality
- Reduction in number of pollution incidents
- Continued improvements in levels of customer satisfaction

1.7m

**Resident
population**

Revenue

(£m)

2010/11	448.8
2011/12	474.0
2012/13	498.6
2013/14	520.0
2014/15	522.2

+0.4%

Profit before tax

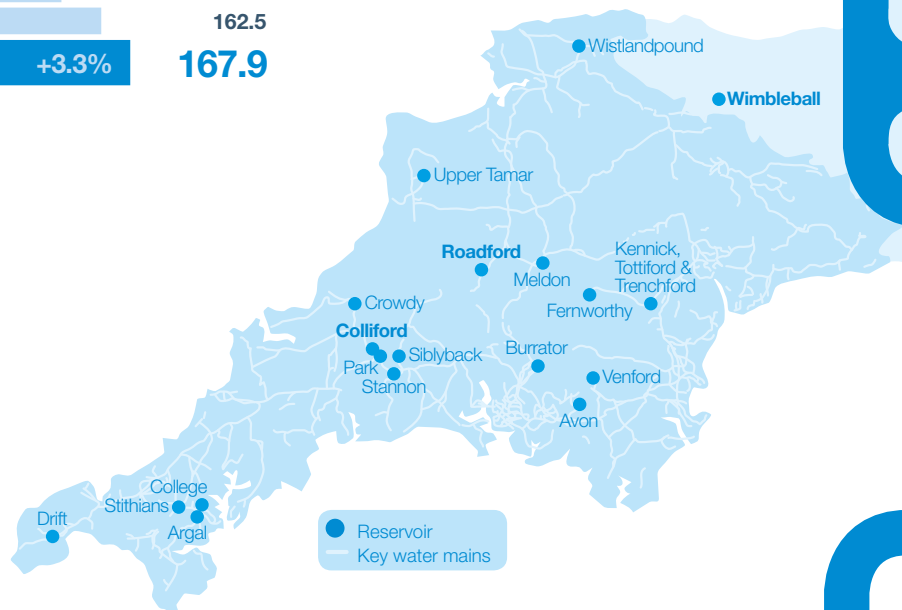
(before exceptional items)

(£m)

2010/11	128.9
2011/12	141.5
2012/13	146.7
2013/14	162.5
2014/15	167.9

+3.3%

Our water supply network



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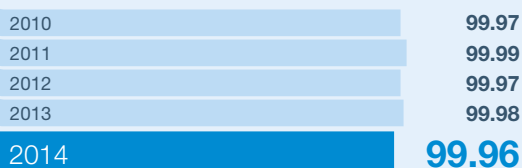
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Drinking water treatment works

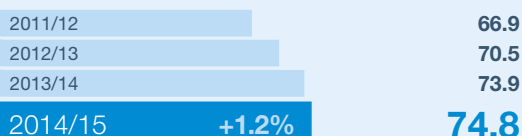
Drinking water quality

Mean zonal compliance (%)



Customer service

Service Incentive Mechanism (%)



Bathing water compliance

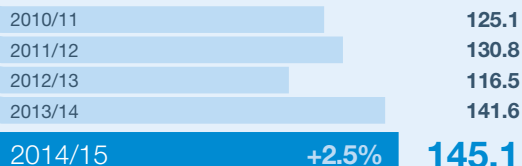
(%)



☐ EU mandatory standard
☒ Guideline standard

Capital investment

(£m)



EBITDA⁽¹⁾

(£m)



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

Notable achievements

- Assessment of Business Plan to 2020 as 'enhanced', followed by acceptance of Ofwat's Final Determination
- Preparations in place for future regulatory reform; developed wholesale and retail strategies
- Continued significant investment in sewer network and assets to better protect bathing waters
- Upgrade of South West Water's largest water treatment works
- Further initiatives to help customers with affordability, building on the launch of the social tariff in 2013.

Strategy and performance

South West Water remains committed to its Pure Water, Pure Service and Pure Environment vision. The company strives to achieve the highest standards possible in every sphere of its activities, delivering efficiency through innovation, meeting the needs of those it serves and its responsibilities to the environment, while keeping its costs as low as possible.

Pure Water

Providing a reliable, clean and safe supply of drinking water.

Performance

Drinking water quality among the best in the industry; 18th consecutive year without water restrictions and leakage control on target.

Pure Service

Delivering responsive and cost-effective customer services that meet customers' needs.

Performance

Increased customer satisfaction, 79% of customers metered, proactive outbound contacts, increased use of digital media to improve customer communications. Prices frozen for 2014/15.

Pure Environment

Protecting and enhancing the environment through sustainable actions and initiatives.

Performance

Robust bathing water compliance, increased capacity for renewable energy generation, reduction in pollution incidents.

Financial Management

Making resilient business decisions while outperforming the regulatory contract.

Performance

Continued efficiency and rigorous cost control resulted in increased revenue and higher profit before tax compared to last year. Final Determination received reflecting 'enhanced' status achieved; the only water and wastewater company to receive Ofwat's top assessment.

Report from the Chief Executive, South West Water



Chris Loughlin
Chief Executive,
South West Water

Overview

South West Water's enhanced business plan, track record of efficiency and outperformance makes the company well placed to deliver the new 2015-2020 (K6) regulatory contract and we will have an opportunity to beat the assumed returns on equity.

South West Water has performed strongly against the 2010-2015 regulatory contract. Despite the tariff freeze, revenue has grown and robust cost control has resulted in cumulative cost increases over the five years being lower than inflation. As a result of outperformance, South West Water delivered a dividend to Pennon above the 2009 Final Determination assumptions.

In December 2014 South West Water accepted Ofwat's Final Determination of its Business Plan to 2020. This followed a favourable price review process that saw South West Water's plan singled out for 'enhanced' status and subsequently fast-tracked for early Draft Determination. Ofwat praised the high quality of the 'WaterFuture' plan, which had received the backing of 84% of customers at the time of its publication in December 2013. South West Water benefited from Ofwat's 'do no harm' principle and was able to make an early start on its K6 investment programme, accelerating a number of key projects for the benefit of customers and shareholders.

On 15 April 2015 Pennon acquired Bournemouth Water, a top performing water company which is an excellent fit with South West Water. The acquisition provides an opportunity to expand South West Water's wholesale capabilities whilst driving synergistic and best practice 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.

In accordance with current legislation an automatic merger reference has been made to the Competition and Markets Authority (CMA). A decision on the merger is expected to be received from the CMA within its usual timescales.



Strategic review



Business performance

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 £5.4 million in profit before tax and exceptional items to £167.9 million.

Despite the tariff freeze, revenue increased marginally by 0.4% to £522.2 million 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 £2.8 million 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 £4.8 million. The impact of this is reducing as the number of customers left to switch falls. 79% of South West Water's customers are now metered.

South West Water remained 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 £27.3 million lower as a consequence, with £5.1 million cost savings delivered in 2014/15.

Cost efficiencies are 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 programme⁽¹⁾ – now finalised
- energy procurement and usage – continued energy efficiency schemes alongside additional power generation through renewable sources
- restructuring of defined benefit pension schemes
- right-sourcing and innovative contracting – tendering to achieve the 'right price' including in-sourcing and renewed K6 key and strategic contracts.

Capital expenditure in the year was broadly in line with last year at £145.1 million (2013/14 £141.6 million). A key element of the programme was the acceleration of K6 projects into 2014/15 to deliver early 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 for Plymouth and its surrounding area.

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.

Through focused planning, innovative scoping and asset solutions and efficient delivery, capital expenditure for K5 is lower than the Capital Incentive Scheme baseline⁽²⁾ and achieved 6% outperformance against the capital expenditure assumed within the 2009 Final Determination. Regulatory capital value at 31 March 2015 was £2,928 million. With an increase in net debt, this has led to gearing⁽³⁾ of 62% (2014 56%) – within Ofwat's optimum range for K5 and below the notional ratio assumed for K6 of 62.5%.



⁽¹⁾ Phased Utilisation of Remote Operating Systems

⁽²⁾ Based on current published Construction Output Price Index (COPi)

⁽³⁾ South West Water net debt/regulatory capital value.

Strategic review Continued



Pure Water

Drinking water quality

South West Water's performance for mean zonal compliance – the industry standard for drinking water quality – remains strong. There was a very slight fall in this year's score reflecting the tightening of European Union standards. Further targeted investment is being made in treatment assets and processes.

Significant capital schemes were completed during the year. These included the combined £14.5 million of investment in water quality improvements at the water treatment works of Restormel and Wendron, which together supply around half of the population of Cornwall. Ultraviolet treatment was also installed at Avon water treatment works in Devon.

South West Water also made significant progress in reducing taste, odour and discolouration with the number of customer contacts for such issues reaching the lowest level on record.

Water resources

South West Water customers enjoyed unrestricted drinking water supplies for an 18th consecutive year with the company's prior investment in its reservoirs and supply network ensuring adequate supplies for the region.

During 2014/15 investment in the maintenance of reservoirs included the completion of spillway improvements at the Kennick, Trenchford and Tottiford site in Devon and the completion of a £10 million 'grouting' scheme at Wimbleball Dam.

The company is confident of being able to achieve a healthy surplus of water for the foreseeable future as outlined in its Water Resources Management Plan, published June 2014.

Leakage control

The amount of water lost through leaks and bursts during 2014/15 remained in line with South West Water's target of 84 megalitres or less on average per day. In addition to improving response times to any network issues, the company has been focusing on improving its water pressure management capabilities and using advanced diagnostic tools to help pre-empt any problems.

Furthermore, South West Water is targeting improved leak detection and increasing its use of innovative technologies in the field. Additional training for staff is also helping to deliver improvements in this area.

Upstream Thinking

South West Water's award-winning £9 million programme of catchment management, 'Upstream Thinking', is designed to improve raw water quality and natural storage in the landscape. Delivered in partnership with a number of regional organisations, national park authorities, conservation groups, landowners and the farming community, the programme involves the restoration of moorland and agricultural land using a range of low-cost sustainable techniques (for example, ditch-blocking, fencing, grassland and habitat management).

In 2014/15 the company successfully met its five year restoration target of 2,000 hectares of dried out peatland on Exmoor. In the same time period more than 200 farm improvement schemes have also been implemented in order to reduce the amount of diffuse pollution entering the region's watercourses.





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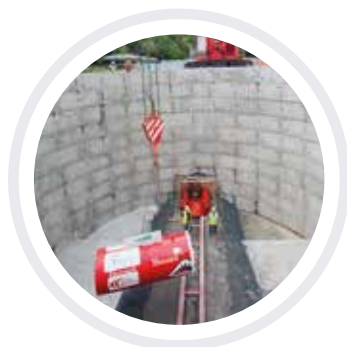
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Pure Service

Customer satisfaction

Over the last five years South West Water has made significant progress in improving its customer service and customer satisfaction scores, as measured through SIM (Service Incentive Mechanism) and customer satisfaction surveys. The 2015 survey showed a 90% customer services satisfaction rating, its highest yet. This reflects improvements made at both an operational level and in the way the company interacts with its customers and responds to any issues they may have.

A key part of South West Water's strategy for improving customer satisfaction is to be proactive in delivering information, advice and support. This includes making the most of digital communications and new media (for example, Webchat, SMS messaging and MyAccount online, as well as WaterLive and BeachLive, which provide real time information on operational activities and bathing water quality), investing in the training and development of its customer-facing staff, and ensuring that processes for resolving any issues are as integrated and effective as possible.

Moving into the 2015-2020 period the company is also making greater use of customer analytics to identify how it can further improve the experience customers receive and providing them with more opportunities to 'self serve' through online platforms.

Affordability

Water bills in the South West have historically been higher than the national average, largely due to the scale of environmental investment required to protect the region's coastal waters.

In 2013 the annual £50 government payment was introduced in acknowledgement of this situation. Customers have subsequently benefited from plans announced as part of South West Water's Business Plan to 2020 to freeze prices for 2014/15 and peg the increase in the average household bill at below inflation to 2020.

Furthermore, to help those with affordability issues, South West Water continues to offer a range of advice and support services. The company was among the first to roll out a social tariff (in 2013) and has also taken innovative steps to engage its most economically deprived, hard-to-reach or vulnerable customers through initiatives delivered in partnership with housing associations, community organisations, the Citizens' Advice Bureau and carers' networks.

Business customers

South West Water provides water and wastewater services to over 74,000 businesses and other non-household customers, around a third of which operate within the tourism and agricultural sectors.

The company is currently preparing for the opening of the non-household retail market in 2017. In the past year this has included the introduction of sector-specific business customer specialists and a new series of tariffs for base and enhanced levels of service (which came into effect in April 2015). The company's strategy is designed to retain its South West business customer base while also exploring opportunities for out-of-area growth.

Metering

79% of South West Water's customers are now metered with 7,489 installations carried out over the past year. This represents a high level of overall metering when compared to the rest of the industry.

During 2015-2020 the company aims to increase household metering coverage to 85% while also testing the benefits of SMART metering through a series of pilots at new housing developments.





Strategic review Continued

Pure Environment

Bathing waters

Of the 146 designated bathing waters sampled in the South West Water region during the 2014 bathing season, 145 (99.3%) met or exceeded the European Union's good (mandatory) standard and 126 (86.3%) met the excellent (guideline) standard.

The decline in the number of bathing waters reaching the 'excellent' standard can be attributed to the wetter weather during August.

In preparation for the tighter standards introduced by the European Union's revised Bathing Water Directive – which comes into effect in November 2015 – South West Water carried out an accelerated £18.9 million programme of targeted improvements at key wastewater assets around the region.

Preventing pollution

In the past year South West Water has focused on improving its maintenance schedules and procedures while using advanced technologies to improve its capabilities for wastewater network monitoring and analytics. The company's efforts have been reflected in this year's figures for serious or significant pollutions (Categories 1 and 2), which are the lowest they have been in the past five years. In 2014/15 there were three Category 2 ('significant') incidents (2013/14 10) and no Category 1 ('serious') pollution incidents (2013 nil). The number of Category 3 ('minor') incidents has fallen by over a third. While these results are favourable, further work is required in order to bring down the total number of pollution incidents.

During 2015-2020 South West Water will carry out further investment in its wastewater treatment processes, pumping stations and network monitoring. This is expected to be complemented by 'Downstream Thinking' – a programme of work currently being piloted in which wastewater issues in urban areas are tackled through a combination of 'soft' engineering and sustainable techniques.

Wastewater treatment standards

Since 2011 South West Water has been focusing on the delivery of a programme of improvements at more than 90 wastewater treatment works as agreed with the Environment Agency. Substantial capital investment, together with improved working practices, is delivering progress in this area.

The 'enhanced' status of South West Water's Business Plan to 2020 has allowed the company to accelerate the delivery of a number of key capital schemes. Sites are being prioritised for improvement as appropriate and South West Water continues to work towards its target of 100% numeric compliance by 2020.

Flooding

Overall, 2014/15 was a relatively benign year in terms of heavy rainfall events. The number of properties flooded internally was significantly fewer than the previous year and the number of repeat floodings was below the K5 average.

To help prevent sewer flooding, South West Water invests in increased sewer capacity, the separation of storm water from the wastewater from properties, and other capital schemes. In 2014/15 the company completed a £3.5 million scheme to upgrade the sewerage network in Truro, Cornwall, and a jointly-funded £2 million flood alleviation scheme to protect homes in the Colebrook area of Plymouth.

South West Water continues to work alongside local flood authorities and other stakeholders to identify best practice in the management of excess storm water.

People

South West Water prides itself on being a responsible employer, attaching paramount value to the well-being, training, needs and ambitions of its 1,400 employees.

Employee involvement and participation in all aspects of business and organisational change is encouraged and supported through the company's 'People Strategy', which is designed to attract, develop and retain a high calibre workforce. In the past year the company has continued to deliver skills-based programmes for operational staff, in addition to a variety of training and development schemes aimed at improving personal and leadership skills. A new Finance Development Programme was also implemented in order to build knowledge and experience among new recruits in the finance teams.

During spring 2015 a series of Director-led 'roadshows' were held at venues across the region to communicate plans for K6 (2015-2020).

During 2014/15 South West Water's apprenticeship scheme grew with 14 new recruits joining the company and bringing the total number of apprenticeships to 61. The company has also played a key role in the creation of a new University Technical College (UTC), which will help to ensure a regionally based talent pool of future scientists and engineers. Located in Newton Abbot, Devon, the college will open its doors in autumn 2015.





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Key relationships

Regulators and others

South West Water actively engages with a wide variety of environmental and regulatory stakeholders. The company contributes to national policy on developing issues through its membership of Water UK, the industry trade body, and works with the Consumer Council for Water to ensure that customers' issues and concerns are addressed and a full understanding of the company's activities is maintained.

In preparation for the introduction of competition in the non-household retail market in 2017, South West Water is playing an active role in the Open Water programme, which is responsible for delivering the market architecture and implementation of the central market operator. The company is a member of the Programme Delivery Board, which comprises representatives of customers, regulators, incumbent water companies, new market entrants and other key stakeholders.

Procurement and suppliers

South West Water operates an innovative 'mixed economy' model to source its capital programme delivery partners. This means using a significant number of smaller local contractors to provide specialised services as well as developing long-term relationships with more major supply chain partners.

The company's procurement strategy is focused on the proactive management of relationships with around 70 key and strategic suppliers, which account for the large majority of expenditure. South West Water sources all its purchases from competitive markets. The company operates strict procurement policies, ensuring suppliers adhere to clearly defined policies of sustainability and ethical working practice.

WaterShare panel

South West Water's Business Plan to 2020 included an innovative 'WaterShare' mechanism. Designed to share the benefits of outperformance fairly and transparently between customers and shareholders, it will be monitored by an independent panel of key stakeholders and regulators. In early 2015 recruitment began for panel members whose responsibility will be to monitor and evaluate South West Water's performance against its targets for the 2015-2020 period.

Outlook

South West Water's strong overall performance for the K5 period and the success of its Business Plan to 2020 means the company is making a smooth and confident transition into K6. Substantial efficiencies have been made and the company continues to focus on innovation, new technologies and sustainable solutions to deliver further improvements and streamlining across the business.

For the next regulatory period South West Water's performance will be reported against the eight outcomes identified in its Business Plan to 2020 (see www.southwestwater.co.uk/waterfuture). The company has set itself demanding targets but is well placed to deliver for the benefit of customers and shareholders alike. Significant investment continues in order to safeguard the progress made to date, satisfy regulatory and legislative obligations, meet the needs and expectations of customers and protect the natural environment.

For 2015/16 South West Water's areas of focus include:

- further investment to improve wastewater treatment compliance and safeguard bathing water quality
- ongoing improvements in customer service
- rigorous cost control and outperformance with the highest potential Return on Regulated Equity (RoRE) in the sector
- preparation for the opening of the non-household retail market in 2017 – this includes governance, structural and process changes to ensure compliance with the new market code
- continuing to ensure robust and transparent assurance.

South West Water is well placed to meet the challenges and opportunities of the next regulatory period. The board recognises that there are improvements still to be made but is confident that through further investment, strong leadership and the hard work and dedication of its people, South West Water will remain a high performing, sustainable and profitable business in the years ahead.

Chris Loughlin

Chief Executive, South West Water



Viridor

Giving resources new life

Operational highlights

- Energy Recovery Facility (ERF) business now contributing significantly to profits and cash flow. Five new ERFs delivered during the year and three under construction
- Two-thirds of ERF portfolio capacity now operational
- Two year Input, Throughput, Output Optimisation (ITOO) programme commenced across recycling operations
- Collections business ahead of expectations, securing increased input tonnages
- Series of local authority and commercial contract wins
- Financial performance in line with expectations
- Exceptional items of £26.7 million, primarily landfill asset impairments (£21.4 million after tax).

318

Operating facilities

Total waste inputs of
7.2m
tonnes

Revenue

(£m)

2010/11	712.0
2011/12	761.1
2012/13	703.8
2013/14	802.0
2014/15	835.9

+4.2%

EBITDA and underlying EBITDA⁽¹⁾

(£m)

2012/13	77.7
2012/13	115.9
2013/14	76.3
2013/14	125.9
2014/15	80.4
2014/15	135.3

Operating profit plus joint ventures⁽²⁾

(£m)

2010/11	82.6
2011/12	75.2
2012/13	45.9
2013/14	43.6
2014/15	37.9

-13.1%

Profit before tax⁽²⁾

(£m)

2010/11	62.9
2011/12	57.6
2012/13	34.3
2013/14	27.6
2014/15	27.7

+0.4%

Where we operate



⁽¹⁾ Earnings before interest, tax, depreciation, amortisation and exceptional items; underlying EBITDA includes IFRIC 12 interest receivable and share of joint venture EBITDA

⁽²⁾ Before exceptional items.



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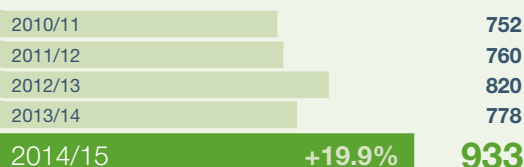
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Energy
recovery
facilities

30

Materials
recycling
facilities

Total renewable energy generation (GWh)



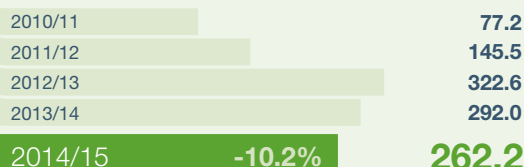
Renewable energy generation capacity As at 31 March (MW)



Recycling volumes traded (million tonnes)



Capital investment⁽¹⁾ (£m)



Notable achievements

- Strategic reorientation of business model around 'Energy' and 'Recycling & Resources'
- Five new ERFs – Exeter, Ardley, Cardiff, Runcorn I & II – delivered
- Construction of ERFs in progress at Peterborough, Glasgow and Dunbar, with Notice to Proceed with construction at Beddington issued
- £25 million investment in new advanced materials recycling facilities at Newhouse and Rochester
- Three star ranking in Business in the Community's Corporate Responsibility Index.

Strategy and performance

Viridor's stated company purpose is to give resources new life. Its strategy remains focused on transforming waste into high quality recyclables, raw materials and energy.

The company continues to build its business through a combination of securing long-term contracts, driving quality in recycling and growing capacity in waste-derived renewable energy.

Long-term profit growth is expected to be driven by its ERF projects, public private partnership (PPP) contracts and focused recycling opportunities.

Performance – energy

- 246 MW of capacity at fully operational facilities (ERFs, landfill gas, anaerobic digestion and solar)
- £33.7 million EBITDA generated by ERFs
- Landfill energy continues to provide good cash generation
- Consistent performance from joint ventures.

Performance – recycling and resources

- Recycling contribution down reflecting commodity pricing
- ITOO programme yielding productivity and quality benefits
- Strong and growing drivers and demand for recycling services; Viridor well placed to grow market share
- Focus on growth in collections and contracts.

⁽¹⁾ Including construction spend on service concession arrangements.



Report from the Chief Executive, Viridor



Ian McAulay
Chief Executive,
Viridor

Overview

Viridor has now passed its strategic point of inflexion, as we continue to give more resources new life through our leading recycling and energy recovery services. I'm pleased to confirm that our Energy Recovery Facility (ERF) business is now operational with five new ERFs brought on line during the year. We remain well on track to deliver c. £100 million of EBITDA from ERFs in 2016/17.

Despite the challenges in the recycling markets during the year, there are strong regulatory and market drivers for growth in the sector. Viridor is well positioned in its strategic business elements with significant cash being generated in Landfill Energy and with Contracts and Collection providing essential input materials for our 'Energy' and 'Recycling & Resources' divisions' operating facilities.

Sustainability and resilience

To drive towards greater resource efficiency and energy security in times of economic austerity and challenging market conditions requires leadership and resolve. To balance the needs and priorities of communities, employees and stakeholders with the demands of the bottom line requires a clear understanding that they are essentially one and the same. The drive for sustainability supports growth. Clients, customers, employees and partners demand community benefit and responsibility in business, and Viridor is pleased to address that demand as part of the service. Viridor was delighted with its three star ranking in the Business in the Community Corporate Responsibility Index, demonstrating clear overall progress for the business.

The new strategic orientation of Viridor's business model around the company's 'Energy' and 'Recycling & Resources' divisions, aligned with a clear focus on the engagement and professional development of its employees, is now delivering results. Viridor stands at the forefront of transforming waste in the UK using input materials to produce high quality recycled commodities, raw materials and energy.





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UK context

The UK is required under the European Union (EU) Landfill Directive to reduce the amount of biodegradable municipal waste going to landfill sites. This is being achieved by a continued increase in 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 previously proposed 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 UK's main mechanism for diverting waste from landfill and incentivising recycling and ERFs remains landfill tax. The UK and Scottish Governments have confirmed that landfill tax will rise on 1 April 2016 in line with inflation from the current position of £82.60 per tonne. This continues to influence the long-term economics of both recycling and energy recovery. In addition, recycle 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 continues to enhance recycle 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' energy from waste (EfW) cycle.

Business strategy

Viridor's strategy, built on its purpose to give resources new life, is to add substantial value through:

Energy

ERFs

Viridor's strategically located network of ERFs now provides an established and growing business serving PPP contracts and the commercial sector. Viridor has moved from investment to delivery with five facilities commencing operations in 2014/15. EfW remains central to the UK's waste and renewable energy strategies as the low cost alternative to landfill for treatment and disposal of residual waste, and provider of base load electricity and heat utilisation opportunities. Viridor expects to have c.15% EfW market share by 2020, with its network of strategic facilities driving the company's long-term profit growth.

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 decline in landfill inputs by closing 18 sites over the next five years and maintaining three strategic operational sites; and to optimise returns on the closed landfills asset base through alternative uses such as photovoltaic installation, energy storage and divestment opportunities.

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, will also help to drive the delivery of the Viridor strategy.

Recycling and resources

Clear regulatory drivers for recycling from the EU and from UK governments, alongside expectations from leading corporates, are ensuring strong and ongoing demand for recycling services. Viridor has established its recycling business over the past five years and currently handles volumes approaching two million tonnes per annum. Viridor's focus on Input, Throughput, Output Optimisation (ITOO) across its recycling activities is yielding improvements, ensuring the production of high quality materials and management of the cost base to mitigate impacts on margins.



Strategic review Continued



Business performance

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

Before exceptional items: Viridor's earnings before interest, tax, depreciation and amortisation (EBITDA) was up £4.1 million to £80.4 million (2013/14 £76.3 million); Viridor underlying EBITDA, which includes IFRIC 12 interest receivable and Viridor's share of joint venture EBITDA, was up £9.4 million to £135.3 million; profit before interest and tax (PBIT) fell £8.6 million (28.5%) to £21.6 million; and PBIT plus joint ventures decreased by £5.7 million (13.1%) to £37.9 million.

Profit before tax and exceptional items increased by £0.1 million (0.4%) to £27.7 million 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 £262.2 million (2013/14 £292 million) of which c. £242 million was for Viridor growth projects (largely ERFs) with the balance being maintenance of existing assets.



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

Viridor now has 139 MW of renewable energy capacity from its fleet of ERFs and AD facilities, which includes its share of joint ventures at Lakeside ERF, Runcorn I ERF and the Greater Manchester AD operations.

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 2.8 million tonnes.

Five plants, being Runcorn I and II, Exeter, Ardley and Cardiff, have been delivered into the operational Energy Division, contributing underlying EBITDA of £41.9 million during the year.

While the Runcorn plants were delayed in construction, liquidated damages were receivable for the period post the original contractual completion date. All other plants were delivered within or below budget. Two further plants, Peterborough and Glasgow, are more than halfway through construction; Dunbar commenced construction towards the end of the year, and Notice to Proceed with the construction of Beddington ERF was issued after the year-end.

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 operational and committed plants, of which three-quarters are 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.



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(b) Landfill gas generation

Viridor's landfill energy business is being managed to maximise the value of landfill gas power generation, while exploring cryogenic energy storage and solar power 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 £35.8 million (2013/14 £37.3 million).

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 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 104 MW (excluding 3 MW capacity at sub-contract sites in Suffolk).

A 2.75 MW solar power installation at Westbury landfill was completed during the first half of 2014/15 and an £8 million cryogenic energy storage pilot project at Pilsworth landfill, funded by the Department of Energy and Climate Change, is under way. Future alternative uses for landfill sites are also being assessed as most of Viridor's landfill operations accelerate into closure.

(c) Landfill

The business plan now being implemented for the landfill business is reducing operations to a few strategic sites, reflecting the fact that there will still be demand for landfilling of certain materials for the foreseeable future. The 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 three.

The business continues to be cash generative and contributed £15.4 million to EBITDA in the year. Volumes were slightly down at 2.5 million 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, 39 mcm is not expected to be used.

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



Strategic review Continued



Recycling and resources

During the year recycling volumes traded decreased by 151,000 tonnes (8.4%) to 1.7 million tonnes. Recyclate prices, while lower, have 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 and shipping costs.

EBITDA for the year was £49.0 million (2013/14 £62.6 million).

As announced at the half year, Viridor has commenced a two year Input, Throughput, Output Optimisation programme (ITOO) to provide an enhanced focus on increasing margins by taking actions across the value chain. The company is targeting a substantial enhancement in EBITDA margin through improvements in asset productivity.

Viridor continues to operate the most extensive Materials Recycling Facility (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 were down slightly across the 15 local authority contracts around the UK (the more significant contracts include Greater Manchester, Lakeside, 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.

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

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

Joint ventures

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

Solid recovered fuel produced from the waste is used to generate heat and power at Runcorn I ERF, which has been built primarily for the Greater Manchester Waste PFI contract.

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. Final acceptance of certain facilities remains subject to fulfilment of the required contractual terms.

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

(b) Runcorn I (TPSCo)

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

The Runcorn I ERF 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 £18.1 million (2013/14 £15.2 million).

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





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People

Viridor employs over 3,000 people across the UK. The achievements, professionalism and innovation of its employees remain a great source of pride to the company. Their health, safety and welfare remain its top priority.

Health and safety

Viridor has set itself the goal of making a step change in the way it manages health, safety and welfare, and is working hard to promote a 'zero incidents' safety culture throughout the organisation. Central to its approach are clear, effective and regular campaigns and communications supporting health, safety and working well, such as the high profile 'Stop & Think' campaign originally developed in the South West and now rolled out across all company sites. There was a continued fall in the RIDDOR incidence rate, with 28 reportable incidents giving a rate of 889 per 100,000 employees (2013/14 1,197).

A tragic incident which resulted in a fatality of a Viridor employee in early June 2015 is under investigation. Our thoughts are with his friends, family and colleagues.

Employee development

Leading organisations across the world recognise that skills, professional development and retention are of crucial importance, and good employee engagement is becoming one of the key differentiators in business. Engaged employees and high-performing teams help drive safety, productivity, profitability and customer focus. Viridor has renewed its focus in this area utilising the well-respected Gallup Q12 engagement programme. Following its first company-wide Q12 survey and a series of staff roadshows sharing the company strategy and key business priorities, local level action planning is now helping to drive positive change and a focus on business improvements across the company. This is particularly timely as the company continues the implementation of its Enterprise Resource Platform throughout the business.

Viridor has comprehensive programmes of training and professional development to ensure its employees have the skills, expertise and support to meet the demands of the business. 5,887 training days were delivered across the company during the year. Viridor currently has 15 full-time apprenticeships and an additional five new apprenticeships have been confirmed for Viridor's ERFs. A new intake has been confirmed for the innovative Viridor Foundation Management Degree course, developed in partnership with Edge Hill University. The first cohort of 15 managers successfully graduated in 2014, with 25 due to graduate in 2015/16.

The company continues to strive towards a workforce that is representative of the communities in which it operates and to ensure a pipeline of talent for the future needs of the business.

Viridor's employee performance appraisal system incorporates the company's six core behavioural competencies, designed to ensure the right managerial skill sets. Succession planning is also underway across the business.

Key relationships

Of Viridor's largest customer groups, local authorities account for 39% of the company's revenue (2013/14 31%). No individual authority accounts for more than 12% (2013/14 12%). Viridor's ROC energy contracts account for 7% of revenue (2013/14 7%), primarily with one customer.

The company's operational facilities in England and Wales require environmental permits to be issued and regulated by the Environment Agency and Natural Resources Wales. In Scotland similar waste management licences or pollution prevention and control permits are issued and regulated by the Scottish Environmental Protection Agency. Viridor maintains a positive and proactive working relationship with these and other regulatory bodies by means of close ongoing liaison and active management of any issues arising under permit conditions at either site or strategic levels. For example, Viridor continues to share live monitoring data from operational sites with the regulators via custom-developed web portals to ensure a transparent and resource-saving approach to monitoring and regulation.

Viridor has strengthened its approach to procurement and supply chain relationships during the year with the formation of a new procurement function and more efficient protocols. These include a formal policy on sustainable procurement utilising whole life costings, ensuring clear environmental and social responsibility criteria for goods and services procured, and delivering long-term value for Viridor and, in turn, its customers.

Outlook

Excellent progress has been achieved in the realisation and delivery of its ERF business. Five major facilities became operational in the financial year adding to the existing Lakeside and Bolton operational ERF assets. Three others are under construction and Notice to Proceed with the construction of Beddington ERF has been issued.

The drivers and demand for recycling in the UK remain strong, although Viridor remains appropriately cautious about the future prospects for recycle 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 recycle 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. £100 million to Viridor's EBITDA in 2016/17. Viridor is also well positioned with its recycling, contracts and collections assets and services.

Ian McAulay

Chief Executive, Viridor

Report from the Group Director of Finance

Financial review



Susan Davy
Group Director
of Finance

Pennon Group has delivered a resilient financial performance, underpinned by strong liquidity and efficient long-term financing. This has allowed us to continue our policy of growing dividends to shareholders at a consistent and sustainable rate of 4% above RPI inflation.

Performance overview

The principal measures used to assess the Group's financial performance are:

Profit before tax

before exceptional items (£m)

2010/11	188.5
2011/12	200.5
2012/13	190.0
2013/14	207.3

2014/15⁽¹⁾ **+1.6%** **210.7**

Earnings per share

before exceptional items and deferred tax (pence)

2010/11	42.3
2011/12	47.3
2012/13	40.3
2013/14	42.6

2014/15 **-6.6%** **39.8**

Dividend per share

(pence)

2010/11	24.65
2011/12	26.52
2012/13	28.46
2013/14	30.31

2014/15 **+4.9%** **31.80**

Interest rate on average net debt⁽²⁾

(%)

2010/11	4.4
2011/12	4.2
2012/13	4.0
2013/14	3.8

2014/15 **3.4**

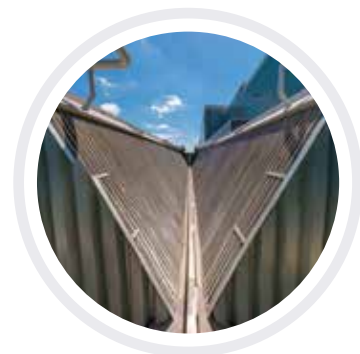
Reconciliation of earnings⁽³⁾

	2014/15 Profit after tax (£m)	2014/15 Basic earnings per share (p)	2013/14 Profit after tax (£m)	2013/14 Basic earnings per share (p)
Statutory earnings	126.3	32.3	142.5	38.8
Deferred tax before exceptional items	18.2	4.7	(25.8)	(7.0)
Exceptional items (post-tax)	11.0	2.8	39.7	10.8
Earnings before exceptional items and deferred tax	155.5	39.8	156.4	42.6

⁽¹⁾ Statutory basis £197.0m

⁽²⁾ Includes capitalised interest but excludes pensions net interest, discount unwind on provisions, IFRIC 12 contract interest receivable and interest receivable from joint ventures

⁽³⁾ Earnings per ordinary share figures in this strategic report exclude exceptional items and deferred tax. The Directors believe excluding deferred tax provides a more useful comparison on business trends and performance. Deferred tax distorts earnings per share through the effects of changes in corporation tax rates and the level of long-term capital investment.



A continuing low net interest rate was achieved, coupled with raising cash and facilities to fund ongoing capital investment: £1,741 million cash and facilities at 31 March 2015, including £830 million of new and refinanced facilities sourced during the year.

The year's financial highlights

(before exceptional items)

Group profit before tax increased by £3.4 million (1.6%) to £210.7 million, driven by a resilient performance across the Group. Earnings per share before deferred tax decreased by 6.6% to 39.8p and includes the impact of the tariff freeze in South West Water, which will be recovered on a net present value (NPV) neutral basis over the next five year period.

South West Water recorded a strong performance against the 2010-2015 (K5) regulatory contract and outperformed regulatory assumptions. South West Water profit before tax was up £5.4 million (3.3%) to £167.9 million reflecting higher revenues, good cost control and lower average borrowing rates, all achieved against the backdrop of in-year tariff freezes.

Viridor earnings before interest, tax, depreciation and amortisation (EBITDA) were up £4.1 million to £80.4 million. Viridor underlying EBITDA, which includes IFRIC 12 interest receivable and Viridor's share of joint venture EBITDA, increased by £9.4 million to £135.3 million. The increase in earnings reflects Energy Recovery Facilities (ERFs) becoming operational, partly offset by continuing declines in landfill and a softening of the recycling market.

We have secured further funding to finance continuing growth. By the year-end we had £1,741 million in cash and facilities (including £196 million of restricted funds) in place to fund the continuing growth in Viridor's ERF business, together with a significant proportion of South West Water's 2015-2020 (K6) capital programme.

Capital investment remained significant this year at £407 million due to continuing major investment in Viridor's ERFs, which are driving future growth. Two-thirds of committed ERF capital investment is now complete. South West Water's capital expenditure in the year was broadly in line with 2013/14. A key element of the programme in the year was the acceleration of certain K6 projects into 2014/15 to deliver early outcome benefits to customers and the environment.

We have secured funding at a cost that is relatively low in absolute terms. The Group interest rate on average net debt improved to 3.4% (2013/14 3.8%).

Revenue

Group revenue increased by 2.7% to £1,357.2 million. South West Water's revenue increased by 0.4% to £522.2 million as a result of higher demand, new connections and higher other revenue, partially offset by a reduction in revenue from customers switching from unmeasured to metered charges. Viridor's revenue increased by 4.2% to £835.9 million due primarily to ERFs becoming operational and increased construction spend on service concession arrangements, partly offset by lower recycling revenues.

Earnings before interest, tax, depreciation and amortisation (EBITDA)

(before exceptional items)

Group EBITDA increased by 0.9% to £411.0 million with South West Water up by 0.1% to £331.3 million and Viridor up by 5.4% to £80.4 million. K5 outturn operational cost efficiencies in South West Water were cumulatively 11% ahead of the K5 Final Determination. Viridor's EBITDA was ahead of last year due to ERFs becoming operational, partly offset by declines in recycling and landfill.

Net finance costs

We continued our effective management of interest rates in 2014/15 with interest payable (including capitalised interest) net of interest receivable, on average net debt equating to 3.4% (2013/14 3.8%) which included lower interest payable on RPI-linked debt.

Net finance costs of £40.8 million were £13.1 million lower than last year, reflecting an £8.7 million saving due to the full conversion of the £125 million convertible bond, £5.0 million higher IFRIC 12 interest receivable and lower average borrowing rates.

Interest receivable totalling £19.1 million (2013/14 £13.7 million) has been achieved from the objective of enhancing returns on the Group's substantial pre-funding of £771 million.

During the year net finance costs (excluding pensions net interest, discount unwind on provisions and IFRIC 12 contract interest receivable) were £41.1 million (2013/14 £49.1 million), covered 6.0 times (2013/14 5.2 times) by Group operating profit.



Financial review Continued



Profit before tax (before exceptional items)

Profit before tax was £210.7 million, an increase of 1.6%. Pages 12 and 20 give a detailed description of the financial performance of South West Water and Viridor respectively. On a statutory basis, profit before tax was £197.0 million reflecting exceptional items of £13.7 million.

Taxation (before exceptional items)

The Group's UK corporation tax charge for the year was £39.2 million (2013/14 £35.3 million) after the release of prior year credits of £5.5 million (2013/14 £16.5 million). The increase primarily reflects lower prior year credits, partly offset by a reduction in the rate of corporation tax and higher ERF capital allowances. Deferred tax for the year was a charge of £18.2 million (2013/14 credit of £25.8 million). The charge compared to the previous year reflects the one-off credit of £40.1 million in 2013/14 due to the enacted 3% reduction in the future rate of UK corporation tax.

Earnings per share (before exceptional items and deferred tax)

Earnings per ordinary share decreased by 6.6% to 39.8p primarily reflecting South West Water's tariff freeze, which will be recovered over 2015-2020 (K6) on an NPV neutral basis. The weighted average number of shares in issue during the year was 390.9 million (2013/14 367.4 million) with the increase largely reflecting the issuance of 20.9 million shares from the £125 million convertible bond. Net assets per share at book value at 31 March 2015 were 340p.

Exceptional items

Net exceptional items totalling a charge before tax of £13.7 million have been recognised. The net charge includes £24.3 million to write down the carrying values of Viridor's property, plant and equipment (net of impairment reversals of £9.2 million), £11.0 million for a small number of underperforming Viridor contracts, net of credits of £14.9 million from changes made to the Group's defined benefit scheme and £6.7 million from the reassessment of Viridor landfill environmental provisioning. The net exceptional charge has no immediate cash impact.

The exceptional items total a charge net of tax of £11.0 million.

Dividends and retained earnings

The statutory net profit attributable to ordinary shareholders of £126.3 million has been transferred to reserves.

The Directors recommend the payment of a final dividend of 21.82p per share for the year ended 31 March 2015. With the interim dividend of 9.98p per share paid on 2 April 2015 this gives a total dividend for the year of 31.80p, an increase of 4.9% over 2013/14 (reflecting 4% real growth plus March 2015 RPI of 0.9%).

Proposed dividends totalling £129.5 million are covered 1.2 times by net profit (before exceptional items and deferred tax) (2013/14 1.3 times). Dividends are charged against retained earnings in the year in which they are paid.

Dividend policy

This year we announced our dividend policy for the period to 2019/20. The previous policy of increasing the dividend each year by 4% above RPI has been extended to 2019/20. This results in a 10 year (2010-2020) policy of 4% annual dividend growth above RPI.

Operating costs (before exceptional items)

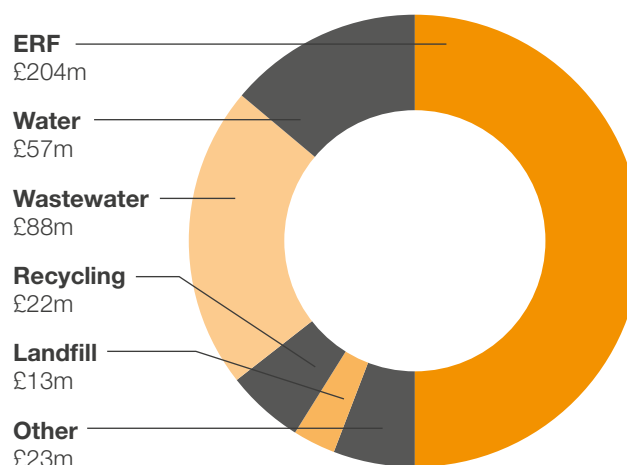
Operating costs for the year totalled £1,111 million. The most significant areas of expenditure were:

Expenditure	£m
Landfill tax	197
Manpower	164
Depreciation	162
Raw materials and consumables*	76
Transport	61
Power	38
Business rates	34
Abstraction and discharge consents	6

* Excludes elements of transport costs.

Group investment

The Group's capital expenditure on property, plant and equipment, including service concession arrangements, remained significant at £407 million (2013/14 £434 million). The major categories of expenditure were:



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Cash flow

In 2014/15 the Group once again had a strong operating cash flow. Together with the conversion of the £125 million convertible bond, this offset the ongoing enhanced level of capital investment to support future growth, resulting in net debt remaining broadly stable.

Summarised cash flow	2014/15 £m	2013/14 £m
Cash inflow from operations	412	407
Net interest paid	(42)	(39)
Tax paid	(22)	(58)
Dividends paid	(69)	(69)
Hybrid periodic return	(20)	(20)
Capital expenditure	(365)	(392)
Dividends and loan repayments received from joint ventures	6	9
Pension contributions	(28)	(18)
Net cash outflow	(128)	(180)
Conversion of share of convertible bond	125	–
Shares issued	3	2
Debt indexation/interest accruals	(3)	(7)
Increase in net borrowings	(3)	(185)

Major components of the Group's debt finance at 31 March 2015

Finance leasing

£1,336m

Bank bilateral debt

£389m

Index-linked bond 2057

£259m

European Investment Bank loans

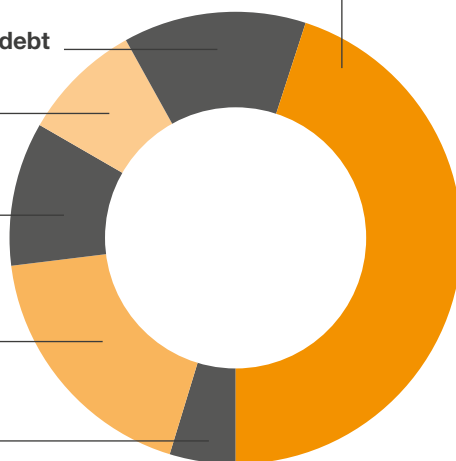
£304m

Private placements

£547m

Bond 2040

£133m



Liquidity and debt profile

The Group has a strong liquidity and funding position with £1,741 million cash and facilities at 31 March 2015. This includes cash and deposits of £771 million (including £196 million of restricted funds representing deposits with lessors against lease obligations) and undrawn facilities of £970 million. A total of £830 million in new or renewed debt facilities was arranged during the year, being:

- £125 million new 17 year facility
- £130 million new Schuldschein
- £80 million new 13 year facility
- £240 million of new finance leases of which £175 million are for Viridor ERFs, £65 million for South West Water
- £255 million of new loans and revolving credit facilities.

At 31 March 2015 the Group's loans and finance lease obligations totalled £2,968 million. After the £771 million held in cash, this gives a net debt figure of £2,197 million, an increase of £3 million during the year. Debt incurred for the construction of Viridor's portfolio of ERFs at Runcorn II, Ardley, Exeter, Cardiff, Glasgow and Dunbar increased to £844 million at 31 March 2015, which represents 38% of Group net debt.

The Group's debt has a maturity of up to 42 years with an average maturity of 23 years. The Group has fixed, or put swaps in place to fix, the interest rate on a substantial portion of South West Water's debt for the entire K6 period. During the year the average rate achieved on all fixed rate debt was 3.4% for 2014/15. For South West Water this figure was 3.1%.

A further £393.1 million of South West Water's debt is index-linked at an overall real rate of 1.7%. As a result of the aforementioned initiatives, South West Water's cost of finance is among the lowest in the industry.

The Group's financing structure gives us the scope and flexibility we need to implement our strategic objectives in order to maximise value for our shareholders.

The Group's interest rate on average net debt for the year to 31 March 2015 is 3.4% (after adjusting for capitalised interest of £22.5 million, notional interest items totalling £0.3 million and interest received from shareholder loans to joint ventures of £11.4 million, as detailed in note 8 to the financial statements).

Just under half of the Group's gross debt is finance leasing giving us a long maturity profile. Interest payable benefits from the fixed credit margins which were secured at the inception of each lease.

At 31 March 2015 the fair value of the Group's non-current borrowings was £74 million less than its book value (2014 £275 million) as detailed in note 28 to the financial statements. This reflects the benefit of securing interest rates below the current market rate.



Financial review Continued

Capital structure – overall position

At the end of the financial year the Group's net debt of £2,197 million gave a gearing ratio of net debt to (equity plus net debt) of 61.9% at 31 March 2015 (2014 64.7%).

In March 2013 the Group issued a £300 million hybrid capital security recognised as equity as set out in note 37 to the financial statements.

During the year the Company continued to benefit from offering a Scrip Dividend Alternative. £48 million of potential cash dividend was retained in the business and instead distributed by issuing c. six million shares.

South West Water's debt to Regulatory Capital Value (RCV) was 62% at 31 March 2015 (2014 56%), which compares to Ofwat's optimum range of 55%-65% for K5 and K6 target efficient gearing of 62.5%.

Viridor is funded by a combination of Pennon Group equity and debt (raised by Pennon Group) and direct borrowing by Viridor. At the year-end Viridor's net debt was £920 million (2014 £901 million), equivalent to 11.4 times EBITDA before exceptional items (2014 11.8 times).

Treasury policies

The role of the Group's treasury function is to ensure we have the funding to meet foreseeable needs to maintain reasonable headroom for future contingencies and to manage interest rate risk. The Group enters into certain structured financing transactions that have, and are expected to provide, an improved return on surplus funds and overall interest rate performance. It operates only within policies approved by the Board and undertakes no speculative trading activity.

The Board regularly monitors expected financing needs for at least the following 12 months. These are intended to be met for the coming year from existing cash balances, loan facilities and operating cash flows.

The Group has considerable financial resources and a broad spread of business activities. The Directors therefore believe that it is well placed to manage its business risks.

Internal borrowing

South West Water's funding is treated for regulatory purposes as ring-fenced. This means that funds raised by, or for, the company are not available as long-term funding for other areas of the Group.

Going concern

The Directors have a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future. They therefore have continued to adopt the going concern basis in preparing the financial statements.

Taxation objectives and policies

Our tax strategy, as approved by the Board, is to fulfil our statutory obligations by the application of relevant tax legislation in a reasonable way, engaging in tax planning only when it is aligned with the commercial and economic activity of the Company. This is in line with the principles published by the Confederation of British Industry (CBI) in 2013.

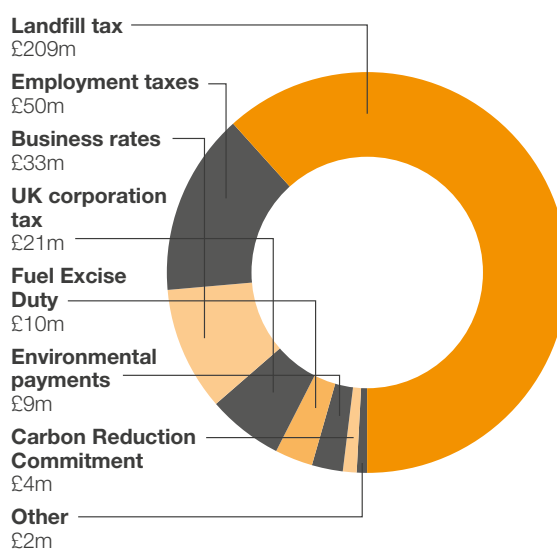
Tax contribution 2014/15 – collected/paid

The Group made a net payment of £21.0 million of UK corporation tax in the year (2013/14 £58.1 million). The main elements of the payment were £25.3 million in relation to 2014/15 net of refunds of £3.1 million from prior years. No additional quarterly payments were made in relation to 2013/14. South West Water paid £36.4 million (2013/14 £44.1 million) of UK corporation tax on profit before tax of £167.9 million (2013/14 £162.5 million).

The total tax charge for the year (before exceptional items) of £57.4 million was greater than the charge that would have arisen had the accounting profit before tax and exceptional items been taxed at the statutory rate of 21%. A reconciliation is provided in note 9 to the financial statements.

The mainstream tax charge for the year (before deferred tax, prior year and exceptional items) of £44.7 million results in an effective rate of 21.2%, which is close to the statutory rate of 21.0%.

The Group's total tax contribution extends significantly beyond its UK corporation tax charge:



Total taxes amounted to £329 million (2013/14 £347 million) of which a net amount of £26 million (2013/14 £6 million) was collected on behalf of the authorities for employee payroll taxes and VAT.

In addition to corporation tax the most significant taxes involved, together with their profit impact, were:

- landfill tax of £204 million (2013/14 £186 million) collected by the Group on behalf of HM Revenue & Customs (HMRC). This amount includes £11 million (2013/14 £12 million) paid to local environmental bodies via the Landfill Tax Credits Scheme. Landfill tax is an operating cost that is recovered from customers and is recognised in revenue. In addition the Group incurred landfill tax of £5 million (2013/14 £29 million) on the disposal of waste to third parties. The reduction of £24 million compared to 2013/14 reflects that more waste from the Greater Manchester contract is being deposited in Viridor sites and is also being diverted to the Runcorn I ERF. This is an operating cost for the Group and reduces profit before tax. The net amount of landfill tax paid to HMRC by the Group and via third parties represents 17% of the total landfill receipts of HMRC in the year



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- Value Added Tax (VAT) of £9 million recovered (2013/14 £29 million recovered) by the Group from HMRC. The reduction in the repayment is a result of the following: a reduction in capital expenditure, an increase in revenue in Viridor and the increase in the level of sale and leaseback transactions. VAT has no material impact on profit before tax
- business rates of £33 million (2013/14 £32 million) paid to local authorities. This is a direct cost to the Group and reduces profit before tax
- employment taxes of £50 million (2013/14 £48 million) including employees' Pay As You Earn (PAYE) and total National Insurance Contributions (NICs). Employer NICs of £14 million (2013/14 £13 million) were charged approximately 92% to operating costs with 8% capitalised to property, plant and equipment. The total amount of £50 million includes PAYE of £2 million (2013/14 £2 million) on pension payments made by the Group pension schemes
- Fuel Excise Duty of £10 million (2013/14 £10 million) related to transport costs. This reduces profit before tax
- payments to Environment Agency and other regulatory bodies totalling £9 million (2013/14 £10 million). This reduces profit before tax
- Carbon Reduction Commitment (CRC) payment for the Group of £4 million (2013/14 £1 million). This represents the commitment payments for both carbon usage in 2013/14 and 2014/15 as phase 2 of the CRC mechanism has commenced and payments are now made in advance. In addition the rate has increased by 33% and Viridor no longer receives credit for its energy generation. This reduces profit before tax.

The corporation tax rate for 2014/15 used to calculate the current year's tax is 21%. The corporation tax rate has been reduced to 20% for 2015/16 following changes in the Finance Act 2013.

Pensions

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

At 31 March 2015 the Group's pension schemes showed a deficit (before deferred tax) of £59.6 million (2013/14 £79.3 million). The decrease primarily reflects an increase in the schemes' asset values and an exceptional reduction in the liability of £14.9 million (£11.9 million after tax) relating to past service cost. This has been recognised following changes in the Group's main scheme benefits, particularly the introduction of a cap on increases in pensionable pay.

Net liabilities of £48 million (after deferred tax) represented around 2% of the Group's market capitalisation at 31 March 2015.

The last actuarial valuation of the main scheme was as at 31 March 2013.

Insurance

Pennon Group manages its property and third party liability risks through insurance policies that mainly cover property and business interruption, motor, public liability, environmental pollution and employers' liability.

The Group uses three tiers of insurance to cover operating risks:

- self-insurance – Group companies pay a moderate excess on most claims
- cover by the Group's subsidiary (Peninsula Insurance Limited) of the layer of risk between the self-insurance and the cover provided by external insurers
- cover provided by the external insurance market, arranged by our brokers with insurance companies which have good credit ratings.

Post year-end acquisition of Bournemouth Water

On 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 £100.3 million. As part of the acquisition £86.9 million of external net debt and debt-like items have been assumed by Pennon Group Plc.

An equity placing was undertaken to replenish Pennon's cash resources in respect of the acquisition and ensure funding flexibility.

The acquisition has been accounted for in 2015/16 using the acquisition method. Provisional goodwill of c. £66 million will be capitalised.

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

In accordance with current legislation an automatic merger reference has been made to the Competition and Markets Authority (CMA). A decision is expected to be received on the merger from the CMA within its usual timescales.

Susan Davy

Group Director of Finance









Principal risks and uncertainties

How we manage risk

We operate a well established and fully embedded Group wide risk management process, from which we seek to identify significant risks at the earliest possible stage and determine whether they are acceptable risks which we can manage and mitigate satisfactorily. More detail on our risk management process is set out in our corporate governance report.

The risks and uncertainties set out in this section have been identified from our risk management process as potentially having a material adverse effect on our business, financial condition, results of operations and reputation. They are managed as described but are not wholly within our control and may still result in having a material adverse impact on the Group and its business activities, as may factors besides those listed.




Key	Risk Level		
	Low	Medium	High
The colouring (green, amber, red) is our estimate of the inherent risk level to the Group after mitigation. It is important to note that risks are difficult to estimate with accuracy and therefore may be more or less significant than indicated.			
	Increasing	Unchanged	Decreasing
Assessed direction of travel of risk level.			

South West Water


Law and regulation

Risk	Mitigation	2013/14	2014/15	Direction
Changes in law, regulation or decisions by governmental bodies or regulators.	<p>South West Water's PR14 (2015-2020) business plan was assessed by Ofwat as 'enhanced' with confirmation in the Final Determination in December 2014.</p> <p>South West Water continues to contribute fully to consultations with all regulators and seeks to influence emerging changes through strong relationships with its stakeholders.</p>			

Economic conditions

Risk	Mitigation	2013/14	2014/15	Direction
Non-recovery of customer debt.	<p>In addition to existing strategies, which are kept under review, South West Water continues to implement new initiatives to improve and secure cash collection.</p> <p>A new strategy for debt collection is being implemented which includes:</p> <ul style="list-style-type: none"> improved processes for managing customer moves targeting previous occupier debt; specific case management and utilising court claims effectively; and increasing the use of charging orders to secure debt. <p>South West Water is one of the few companies to have implemented a social tariff 'WaterCare'.</p> <p>The company has also continued to fund and promote ways to help customers struggling to pay bills (WaterCare, Restart, Fresh Start Fund), which seek to reduce bad debt exposure.</p> <p>In future, further changes to the benefits and universal credit system, any significant changes to personal taxation policy implemented by UK Government as well as macro-economic trends, such as levels of household income relative to the cost of living, may further affect the ability of customers to pay their bills.</p>			

Operating performance

Risk	Mitigation	2013/14	2014/15	Direction
Extreme weather and climate change can place pressure on the company's water resources and networks.	<p>South West Water is well placed to cope with extreme incidents. A key mitigation is having detailed contingency plans, sufficient emergency resources and a capital programme that supports ongoing efforts to manage these risks.</p> <p>In the longer term, the impacts of climate change are being considered. The company has plans ready and will adapt the way it conducts its business to respond effectively to the anticipated hotter, drier summers and wetter winters.</p>			
Poor service provided to customers. South West Water could incur a financial penalty under the regulatory regime.	<p>The company has delivered further improvements to customer service demonstrated across a number of measures including improved satisfaction (value for money), reduced written complaints and fewer water quality complaints.</p> <p>South West Water has improved its relative industry measure SIM, resulting in its best ever score in 2014/15.</p> <p>While South West Water's performance continues to improve, the performance in the K5 period has incurred a modest financial penalty (already incorporated in the 2014 Final Determination).</p> <p>Targeted improvements are being made to further improve customer service and the company's relative industry standing during the K6 period 2015-2020.</p>			

Principal risks and uncertainties Continued

Operating performance (continued)





Risk	Mitigation	2013/14	2014/15	Direction
Non-compliance or occurrence of avoidable health and safety incidents.	<p>There are rigorous health and safety policies and procedures in place across South West Water.</p> <p>Over the past 18 months a significant review of operational sites has been undertaken to provide up to date risk assessments at all wastewater and drinking water treatment sites. A programme of capital improvements has been delivered reducing site risks further.</p> <p>The company has also replaced its lone worker procedures and equipment to utilise recent advancements of technology and functionality. The alarm handling arrangements have also been changed as part of the lone worker system review with this service now being managed by an accredited external provider.</p> <p>Further details on South West Water's approach to minimising the number of health and safety incidents is set out on page 51.</p>	●	●	↔
Significant operational failure or incident occurrences. This could include contamination of water supplies, pollution events, water resource restrictions and flooding events.	<p>South West Water has established procedures and controls in place, as well as contingency plans and incident management procedures.</p> <p>South West Water has a number of schemes in place to maintain water resources (such as pumped storage for certain reservoirs) and promotes conservation measures and customer water efficiency measures.</p> <p>South West Water also considers the longer-term resource situation. It prepares a new Water Resources Management Plan every five years and reviews it annually for a range of climate change and demand scenarios.</p> <p>In recent years South West Water has worked in partnership with other representatives to identify a wide range of factors that can cause and exacerbate flooding events.</p> <p>The company has identified targeted capital investments to reduce the risk to specific customers in key affected areas and, working alongside lead local flood authorities, other partner agencies, developers and environmental groups, is identifying best practice management of extreme rainfall and flooding.</p>	●	●	↔

Market





Risk	Mitigation	2013/14	2014/15	Direction
Uncertainty arising from market reform.	<p>As part of the risk management and business strategic planning processes, the company continues to evaluate developments and proposals for competition. Strong progress has been made in developing our approach to the retail market opening in 2017 and South West Water's internal project 'market ready' programme is aligned and actively engages in the development of central market operations.</p> <p>South West Water is prepared for the development of retail competition for non-household customers during the next regulatory period and has developed enhanced services which it offers to commercial customers through 'Source for Business'.</p> <p>In addition, South West Water is participating in discussions for the design of 'Upstream reform'. 'Upstream reform' will involve a mixture of market and regulatory reforms to deliver services to customers, the environment and society effectively and efficiently.</p>	●	●	↔

Viridor







Law and regulation

Risk	Mitigation	2013/14	2014/15	Direction
Changes in law, regulation or decisions by governmental bodies or regulation.	Viridor operates within regulatory EU and UK established frameworks. It engages at all levels and contributes fully to any consultations on possible changes to the regulatory policy, legislation and framework.			↓
Removal or modification of renewable energy incentives.	Existing investments that qualify for Renewable Obligation Certificates are protected under the 'grandfathering' procedure.			↑

Economic conditions







Risk	Mitigation	2013/14	2014/15	Direction
Pressure on margins in the recycling business as a result of local authority austerity, poor input quality and falling commodity prices.	Viridor's Input, Throughput and Output Optimisation (ITOO) programme, which is being applied across its recycling activities, is ensuring the production of high quality materials. Management of the cost base is mitigating the impact on margins of a softening in recycle prices. In the long term, clear regulatory drivers for recycling from the EU and the UK Government, alongside expectations from leading companies, are laying the foundations for a strong, continued demand for recycling services over the next 15 years.			↑
Reduction in waste volumes to landfill due to the long-term trends towards waste minimisation and recycling, and in the overall market from energy recovery from waste.	A central aspect of Viridor's diversified strategy is the growth of stable volumes in the energy recovery business to offset the declining trend in landfill and current challenges in recycling. In addition, Viridor is exploring alternative uses for its landfill assets. There is also evidence of recent rising UK waste volumes as the economic recovery continues.			↔

Operating performance










Risk	Mitigation	2013/14	2014/15	Direction
Business interruption, particularly in the growing Energy Recovery Facility (ERF) business, through equipment failure, fire, power outages and campaign groups.	Equipment failure is being managed by more sophisticated planned preventative maintenance regimes with improved stocks and stores controls. The risk from local disruption is alleviated by good public liaison and communications. Police are consulted regarding campaign groups and the risk of cybercrime is being addressed as part of Project Enterprise (see business systems risk).			↔
Downward pressure on UK wholesale power prices.	Viridor enters into forward sale contracts for a certain proportion of electricity generated from landfill gas power generation. To a certain extent downward pressure on power prices is naturally offset by usage across Viridor and the wider Group.			↑
Non-compliance or occurrence of avoidable health and safety incidents.	Viridor has rigorous compliance systems, health and safety policies and procedures in place. Professionally qualified and highly experienced health and safety advisers are in place for every region, reporting to the Head of Compliance. Continual training, awareness campaigns, toolbox talks and briefings focus on key topics. Formal health and safety qualifications are required for line managers, senior managers and directors. Risk assessments are undertaken at every appropriate level. Safe operating procedures are subject to audit and review.			↔

Principal risks and uncertainties Continued

Capital investment

Risk	Mitigation	2013/14	2014/15	Direction
Failure or increased costs of capital projects and/or joint ventures not achieving predicted revenues or performance.	<p>Increased skilled management resource including the establishment of 'oversight boards' for each of the major projects has added additional rigour to their delivery.</p> <p>Wherever possible back-to-back agreements with, and guarantees from, suppliers are entered into which provide a significant degree of protection. Viridor's experienced and dedicated project/contract teams carry out detailed due diligence on all projects, suppliers, technologies and acquisitions prior to commencement.</p> <p>There is also regular monthly reporting on performance on major contracts and post project appraisals are carried out, which all assist in being able to improve future performance.</p>			
Exposure to contractor failure to deliver construction progress, increasing costs and potentially requiring lengthy legal action or other redress.	<p>Extensive due diligence and significant protection of back-to-back contracts and/or penalty clauses in contracts to deliver new technologies on time and within budget.</p> <p>Viridor, through its Capital Projects and Engineering Director, proactively manages its contractors. It has enhanced its team, both from internal and external resources, to reflect the increased scale of its capital programme.</p>			

Competitive pressures




Risk	Mitigation	2013/14	2014/15	Direction
Reduced customer base, increased competition affecting prices or reduced demand for services.	<p>Viridor provides recycling and waste management services which are locally delivered services from locally managed facilities and a significant proportion of its revenue is contracted over the medium or long term. In general terms Viridor's strategy is to establish a sustainable competitive advantage in the business in which it operates; this is designed to protect long-term shareholder returns.</p> <p>With regard to major competitive projects being pursued there are barriers to entry due to planning permissions being difficult to obtain and significant investment requirements. Viridor believes there is competitive shake-out taking place among marginal competitors which will, in due course, benefit Viridor.</p>			
Potential overcapacity in the UK ERF market could impact demand for Viridor's new plants.	Viridor has fully evaluated projected demand and competing capacity for each of its planned facilities and is confident that they can be filled profitably. As landfill tax reached £82.60 per tonne in April 2015, Viridor's large-scale ERFs will remain one of the low-cost ways of disposing of residual waste.			
Overcapacity in parts of Europe could impact the UK ERF market. UK waste could be converted into solid recovered fuel (SRF) or refuse derived fuel (RDF) and exported under Environment Agency licence for disposal in Europe.	The costs of producing SRF and RDF to the required quality and of shipping it to Europe are broadly at the cost of landfill tax. Disposal and generation of the associated renewable energy in ERFs in the UK is generally lower cost (and better for the UK economy). Despite the availability of export, Viridor is successfully winning new contracts for its ERFs. Nevertheless, amounts of SRF and RDF may continue to be exported, especially if UK ERF capacity remains insufficient.			

Business systems




Risk	Mitigation	2013/14	2014/15	Direction
Some of Viridor's IT systems require replacement, development or upgrading to meet the growing requirements of the business.	Project Enterprise, charged with developing a fully scalable Enterprise Resource Planning (ERP) type platform, is now well advanced and involves external consultancy as required, with a focus on best practice and minimising implementation risk.			

Group

Law and regulation, finance and funding

Risk	Mitigation	2013/14	2014/15	Direction
The Group may be unable to raise sufficient funds to finance its activities or such funds may be only available at higher cost.	<p>The Company has robust treasury policies in place.</p> <p>The Group had £1.7 billion of cash and facilities as at 31 March 2015 including £830 million of new and refinanced facilities sourced during the year. Policies include always having pre-funded at least one year's estimated cash flow through cash and/or committed facilities and ensuring no more than 20% of net borrowings mature in any one year.</p> <p>In addition, in respect of South West Water the economic regulator has a statutory duty to ensure that the company is able to finance its functions in the normal course of business.</p> <p>The Group has to date obtained funding at lower effective average interest rates compared with many other companies in its sector and is well placed to meet the funding requirements of both South West Water and Viridor in the foreseeable future.</p>			
Unfavourable outcome from Competition and Markets Authority (CMA) review of our acquisition of Bournemouth Water.	Robust case being made to CMA setting out anticipated net benefits for customers from the merger.	The acquisition of Bournemouth Water was post year-end.		

Pensions

Risk	Mitigation	2013/14	2014/15	Direction
Pension costs may increase due to higher costs for future service and growing deficits in relation to past service in the defined benefit schemes.	<p>All defined benefit schemes (apart from the Greater Manchester Waste PFI scheme) have been closed to new entrants since April 2008.</p> <p>During 2014/15 the Group reviewed the long-term sustainability of its main defined benefit pension scheme and agreed changes in benefits that reduce the cost of future accrual.</p> <p>Employee and employer contributions are kept under review, and a formal actuarial valuation as at 31 March 2013 was concluded during the period. Pension trustees keep investment policies under review and use professional investment advisers to seek to maximise investment returns at an appropriate level of risk.</p>			

Forward-looking statements

This strategic report, consisting of pages 4 to 51, contains forward-looking statements regarding the financial position; results of operations; cash flows; dividends; financing plans; business strategies; operating efficiencies; capital and other expenditures; competitive positions; growth opportunities; plans and objectives of management; and other matters. These forward-looking statements including, without limitation, those relating to the future business prospects, revenues, working capital, liquidity, capital needs, interest costs and income in relation to Pennon Group and its

subsidiaries, wherever they occur in this strategic report, are necessarily based on assumptions reflecting the views of Pennon Group and its subsidiary companies, as appropriate.

They involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Such forward-looking statements should, therefore, be considered in the light of relevant factors, including those set out in this section on principal risks and uncertainties.

Customer and stakeholder satisfaction

We aim:

- to engage with all stakeholders and foster good relationships with them
- to be a good neighbour, and consult with our stakeholders in order to understand and respond to their priorities.

South West Water

From the efforts made to reduce the impact of construction or roadworks on local communities to the steps taken to provide information in a proactive and easily understandable way, South West Water strives to improve the relationships it has with its customers and stakeholders. Progress made in the 'Pure Service' pillar of the company's strategy is covered in the Chief Executive's review, on page 17. Of particular note is the significant increase in the company's customer satisfaction score, a result of operational improvements and a focus on improving the customer experience.

South West Water continues to build relationships with local communities through a number of affordability-focused initiatives delivered alongside local councils, housing associations, voluntary organisations and carers' associations. In specific areas of economic deprivation, community engagement events and face-to-face activities are used to provide a platform for engaging with hard-to-reach or vulnerable customers. This helps to ensure they are receiving the right advice and support on issues such as water efficiency, overdue payments and benefits entitlement.

Viridor

Viridor provides high quality recycling, recovery and waste management services to over 100 local authorities and over 32,000 customers across all sectors throughout the UK. An increasing proportion of our customers continue to seek a 'zero waste to landfill' service and to maximise waste reduction, recycling and recovery from their own waste in a cost effective manner. The company looks to form close partnerships with its clients and continuously improve its services to meet their aspirations.

Viridor's customers want assurance of a reliable and quality service, financial integrity and high standards of compliance. Increasingly they require both detailed auditing and reporting of resource and carbon management practices and a commitment to ongoing improvement and engagement as part of their own supply chains. Viridor is pleased to be able to continue to offer a progressive and collaborative approach to service and sustainability in these challenging times.

Viridor's achievement of a three star rank in Business in the Community's annual benchmark of responsible business, the Corporate Responsibility Index (see page 45), marks a further milestone in its drive towards productive and sustainable partnerships with community stakeholders.

REGULATORS AND POLICYMAKERS

BOTH SOUTH WEST WATER AND VIRIDOR ENGAGE ACTIVELY WITH ENVIRONMENTAL AND REGULATORY STAKEHOLDERS AND TRADE ASSOCIATION BODIES. FURTHER INFORMATION CAN BE FOUND IN THE RESPECTIVE STRATEGIC REVIEWS OF THE SOUTH WEST WATER AND VIRIDOR CHIEF EXECUTIVES ON PAGES 19 AND 27.

Sustainability – environmental, economic and social

We aim to ensure that all our business activities have a positive economic, social and environmental impact on the communities in which we operate

Pennon Group recognises it has a responsibility to contribute positively towards communities affected by its operations.

In addition to investing in high quality water, waste water and resource recovery services, we create local employment, use local suppliers, provide financial support to community projects and protect and enhance the environment.

Pennon's subsidiaries support communities and charities within their operational areas. In 2014/15 South West Water provided more than £106,000 in community sponsorship and charitable donations. Surf Lifesaving GB, Cornwall Wildlife Trust, Devon Wildlife Trust, Cornwall Heritage Trust and the South West Coast Path Association were among the organisations to receive funding for various community-focused projects and initiatives.

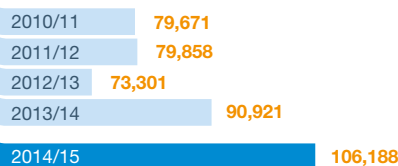
Viridor distributed £12.8 million of funding in total to environmental, amenity and community projects across the UK, of which £12.6 million was distributed via the Landfill Communities Fund and the remainder by way of sponsorship and charitable donations.

In addition, Pennon, South West Water and Viridor employees fundraise for their preferred charities including WaterAid and the Children's Air Ambulance.



South West Water

Community support, sponsorship and donations (£)



Viridor

Community support, sponsorship and donations* (£m)



* Including amounts distributed by the Landfill Communities Fund

Sustainability – environmental, economic and social Continued



Environmental impact

South West Water

From sustainable abstraction and award-winning catchment management schemes to the investments made in wastewater treatment and the steps taken to reduce carbon emissions, South West Water plays a critical role in protecting and enhancing the region's natural environment.

The company's 'source to sea' approach to the management of water and wastewater favours innovation, the use of sustainable solutions and an emphasis on partnership working to deliver positive outcomes for the region's ecosystems and habitats.

As one of the three pillars of South West Water's strategy, an overview of the company's 'Pure Environment' vision is covered in the Chief Executive's strategic review, on page 18. This section of the report includes information on progress made with Upstream Thinking, the company's catchment and water storage programme; bathing water quality; pollution prevention; and wastewater treatment standards.

Viridor

Viridor's stated strategic purpose is to give resources new life and its business strategy clearly focuses on transforming waste into quality recycled materials and into essential renewable energy. This is aligned with key long-term UK and global trends (in policy, business and customer demand) towards greater resource efficiency, energy security and associated environmental benefits.

Recognising the importance of stewardship, since 2008 Viridor has also sought to restore and manage its substantial landholdings (notably at closed landfill sites) in accordance with the Wildlife Trusts' Biodiversity Benchmark Scheme (BBS).

The BBS provides a framework within which an organisation can ensure that its impact is as positive as it possibly can be by providing robust, independent verification of planning and implementation of land management practices. The benchmark is a standard for assessing and certifying an organisation's systems for achieving continual biodiversity protection and enhancement on its landholdings and the implementation of those systems.

By the end of 2014 Viridor had a total of six sites that had achieved and retained the Biodiversity Benchmark. These include sites of notable habitat importance such as two heathland restorations (Tatchells and Warmwell in Dorset) and a grassland restoration (Beddingham in Sussex).

Viridor currently has the fourth highest number of BBS sites in the UK and is the leading company in its sector for BBS certifications. It has set itself a target of achieving three further accreditations, in line with its five year biodiversity plan.





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Economic impact

South West Water

Through the services it provides, the people it employs and the suppliers it commissions, South West Water plays a large and vital role in the regional economy.

The company has around 1,400 employees, including engineers, scientists, customer service advisers, office staff and other skilled workers. It also supports a further 6,000 jobs in the wider economy through the use of contractors and other third party labour and support services.

With around eight million visitors to the region annually, tourism is a significant industry which relies on a safe and healthy environment. The company is committed to delivering improvements to reduce its environmental impact, and this year has focused on delivering bathing water improvements ahead of new standards in 2015.

South West Water continues to operate a 'mixed economy' supply chain model that uses smaller specialist companies alongside larger strategic partners. A culture of innovation and sharing of best practice is encouraged, not least through the company's supplier forum and annual supplier awards.

South West Water provides dedicated and essential services to the region's 74,000 business and other non-household customers and therefore has a crucial role to play in the success of the local economy. This is underpinned by a focus on helping individual customers make the best use of the water they pay for, ensuring they receive a level of service tailored to their needs and maintaining a reliable service with minimal disruption. The company's economic impact is set to expand with the opening of the non-household retail market in 2017, which will present opportunities for growth outside the South West.

Viridor

Viridor's committed investment programme totalling £1.5 billion in energy recovery and materials recycling facilities included £242 million of capital investment in growth projects in 2014/15. During the year £217 million was invested in vital energy recovery infrastructure and £25 million was invested in leading-edge glass and plastics recycling facilities at Newhouse and Rochester.

These projects continue to create significant direct and indirect employment and training opportunities, including construction jobs and supply chain opportunities. As projects move from construction into operational phases, long-term relationships are built with local companies supplying services and contracts, which benefit the local economy.

As an example, businesses in and around Glasgow have already accessed £16 million in contracts and are set to benefit from £9 million more due to the construction of Viridor's Glasgow Recycling and Renewable Energy Centre (GRREC) in Polmadie. Small and medium-sized enterprises (SMEs) and social enterprises are being encouraged to take advantage of the opportunities on offer via a series of business breakfasts and capacity building sessions in the local community. The GRREC facility, incorporating recycling, anaerobic digestion and gasification technology, is due to be completed in 2016.



Sustainability – environmental, economic and social Continued

Social impact

South West Water

South West Water aims to have a positive impact on the people and communities it serves.

In addition to the social benefits that stem from its operational and service improvements, the company prides itself on being a good neighbour and conducting itself in a socially responsible way. This includes support for recreation and leisure activities at its reservoirs (through the South West Lakes Trust, an independent charity); the provision of opportunities for members of the public to visit operational sites; and support for education by providing educational content, work experience opportunities and talks for various schools, colleges and higher education centres around the region.

The company sponsored Keep Britain Tidy's Beach Care project and employees were also encouraged to participate in a series of volunteer days which included beach cleans and support work at the CHICKS retreat on Dartmoor, which provides respite breaks for disadvantaged children.

Through its speaker network, South West Water provided 28 presentations to schools and 11 talks to various community groups and organisations. Over 200 customers were given a chance to explore behind the scenes at Brokenbury Waste Water Treatment Works in Brixham, Pynes Water Treatment Works in Exeter and Roadford Dam as part of the national Heritage Open Days initiative. South West Water's 'customer caravan' also attended a variety of events such as county shows and festivals, offering a one-stop shop for customer advice and support.

South West Water recognises that some customers struggle to pay their bills. The company offers a range of advice and support services and was among the first to roll out a social tariff to support the most vulnerable customers. Further information on affordability can be found on page 17.





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Viridor

A new community strategy has been adopted setting out Viridor's commitment to delivering lasting community benefit and to meeting community priorities in service areas. The strategy has been developed following consultation with its community stakeholders and therefore reflects the views and priorities of the communities in which Viridor operates, and of which it is part. Clear progress was recognised with the award of a three star ranking in Business in the Community's 2015 Corporate Responsibility (CR) Index. This is a rigorous and robust benchmarking tool which has helped hundreds of companies measure and manage the progress they are making to integrate responsible business practice into their mainstream business at all levels.

For Viridor, the award marks a further milestone in its drive towards sustainability. The three star ranking (two stars in 2013/14) also recognises the company's significant progress in a broad range of key areas including procurement, partnerships, people, health, safety, energy, and environmental management.

Feedback indicates that community stakeholders' priorities and expectations of Viridor are broadly in areas of employment, training and apprenticeships; community funding; youth opportunities (including education and sport); and reducing the risk of potential local impacts from Viridor operations such as traffic, noise and odour.

Among its strategic community objectives, Viridor commits to be a good neighbour at all of its operational facilities through the maintenance of quality operations and services, and via high levels of compliance and community engagement. It aims to apply similar principles and standards of customer care to community stakeholders as it does for its customers.

The company will continue to offer and utilise its education programmes and activities for maximum community benefit and engagement. This will include ensuring community access, quality, consistency and the sharing of best practice throughout the Viridor visitor centres and educational activities. This commitment is demonstrated at new interactive centres at its Energy Recovery Facilities (ERFs) in Cardiff and Ardley, and via its Go4SET flagship educational partnership with the Engineering Development Trust in Scotland.

Viridor also offers structured and transparent programmes of community investment, linked to the company's core business. Such activities include an annually reviewed programme of targeted charitable giving and sponsorship, and employee volunteering opportunities.

Viridor's achievement of a three star ranking in Business in the Community's CR Index recognises strong company progress in relation to the business considering social and environmental issues when making strategic decisions such as investments, research and development, selection of business partners and addressing the priorities of the communities in which Viridor operates. Moreover, Viridor was recognised for moves to link executive directors' and senior managers' remuneration and bonuses to CR objectives and targets, and for providing relevant CR training for employees, senior managers and board members.



VIRIDOR STREET TREES, MANCHESTER

Viridor Street Trees is Viridor's flagship sponsorship project in its Northern region. As part of the partnership with the environmental charity Red Rose Forest, launched in 2011, Viridor seeks to reward its key recycling customers in Greater Manchester and the North West by helping them to give something back to their local communities.

The partnership also supports the Government's national tree planting campaign, The Big Tree Plant, which saw one million trees being planted in the UK over the past five years. Individual trees between three and eight metres tall are planted on residential streets, with a plaque or marker to recognise the support of Viridor, Red Rose Forest and the recycling customer. Where practicable, these projects are undertaken in the vicinity of the recycling customer's business activities, maximising awareness for Viridor and its customer.

Sustainability – environmental, economic and social Continued

We aspire to leadership in minimising emissions that contribute to climate change and we develop climate change adaption strategies

Pennon Group Plc greenhouse gas emissions (tCO₂e)⁽¹⁾

	2014/15	2013/14
Scope 1	1,105,242	1,069,257
Scope 2	148,917	136,536
Scope 3	56,966	55,691
Total gross emissions	1,311,125	1,261,484
Green tariff electricity offset	(1,018)	0
Exported renewable energy reduction (up to total amount of electricity purchased and consumed by organisation)	(147,899)	(136,536)
Total annual net emissions	1,162,208	1,124,948
Biogenic emissions outside of scopes	1,214,455	1,089,605
Intensity measure: tCO₂e (gross scope 1+2)/ £100,000 revenue	92 tCO ₂ e/£100,000 revenue	91 tCO ₂ e/£100,000 revenue

Scope 1 (direct emissions) Activities owned or controlled by our organisation that release emissions straight into the atmosphere, for example the combustion of fuels in company owned and controlled stationary equipment and transportation, emissions from site based processes and site based fugitive emissions.

Scope 2 (indirect emissions) Emissions released into the atmosphere associated with our consumption of purchased electricity, heat, steam and cooling. These are indirect emissions that are a consequence of our activities but which occur at sources we do not own or control.

Scope 3 (other indirect emissions) Emissions that are a consequence of our actions, which occur at sources that we do not own or control and that are not classed as Scope 2 emissions.

Notes

Change in emissions

Our overall net emissions increased by 3.3% between 2013/14 and 2014/15, largely as a result of the addition of Viridor's new Energy Recovery Facilities that became fully operational during the course of the year. We also calculated a marginal increase in our emissions intensity measure of tCO₂e/£100,000 revenue as a result of the Group's emissions growing at a faster rate than its revenue.

Methodology and approach

We have modified the methodology we use for calculating our emissions for 2014/15 by adopting the 'equity share' approach for Viridor companies. Under the Environmental Reporting Guidelines published by the Department for Environment and Rural Affairs in June 2013, the 'equity share' method reflects the extent of the rights a company has to the risks and rewards from an operation based on its equity interest. For Viridor, this means that emissions from joint venture operations can be accurately attributed to the company in proportion to the percentage of Viridor's equity holding. The remaining companies within the Group continue to use the 'financial control' approach. This is the conventional method for parent companies and subsidiaries within a group that have the ability to direct financial and operating policies and retain the majority of the organisation's risk and rewards.

In order to maintain comparability between reporting years, we have rebased our 2013/14 reportable emissions to reflect the equity share methodology for Viridor.

Quantification and reporting

We have followed the Government's environmental reporting guidelines for mandatory greenhouse gas emissions reporting published by DEFRA in June 2013. In calculating our emissions we have used the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (revised edition) and the web based conversion factors provided by DEFRA.

Organisational boundary

As explained above, the emissions listed here cover the Pennon Group of companies using the financial control approach, with the exception of Viridor, which uses the equity share approach.

Operational scopes

We have measured our Scope 1 and 2 emissions and certain Scope 3 emissions where information is available.

Intensity measurement

We have chosen an intensity measure of Scope 1 and 2 gross emissions in tCO₂e per £100,000 revenue.

External assurance statement

Our greenhouse gas emissions data has been independently verified by Strategic Management Consultants who tested the assumptions, methods and procedures that are followed in the development of the reported data and audited that data to ensure accuracy and consistency.

Carbon offsets

We rely on self-generated renewable energy to reduce our overall Scope 2 emissions. We supplement this with power purchase contracts from third party renewable energy suppliers through private wire arrangements where opportunities exist near our sites.

Renewable energy export

Pennon Group self-generates more electricity than it uses and much of its renewable electricity generation is exported to the grid. We account for this exported renewable electricity in our net emissions measure where we subtract 'emissions credits' up to the limit of our gross volume of Scope 2 emissions.

⁽¹⁾ Tonnes of carbon dioxide equivalent.



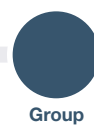
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South West Water continues to focus on reducing its carbon emissions through a combination of asset optimisation, renewable energy generation and energy-saving initiatives.

Overall energy use for 2014/15 at 260.68 GWh was marginally lower than the previous year (2013/14 264.5 GWh) despite the drier than average summer in 2014 which increased the need for energy-intensive water pumping. Although South West Water recorded a reduction in its energy usage, the company's carbon emissions rose between 2013/14 and 2014/15. This was largely as a result of an increase in the Government's electricity grid average emissions conversion factor which is used to calculate emissions from electricity usage.

Renewable energy usage during 2014/15 was 18.5 GWh, an improvement on the company's output from the previous year (2013/14 17.4 GWh). A number of renewable energy installations were taken offline for essential maintenance during 2014/15. The improvements made to these sites, along with investment in new installations, means the company is now able to generate 25 GWh – around 10% of its annual energy needs.

Furthermore, South West Water is building links with a number of third party renewable energy providers in order to increase the proportion of energy it draws from renewable sources.

Viridor

Viridor's 2020 goal is to reduce its carbon footprint by 35% from a 2013 baseline. This is particularly challenging for the company as it continues with a programme of wind-down and aftercare in the operating landfill business while bringing a fleet of ERFs into operation. Recycling facilities are also energy intensive.

The increase in emissions between 2013/14 and 2014/15 is primarily as a result of the addition of new ERFs that became fully operational during 2014/15. Emissions from Viridor's landfill operations decreased between 2013/14 and 2014/15.

Key trends in Viridor's operational carbon footprint include:

- **recycling and energy consumption** – the company's aspiration is to become 20% more efficient than its 2013 baseline in terms of the fossil fuel-based energy used, and Viridor continues to lead the sector in the implementation of the ISO 50001 Energy Management Standard. As Viridor continues to invest in recycling technology, its energy consumption, mainly electricity, has continued to grow. Although energy intensive for Viridor, the displacement of virgin materials in manufacturing supply chains with recycled material contributes to significant reductions in embodied carbon across product lifecycles (although of course outside reporting scopes)
- **transport emissions (road and rail)** – these continue to be reduced through fleet management activities and greater use of rail movements where possible
- **landfill** – the largest contribution to Viridor's carbon footprint, these continue to decline as inputs reduce, biodegradable waste is diverted and sites close
- **energy generation (ERF and anaerobic digestion)** – although biogenic emissions (over 60% of ERF inputs) are out of scope, with an increasing fleet of ERFs this will continue to become a more significant proportion of the company's carbon footprint. Measured using tCO₂e per tonne of waste input, ERF treatment delivers a step-change improvement over landfill in the long term.



Sustainability – environmental, economic and social Continued

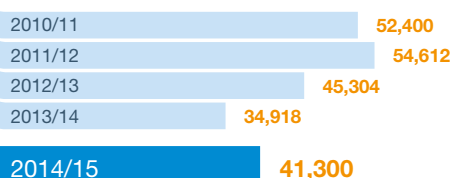
We aspire to leadership in all aspects of waste prevention and resource efficiency

Renewable energy generation (GWh)

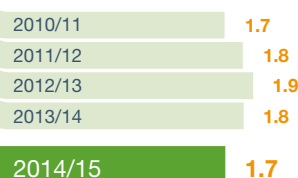
	Viridor	South West Water
2010/11	752	13.8
2011/12	760	14.7
2012/13	820	19.3
2013/14	778	17.4
2014/15	933	18.5

Pennon is delivering solutions for society to address the environmental challenge of depleting natural resources by maximising the value of residual materials, transforming waste and improving energy efficiency.

South West Water recycling volumes (tonnes of dry solids)



Viridor recycling volumes traded (million tonnes)



South West Water

Resource efficiency is critical to the success of South West Water's operations. First and foremost, the company does everything it can to make the best use of the raw water it treats and then distributes. The company's achievements in this area, which include 18 consecutive years without water restrictions, are covered in the Chief Executive's strategic review on page 16.

Where appropriate, the company favours the use of innovation and new technologies to deliver an efficient use of resources. This spans everything from the implementation of remote technologies to better manage assets and employees to the adoption of low-cost sustainable techniques in areas such as urban wastewater management (Downstream Thinking). The company's K6 investment programme includes a new water treatment works for Plymouth and its surrounding area, which will use less energy and chemicals than its traditional counterparts. This will be achieved through the use of cutting edge treatment technologies that were piloted during K5.

There are inevitable by-products of South West Water's operations and the company does its best to recycle and reuse where this is feasible. Sludge is recycled for use as fertiliser on agricultural land. Strict regulations on this practice continue to be adhered to. South West Water also works with its contractors to ensure that any waste materials from construction work are recycled or disposed of in a responsible way.

Viridor

Viridor works closely with its clients and with communities to help educate and inform residents and businesses about waste prevention and best practice in recycling and resource efficiency.

In Greater Manchester, an updated communications plan for 2015-2018 has been developed to drive behavioural change and increase recycling. The communications plan will be focused strongly on campaigns, education programmes and online support communications to enable waste prevention and higher levels of recycling in targeted residential areas. These activities are all based on auditable, tested and proven techniques, including extensive EU-funded activities conducted between Viridor and its partner local authorities that have further established best practice in this area. The programme includes the ongoing and award-winning 'Right Stuff, Right Bin' campaign.

In Somerset, Viridor has closely supported The Somerset Waste Partnership's ongoing waste awareness campaigns, aimed at raising participation and quality levels in recycling schemes. This has included a widely recognised incentive scheme to encourage people to bring waste electrical and electronic equipment (WEEE) items to Household Waste Recycling Centres (HWRCs), and has also included establishing an award-winning and successful reuse shop at Priorswood HWRC. This programme continues to be supported and augmented by the Carymoor Environmental Education Centre (of which Viridor is the major sponsor), which delivers a model of excellence for environmental and waste awareness programmes for schools and community groups.

With regard to Viridor's own waste awareness, prevention and recycling programme, recycling systems have been established at 21 of its biggest sites. Roll-out to further sites will begin later in 2015.



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Energy efficiency at Pennon Group

The Group has large energy requirements so energy efficiency plays a key role in reducing costs.

In addition to its large-scale energy business, Viridor is keen to promote energy efficiency internally and last year invested in a low-energy lighting solution. This has slashed energy consumption from illumination across 26 sites. As well as saving money, boosting light quality and reducing maintenance requirements, Viridor's investment in new LED lighting has further advanced its overall commitment to improving resource efficiency and will be paid back within just two years. Moreover, the company is planning a second phase of the project to install further low energy lighting across 10 of its sites in Manchester.

Renewable energy generation by South West Water, primarily for its own use, continues to grow through a combination of wind, hydro, solar and combined heat and power. 20% of the power needs for Restormel water treatment works (the largest water treatment works in Cornwall) were met using renewable energy during 2014/15. In-house energy-saving initiatives and the promotion of energy efficiency in the workplace also play their part. Like Viridor, South West Water is moving to LED lighting, with installation at the company's headquarters due for completion in the coming year.



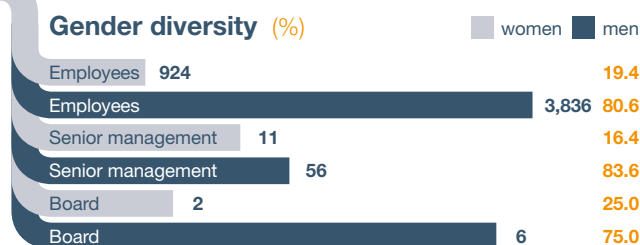
Employee well-being and engagement

We aim to develop and motivate our employees, treat them fairly and ensure that they are fully engaged in all aspects of the Pennon Group's objectives

Pennon's success is fundamentally down to its employees. We seek to recruit talented and committed people and we provide training packages to equip them with the skills they need to deliver the Group's objectives.

The strategies of South West Water and Viridor are designed to attract, nurture and retain a high calibre workforce. The companies have set out a clear commitment to training and development, employee engagement, human rights, equality and diversity, and ongoing support through a range of workplace policies. These include policies covering health and safety, equal opportunities, ethics, employee relations and family-friendly practices such as flexible working and parental leave, and schemes designed to promote the health and well-being of employees. The Group's commitment to ensuring the human rights of its employees are not infringed extends to those of its suppliers. Supplier codes of conduct are in place to ensure that people are treated fairly and with respect and dignity. Further information is provided on pages 19 and 27.

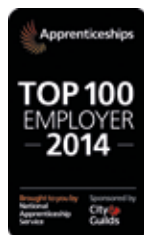
As at 31 March 2015, the gender breakdown of the Group's workforce was as follows:



Employee engagement surveys were carried out across the Group during the year, with responses demonstrating positive levels of engagement in many areas within the Group. Action plans covering areas that scored less well are being progressed.

South West Water and Viridor have each played a key role in establishing educational facilities and courses designed to provide a pipeline of talented prospective employees, and both run successful apprenticeship schemes. In total, 29 new apprenticeships have been created within the Group.

In 2014 South West Water was recognised in the prestigious Top 100 Apprenticeship Employers list which is compiled annually by the National Apprenticeship Service.

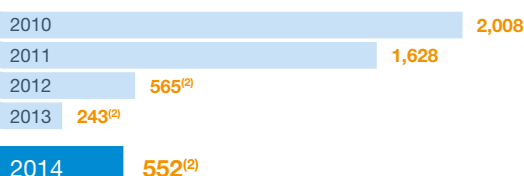


Further information on South West Water's and Viridor's people strategies and achievements during the year can be found on pages 18 and 27.

We strive for the highest standards of health and safety in the workplace so as to minimise accidents, incidents and lost time

The Group remains committed to achieving and maintaining improvements in health, safety and well-being. Both South West Water and Viridor continue to make good progress in embedding health and safety within each organisation's culture.

South West Water RIDDOR⁽¹⁾ incidence rate per 100,000 employees



Actual number of incidents was 7 (3 in 2013)

South West Water

The health and safety of employees is paramount and South West Water continually reviews its policies and processes in order to minimise the number of incidents. During 2014/15 a major review of operational sites was undertaken to risk assess our activities and identify and prevent any potential hazards.

The company's accident frequency rate (measured per 100,000 man hours) has been successfully reduced over the past 12 months. However there were seven reportable incidents during the year, which is above the company's target threshold.

Work continues to reduce the likelihood and severity of any incident, and the company remains focused on developing a proactive health and safety culture. This includes in-house initiatives such as TAP ('Think, Act, Prevent') and SEC ('Safety, Environment, Customer'). Furthermore, South West Water is enhancing its health and safety management systems to ensure the company is operating in line with externally accredited standards of best practice at all times.

South West Water continues to promote its health and safety strategy through a steering group comprising a cross section of directors, managers and employee representatives who are tasked with driving health and safety improvements across the business.

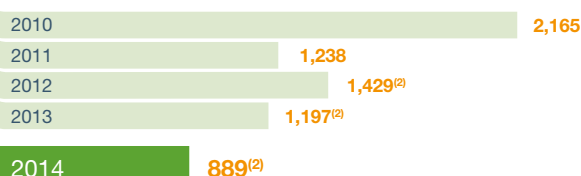
Bournemouth Water was acquired post year-end. Its approach to conservation and the environment is set out on their website, www.bournemouthwater.co.uk.

This strategic report consisting of pages 4 to 51 was approved by the Board on 22 June 2015.

By Order of the Board

Kenneth Woodier
Group Company Secretary
22 June 2015

Viridor RIDDOR⁽¹⁾ incidence rate per 100,000 employees



Actual number of incidents was 28 (37 in 2013)

Viridor

Viridor has set the goal of making a step change in its health and safety performance and in the way it manages health, safety and welfare throughout the business. The aim is to create and maintain a 'zero incidents' culture at all sites and facilities.

Viridor's 'Stop & Think' campaign is at the heart of its drive to improve behavioural safety and bring down accident rates.

Clear, high profile signage on site is but one of the elements to help drive positive change. The 'Stop & Think' concept applies to all users of Viridor's sites, not only employees. Health and safety compliant systems, policies and procedures are augmented by continual training, toolbox talks and briefings, and are overseen by qualified and experienced health and safety advisers.

Other practical improvements such as new guards being added to Viridor's London collection vehicles to improve cyclist safety, and high profile roles for the company's Representatives of Employee Safety (RESSs), are being implemented wherever identified.



⁽¹⁾ Reporting of Injuries, Diseases and Dangerous Occurrences Regulations

⁽²⁾ Since 2012 reportable incidents have been reported on seven days' absence; in previous years they were reported on three days' absence.

Governance and remuneration

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Chairman's letter to shareholders



Dear Shareholder

I am pleased to introduce my final corporate governance report on behalf of the Board, covering Pennon Group's 2014/15 financial year.

As explained on pages 10 and 11 strong governance is one of the core areas through which we create shareholder value and build and maintain a sustainable business. Part of the role of the Chairman and the Board is to ensure that Pennon Group operates to the highest standards of corporate governance. This will continue to be a priority for the Board when Sir John Parker takes on the role of Chairman following the 2015 Annual General Meeting.

The Annual Report continues to be the principal method of reporting to our shareholders on the Board's governance policies and the practical application of the principles of good corporate governance set out in the UK Corporate Governance Code (the UK Code). The UK Code is published on the Financial Reporting Council website, **www.frc.org.uk**. In accordance with the FRC's requirements, we have reported against the September 2012 version of the Code.

Chairman's letter to shareholders

Continued

Role of the Board and its effectiveness

My primary role as Chairman has been to provide leadership to the Board and to provide the right environment to enable the Directors and the Board as a whole to perform effectively to promote the success of the Company for the benefit of its shareholders. In doing so we take account of the interests of our customers, employees, suppliers, the communities in which we operate and other interested stakeholders including, in particular, Ofwat, the Drinking Water Inspectorate and the regulatory bodies responsible for the environment in the UK.

I believe we continue to demonstrate that we have good governance in place and that we operate effectively and cohesively as a Board. Each year a detailed performance evaluation is carried out of the Board and each of the Committees as well as of the Directors and the Group General Counsel & Company Secretary. The aim is to identify further areas for improvement and ensure that our knowledge, skills and methods remain relevant as the Group's businesses develop and grow. Further details of the review, which was facilitated by an external governance consultancy, are set out later in this report.

It remains vital that all Board members continue to have appropriate up to date knowledge and understanding of both South West Water, as it enters into a new regulatory period following Ofwat's Final Determination in December 2014, confirming the award of 'enhanced' status for the 2015-2020 business plan; and Viridor, as it implements its strategic reorientation around its 'Energy' and 'Recycling & Resources' businesses.

Accordingly I have ensured that the Board has received presentations in the past year from senior management on, among other matters, the strategy for delivery of South West Water's business plan for the next regulatory period and, in respect of Viridor, developments in the recycling sector and progress in the construction and operational performance of its portfolio of Energy Recovery Facilities.

Governance and subsidiary boards

During the year South West Water and Viridor continued to operate under the enhanced governance frameworks that were put in place during 2013/14. For South West Water, this demonstrates our continued support for Ofwat's board leadership, transparency and governance principles which were published in January 2014. Our corporate governance framework, including that of our subsidiaries, is set out on page 58 of this governance report.

Governance and corporate reporting

Last year we revised our approach to governance and corporate reporting in accordance with the requirements of the UK Code and the new reporting regulations that had come into effect. We have broadly maintained the same methodology this year but within those parameters have sought to move to a more integrated approach to corporate reporting, to present a holistic view of the business and to better reflect that sustainability is core to Pennon's strategy, business model and the creation of value. As such, there is no separate sustainability report this year but rather the structure and content of the strategic report as a whole is derived from the strategic priorities through which the Group, via its two businesses, creates shareholder value. These are set out on page 11.

Bournemouth Water

Following our acquisition of Bournemouth Water we are in discussion with the Competition and Markets Authority regarding ongoing governance and reporting in respect of Bournemouth Water's business.

Shareholder engagement

Appropriate and regular communication with our shareholders is recognised by the Board as vital to ensuring that we are able to explain our actions and that shareholders provide feedback on the matters they consider to be important and any issues which require addressing.

Regular dialogue with the Company's institutional shareholders is maintained through a comprehensive investor relations programme. During the year some 80 meetings and conference calls were held with institutional shareholders and prospective shareholders. All were attended by the Group Director of Finance and the Company's Investor Relations Manager. The Chief Executive of South West Water, the Chief Executive of Viridor and I participated when appropriate.

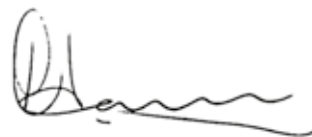
The Group Director of Finance continues to report to the Board regularly on major shareholders' views about the Group, and every six months the Company's brokers give a presentation to the Board on equity market developments and shareholder perceptions. This ensures that the Board is fully briefed on the views and aspirations of shareholders.

Those shareholders who attend our AGMs will know that I also actively encourage their participation and welcome questions on any business issues affecting the Group. As usual at our 2015 AGM on 30 July all our Directors intend to be present together with a number of directors and executives of South West Water and Viridor to meet with shareholders to further explain the business of the Group.

Compliance with the UK Corporate Governance Code and other requirements

I am once again pleased to report that throughout the year the Company complied with the provisions and applied the main principles set out in the UK Corporate Governance Code (the 2012 edition) with no exceptions to report.

My introduction to this corporate governance report and the following sections are made in compliance with the UK Code, FCA Listing Rule 9.8.6 and FCA Disclosure and Transparency Rules 7.1 and 7.2 and cover the work of our Board and its Committees, our internal control systems and procedures including risk management, our corporate governance statements relating to share capital and control, our confirmation of the Company as a going concern and Directors' responsibility statements. Finally, in accordance with reporting requirements, on page 95 the Board confirms to shareholders that the Annual Report and Accounts taken as a whole are fair, balanced and understandable and provide the information necessary to assess the Company's performance, business model and strategy.



Ken Harvey
Chairman

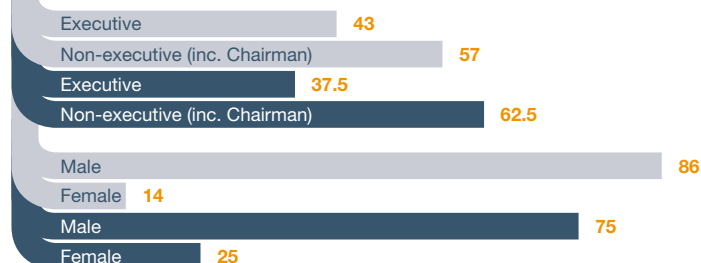
22 June 2015

Board of Directors

Composition*

(%)

■ 2014 ■ 2015

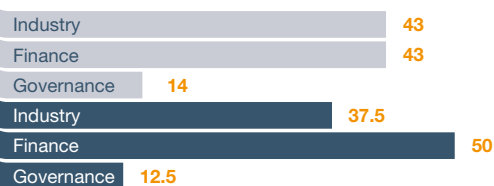


* As at 31 March

Experience*

(%)

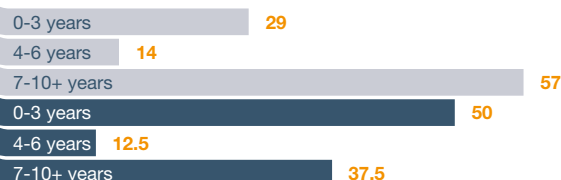
■ 2014 ■ 2015



Tenure*

(%)

■ 2014 ■ 2015



The Board considers each of its Non-executive Directors to be independent in accordance with the UK Corporate Governance Code.

The Board believes its Directors have an appropriate range of experience to oversee the business of the Group.

The Board's target to achieve 25% female representation was achieved early, before the year-end. During a period of transition on the Board, the female representation has fallen to 22% but will increase to 29% following the AGM.

Chairman and Deputy Chairman

Sir John Parker currently serves as Deputy Chairman and Chairman Designate pending the retirement of Ken Harvey following the 2015 AGM.



Kenneth George Harvey

CBE, BSc

Chairman

Appointed on 1 March 1997

Committees: Nomination (Chairman)

Ken was formerly chairman and chief executive of Norweb Plc. He was previously deputy chairman of London Electricity and earlier its engineering director. He has also been chairman of a number of limited and private equity funded companies. He was until July 2013 the senior independent director of National Grid Holdings Plc.

Ken is due to retire following the 2015 Annual General Meeting.



Sir John Parker

GBE, FREng, DSc (Eng), ScD (Hon), DSc (Hon), DUUniv (Hon), FRINA

Deputy Chairman (Non-executive)

Appointed on 1 April 2015

Committees: Nomination

Sir John is the chairman of Anglo American Plc. He is also a non-executive director of Carnival Corporation and Airbus Group and deputy chairman of DP World. Sir John is a Visiting Fellow of the University of Oxford and was president of the Royal Academy of Engineering from 2011 to 2014. He was previously the chairman of National Grid Plc, senior non-executive director and chair of the Court of the Bank of England, joint chair of Mondi and chair of BVT and P&O Plc.



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Non-executive Directors



Martin David Angle

BSc Hons, FCA, MCSI

Non-executive Director

Appointed on 1 December 2008
Committees: Audit,
Remuneration (Chairman),
Sustainability, Nomination

Martin currently holds non-executive directorships with Savills Plc, Shuaa Capital psc and The National Exhibition Group where he is chairman. In addition, he sits on the board of the FIA Foundation where he is vice-chairman. Formerly he had senior positions with Terra Firma Capital Partners and various of its portfolio companies, including the executive chairmanship of Waste Recycling Group Limited. Before that he was the group finance director of TI Group Plc and held a number of senior investment banking positions with SG Warburg & Co Ltd, Morgan Stanley and Dresdner Kleinwort Benson.



Gerard Dominic Connell

MA

Non-executive Director Senior Independent Director

Appointed on 1 October 2003
Committees: Audit, Sustainability,
Nomination, Remuneration

Gerard currently is also a non-executive director and chairman of the audit committee of the Defence Science and Technology Laboratory, a non-executive director of the Land Registry, an independent director of the Nuclear Decommissioning Fund Company Limited, a council member of the Science & Technology Facilities Council, and a non-executive director and chair of the audit committee at the Financial Ombudsman Service. Previously he was group finance director of Wincanton Plc, a director of Hill Samuel and a managing director of Bankers Trust.

Gerard is due to retire following the 2015 Annual General Meeting.



Neil Cooper

BSc Hons, FCMA

Non-executive Director

Appointed 1 September 2014
Committees: Audit (Chairman),
Sustainability, Nomination,
Remuneration

Neil is currently the group finance director of William Hill Plc (but is due to leave William Hill and become the chief financial officer of Barratt Developments Plc on a date yet to be determined). He was previously group finance director of Bovis Homes Group Plc and also held senior finance roles with Whitbread Plc, worked for PricewaterhouseCoopers as a management consultant and held a number of roles with Reckitt & Colman Plc.



Gill Rider

CB, PhD, FCIPD

Non-executive Director

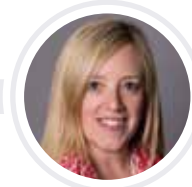
Appointed on 1 September 2012
Committees: Audit,
Remuneration, Sustainability
(Chairman), Nomination

Gill currently holds non-executive directorships with Charles Taylor Plc, the Chartered Institute of Personnel & Development where she is president and De La Rue Plc where she is chairman of the remuneration committee. She is also chair of the council of the University of Southampton. Formerly Gill was head of the Civil Service Capability Group in the Cabinet Office reporting to the Cabinet Secretary and prior to that held a number of senior positions with Accenture culminating in the post of chief leadership officer for the global firm.

Gill is due to become the Senior Independent Director after Gerard's retirement.

Group Company Secretary

Executive Directors



Susan Jane Davy

BSc Hons, ACA

Group Director of Finance

Appointed on 1 February 2015

Susan was previously finance and regulatory director of South West Water Limited, a position to which she was appointed in August 2007. Prior to joining Pennon Group she held a number of senior posts with Yorkshire Water including head of regulation and head of finance in their Waste Water Unit and was head of finance for Brey Utilities, a joint venture company owned by Yorkshire Water and Earthtech Engineering Limited. She is a council member of Water UK and a graduate qualified chartered accountant.



Christopher Loughlin

BSc Hons, MICE, CEng, MBA

Chief Executive, South West Water

Appointed on 1 August 2006
Committees: Sustainability

Chris was previously chief operating officer with Lloyds Register and earlier in his career was an executive director of British Nuclear Fuels Plc and executive chairman of Magnox Electric Plc. He was also a senior diplomat in the British Embassy, Tokyo. Chris started his career as a chartered engineer working in both the consulting and contracting sectors and subsequently held a number of senior positions with British Nuclear Fuels. Between April 2008 and March 2012 he was chairman of Water UK. Currently Chris is vice-chairman of the Cornwall Local Enterprise Partnership and a trustee and member of the audit committee of WaterAid. He is a board member (and past president) of the Institute of Water.



Ian James McAulay

BEng, CEng, MICE, MCIWEM

Chief Executive, Viridor

Appointed on 9 September 2013
Committees: Sustainability

Ian was previously chief of global strategy and corporate development with MWH Global based in the US. Previously he was the managing director, capital programmes, at United Utilities Plc. Ian started his career as a consulting civil engineer and held a number of positions with Crouch & Hogg in Glasgow and subsequently Montgomery Watson, which merged in 2001 with Harza to form MWH Global. He is a member of the board of the Environmental Services Association.



Kenneth David Woodier

Solicitor, CMA, DMS, CPE (Law)

Group General Counsel & Company Secretary

Appointed Company Secretary to the Board in March 1998

Ken was formerly the head of group legal services at Pennon Group Plc (then South West Water Plc) from February 1990. Previously he held senior legal positions with H.P. Bulmer (Holdings) Plc, Investors in Industry Plc (3i) and Severn Trent Water. He is a director of the Devon & Somerset Law Society and a member of its governance committee.

The Board and its governance framework

The Board and its governance framework, and that of its subsidiary boards, is set out below. Each board has a 'matters reserved' schedule setting out its responsibilities and each committee has a detailed terms of reference setting out its responsibilities, accountabilities and reporting obligations to each board and, in respect of the subsidiary board committees, how they operate in conjunction with the corresponding Pennon Committee. Further details of the responsibilities of the Pennon Group Board Committees are set out in the report of each Committee on pages 62 to 71. These, together with the risk management and internal control frameworks described on page 61, form an effective and robust governance structure designed to manage and develop the Group in accordance with the Group's strategy to maintain and grow shareholder value.



The Directors, their independence and duties

The Board of Directors at the end of the year comprised the Chairman, three Executive Directors and four Non-executive Directors. All of the Non-executive Directors were considered by the Board to be independent throughout the year. None of the relationships or circumstances set out in provision B.1.1 of the UK Corporate Governance Code (2012 edition) (the UK Code) applied to them other than in respect of Gerard Connell who, since the 2013 Annual General Meeting, has served on the Board for more than nine years since his first election. Neil Cooper was appointed by the Board as Gerard's successor on 1 September 2014. Following a suitable handover period in respect of the Audit Committee chairmanship in particular, Gerard Connell will retire from the Board following this year's Annual General Meeting. Throughout the year, Gerard was determined by the Board to be independent and the Board is satisfied that he does and will continue to demonstrate independence of character and judgement in the performance of his role on the Board until the date of his retirement.

Sir John Parker, who was appointed to the Board on 1 April 2015 as Deputy Chairman, will succeed Ken Harvey as Chairman following the 2015 Annual General Meeting. The Board considers that Sir John, as a Non-executive Director, is independent and that he will continue to meet the independence criteria set out in the UK Code upon his appointment as Chairman.

All of the Non-executive Directors are considered to have the appropriate skills, experience in their respective disciplines and personality to bring independent and objective judgement to the Board's deliberations. Their biographies on pages 56 and 57 demonstrate collectively a broad range of business, financial and other relevant experience. Gerard Connell is the Senior Independent Director and his duties include leading the annual evaluation of the performance of the Chairman by the Non-executive Directors and being available as an additional point of contact on the Board for shareholders. Gerard will be succeeded by Gill Rider as Senior Independent Director following his retirement.

Neil Cooper is chairman of the Audit Committee and in accordance with the UK Code and FCA Disclosure and Transparency Rule 7.1.1 he has recent and relevant financial experience (as set out in his biography on page 57). Martin Angle is also a member of the Audit Committee and he has relevant financial experience as set out in his biography on page 57.

There is a clear division of responsibilities between the roles of Chairman and the Chief Executives of South West Water and Viridor as recorded in the descriptions of the roles approved by the Board. All Directors are subject to re-election each year in accordance with provision B.7.1 of the UK Code.

Following the acquisition of Bournemouth Water, Chris Loughlin and Gerard Connell were appointed as non-executive directors on the Bournemouth Water board.

Operation of the Board in the year and its activities

The Directors and their attendance at the 10 scheduled meetings of the Board during 2014/15 are shown below:

Members	Appointment date	Attendance
Kenneth Harvey (Chairman)	March 1997	10/10
Non-executive Directors:		
Martin Angle	December 2008	10/10
Gerard Connell	October 2003	9/10
Neil Cooper	September 2014	6/6
Gill Rider	September 2012	10/10
Executive Directors:		
Susan Davy	February 2015	2/2
David Dupont*	March 2002	8/8
Christopher Loughlin	August 2006	10/10
Ian McAulay	September 2013	10/10

* David Dupont retired on 31 January 2015

All Directors are equally accountable for the proper stewardship of the Group's affairs with the Non-executive Directors having a particular responsibility for ensuring that strategies proposed for the development of the business are critically reviewed. The Non-executive Directors also critically examine the operational and financial performance of the Group and fulfil a key role in corporate accountability through their membership of the Committees of the Board. In addition the Chairman holds meetings with the Non-executive Directors, without the Executive Directors present, to discuss performance and strategic issues.

The Board and its governance framework

Continued

In accordance with the governance framework set out on page 58, the Board has a schedule of matters reserved for its decision, some of which may be escalated by the subsidiary boards of South West Water and Viridor for approval. The Board delegates more detailed consideration of certain matters to Board Committees, to the Executive Directors or to the Group General Counsel & Company Secretary, as appropriate. The matters reserved to the Board include:

- approval of the preliminary and half year results announcements;
- the approval of the Annual Report & Accounts (including the financial statements);
- all acquisitions and disposals;
- major items of capital expenditure;
- authority levels for other expenditure;
- risk management process and monitoring of risks;
- approval of the strategic plan and annual operating budgets;
- Group policies, procedures and delegations; and
- appointments to the Board and its Committees and to the subsidiary boards and their committees.

The Pennon Group Board and the boards of South West Water and Viridor liaise on strategic and operational matters. In addition the subsidiary board committees liaise with the Pennon Committees as appropriate to ensure a consistent Group-wide approach to governance matters.

The Board operates by receiving written reports circulated usually in advance of the meetings from the Executive Directors and the Group General Counsel & Company Secretary on matters within their respective business areas of the Group. When considered appropriate, the Board also receives presentations on key areas of the business and undertakes site visits to gain a better understanding of the operation of business initiatives.

Under the guidance of the Chairman all matters before the Board are discussed openly and presentations and advice are received frequently from other senior executives within the Group and from external advisers to facilitate the decision making of the Board.

Directors have access to the advice and services of the Group General Counsel & Company Secretary and the Board has an established procedure whereby directors, in order to fulfil their duties, may seek independent professional advice at the Company's expense.

Newly appointed Directors receive a formal induction which includes an explanation of the Group structure, regulatory and legal issues, the Group governance framework and policies, the Group's approach to risk management and its principal risks (financial and non-financial), duties and obligations (including protocols around conflicts of interest and dealing in shares), and the current activities of the Board and its Committees. The training needs of Directors are reviewed as part of the Board's performance evaluation process each year. Training consists of attendance at external courses organised by professional advisers and also internal presentations from senior management.

Performance evaluation

The Board has well developed internal procedures to evaluate the performance of the whole Board, each Committee, the Chairman, each individual Director and the Group General Counsel & Company Secretary. The evaluation of the performance of the Board and its Committees was administered by an external governance consultancy, Lintstock. All participants' views were sought via an online questionnaire on a range of questions which were designed by the Chairman and the Group General Counsel & Company Secretary in conjunction with Lintstock to ensure objective evaluation of performance. Responses were then analysed and summarised by Lintstock for the Board and each Committee to consider and determine possible improvement areas. Apart from providing services relating to subsidiary boards' and committees' and pension scheme boards' and committees' performance evaluation, Lintstock has no other connection with the Company.

The Board considered the evaluation which it believed was a thorough assessment of Board performance. Overall it was not considered that there were any major matters which required attention but it was recognised that at a time of transition for the Board it was important to focus further on strategy in conjunction with the new Chairman.

The areas for action that had been identified as a result of the 2014 performance evaluation (namely the allocation of more time for consideration of strategic matters, the appointment of an additional Non-executive Director, a review of induction arrangements for new Directors, and developing closer links with subsidiary boards) had been followed up appropriately during the year.

The Chairman's performance was evaluated separately by the Non-executive Directors, led by the Senior Independent Director.

Dealing with Directors' conflicts of interest

In accordance with the directors' interest provision of the Companies Act 2006 and the Company's Articles of Association, the Board has in place a procedure for the consideration and authorisation of Directors' conflicts or possible conflicts with the Company's interests.

Board Committees' terms of reference

In accordance with Group policies, a range of key matters are delegated to the Board's Committees as set out on pages 62 to 71 of this governance report.

The terms of reference of each of the Board's Committees are set out on the Company's website www.pennon-group.co.uk or available upon request to the Group Company Secretary.

Internal control

Wider aspects of internal control

The Board is responsible for maintaining the Group's system of internal control to safeguard shareholders' investment and the Group's assets and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that has been in place throughout 2014/15 and up to the date of the approval of this Annual Report and Accounts.

The Board confirms that it continues to apply procedures in accordance with the UK Code and the 'Guidance on Internal Control' (the Turnbull Guidance) which suggests means of applying the internal control provisions of the Code. As part of these procedures the Board has a Group risk management policy which provides for the identification of key risks including environmental, social and governance (ESG) risks in relation to the achievement of the business objectives of the Group, monitoring of such risks and annual evaluation of the overall process, as described in more detail below. The policy is applied by all business units within the Group in accordance with an annual timetable.

The Group's system of internal control is being further reviewed to take account of the FRC's new 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' (September 2014), which will be reported against in next year's Annual Report.

Risk identification and management

A full risk and control assessment is undertaken annually by the management of each business to identify financial and non-financial risks, including ESG risks, which are then regularly updated. Each business compiles (as part of regular management reports) an enhanced and focused assessment of key risks against corporate objectives. At each meeting the Board receives from the Executive Directors details of any new high-level risks identified and how they are to be managed, together with details of any changes to existing risks and their management. The subsidiary boards of South West Water and Viridor also receive similar reports in respect of their own areas of responsibility. In addition the Group Director of Finance is responsible for monitoring the Group risk register and for reporting on key risks and how they are managed at regular intervals to the Audit Committee and to the Board.

Under the Group risk management policy, all Executive Directors and senior managers are required to certify on an annual basis that they have effective controls in place to manage risks and to operate in compliance with legislation and Group procedures.

The Group also has policies covering suspected fraud, anti-bribery and whistleblowing, and we thoroughly investigate any allegations of misconduct and irregularity and consider the implications for our control environment. In the normal course of business, investigations into irregularities may be ongoing as of the date of the approval of the financial statements.

All of these processes serve to ensure that a culture of effective control and risk management is embedded within the organisation and that the Group is in a position to react appropriately to new risks as they arise. Details of key risks affecting the Group are set out in the strategic report on pages 34 to 39.

Internal control framework

The Group has a well established internal control framework which is operated and which applies in relation to the process for preparing the Group's consolidated accounts.

This framework comprises:

- a clearly defined structure which delegates an appropriate level of authority, responsibility and accountability, including responsibility for internal financial control, to management of operating units
- a comprehensive budgeting and reporting function with an annual budget approved by the Board, which also monitors the financial reporting process, monthly results and updated forecasts for the year against budget
- documented financial control procedures. Managers of operating units are required to confirm annually that they have adequate financial controls in operation and to report all material areas of financial risk. Compliance with procedures is reviewed and tested by the Company's internal audit function
- an investment appraisal process for evaluating proposals for all major capital expenditure and acquisitions, with defined levels of approval and a system for monitoring the progress of capital projects
- a post-investment evaluation process for major capital expenditure and acquisitions to assess the success of the project and learn any lessons to be applied to future projects.

Internal control review

An evaluation of the effectiveness of overall internal controls and compliance by the Group is undertaken in respect of each financial year (and subsequently up to the date of this report) to assist the Audit Committee in considering the Group internal audit plan for the forthcoming financial year and also the strategic report for the Annual Report. The Group General Counsel & Company Secretary initially carries out the evaluation with Executive Directors and senior management for consideration by the Audit Committee and subsequently for final evaluation by the Board.

In addition, the Audit Committee regularly reviews the operation and effectiveness of the internal control framework and annually reviews the scope of work, authority and resources of the Company's internal audit function. The Committee reports and makes recommendations to the Board on such reviews. For 2014/15 and up to the date of approval of this Annual Report and Accounts, both the Audit Committee and the Board were satisfied with the effectiveness of the Group risk management policy and the internal control framework and their operation within the Group.

Further information on the internal control review is set out in the Audit Committee report on page 62.

Reports of the Board's Committees



The Audit Committee

Dear Shareholder

As the new chairman of the Audit Committee since September 2014 I am pleased to introduce the report on the Committee's activities during the year. I see the Committee as an essential part of the Board's toolkit in ensuring good governance: overseeing the effectiveness and integrity of Group financial reporting, internal control processes and risk management activities.

The work of the Audit Committee has, therefore, continued to be focused on the appropriateness of the Group's financial reporting, including accounting judgements, the review of key risks across the Group and the challenging and testing of the Group's internal control processes including risk management and internal audit. The Committee has also reviewed a number of activities associated with its key responsibilities to ensure the risk environment and levels of risk across the Group were appropriately managed. These included the Company's foreign exchange policy, recycle trading controls, financial instruments risk appetite, treasury risk and our subsidiaries' information security frameworks.

Due to a change in our external auditor, during the year we oversaw the arrangements made for the introduction of the new auditor to the systems and processes operated within the Group and the handover of knowledge and experience of the retiring auditors.

As part of the year-end reporting review process we reviewed and challenged the key judgements of management in relation to a range of matters, including the Viridor impairment review, bad and doubtful debt provisioning, tax provisioning and revenue recognition. Significant matters considered by the Committee both during the year and in relation to the year-end financial statements are explained in this report.

Finally I would like to thank my predecessor, Gerard Connell, for his assistance through the handover of the chairmanship of the Committee.

Neil Cooper

Audit Committee Chairman

Audit Committee composition and meetings

The membership of the Committee, together with appointment dates and attendance at meetings during 2014/15 is set out below:

Members	Appointment date	Attendance
Neil Cooper (Committee Chairman)	September 2014	3/3
Gerard Connell*	October 2003	5/5
Martin Angle	December 2008	5/5
Gill Rider	September 2012	5/5

* Retiring on 31 July 2015

Other regular attendees to our meetings include:

- Group Director of Finance
- Chief Executive, South West Water
- Chief Executive, Viridor
- Group General Counsel & Company Secretary
- Finance Director, South West Water
- Finance Director, Viridor
- Group Financial Controller
- Group Audit Manager
- External auditor.

In addition the Chairman of the Group, Ken Harvey, has an open invitation to attend the meetings and during the last year has attended when the Committee has reviewed the half year and full year financial results of the Group.

In accordance with the UK Code, the Board has determined that Neil Cooper, Gerard Connell and Martin Angle all have recent and relevant financial experience. In addition, Gerard Connell, who has been chairman of the Audit Committee from October 2003 until August 2014, has been determined by the Board as continuing to be independent in character and judgement notwithstanding his length of tenure. Details of each Director's significant current and prior appointments are set out on page 57.

All of the Committee members are also members of the Remuneration Committee, which allows them to provide input into both Committees on any Group performance matters and on the management of any risk factors relevant to remuneration matters.

Significant matters considered by the Committee

The Committee's annual calendar of business assists in ensuring that it manages its affairs efficiently and effectively throughout the year concentrating on the key matters that affect the Group.

The most significant matters that the Committee considered and made decisions on during the year are set out below:

Financial reporting	<ul style="list-style-type: none"> Monitored the integrity of the financial statements of the Group and the half year and full year results announcements relating to the Group's financial performance including reviewing and discussing significant financial reporting judgements contained in the statements. Reviewed and recommended to the Board the approval of the 2013/14 preliminary results announcement, the 2014 Annual Report and Accounts including the financial statements and the 2014/15 half year results announcement. Considered and approved a process for confirming and recommending to the Board that the 2014/15 Annual Report and Accounts including the financial statements is fair, balanced and understandable in accordance with reporting requirements.
Internal control and compliance	<ul style="list-style-type: none"> Reviewed quarterly internal audit reports on audit reviews across the Group during the year including on debt collections and credit management, transport control environment, joint venture auditing and capital expenditure planning, scoping and costing, capital expenditure delivery, energy management and contract management. Reviewed the internal control framework for the Group. Monitored performance on specific matters including Viridor's Project Enterprise (business transformation project).
External auditor	<ul style="list-style-type: none"> Considered the auditor's paper on its review of the 2013/14 Annual Results focusing on key findings. Assessed the external auditor and its effectiveness in respect of the 2013/14 external audit process. Recommended to the Board the appointment of the new external auditor for 2014/15 and for approval at the Annual General Meeting and also for the Committee to agree the external auditor's remuneration. Considered and approved the 2014/15 audit plan and audit fee proposal and set performance expectations for the external auditor. Agreed and monitored the provision of non-audit services for 2013/14 and during 2014/15.
Risk management	<ul style="list-style-type: none"> Reviewed risk management framework and compliance with that framework during 2013/14 and after the year-end up until the publication of the Company's Annual Report. Reviewed the assessment of the risks by the Executive Directors. Reviewed the Group risk register and considered appropriate areas of focus and prioritisation for the audit work programme for the year. Received as part of the risk management review the annual report on any whistleblowing.
Governance	<ul style="list-style-type: none"> Discussed annual evaluation exercise of the Committee and agreed action plans to further improve the Committee's performance including a review of the Committee's terms of reference. Reviewed new annual report disclosure requirements including the audit report. Considered and approved Group accounting policies used in the preparation of the financial statements. Reviewed a number of updated Group policies covering foreign exchange, whistleblowing and suspected fraud, anti-bribery and other irregularities. Confirmed compliance with the UK Code. Regularly held separate meetings with the external auditor and the internal group audit manager without members of management being present. Considered and approved a revised policy for undertaking non-audit work by the auditor.

Since the year-end, the Committee reviewed the Group's 2014/15 results and considered the related key findings of the external auditor, and recommended to the Board the approval of the 2014/15 preliminary results announcement. In addition it reviewed and recommended to the Board the approval of the 2015 Annual Report and Accounts including financial statements, considering it fair, balanced and understandable as set out on page 66.

Reports of the Board's Committees

Continued

The Audit Committee Continued

In respect of the monitoring of the integrity of the financial statements, which is a key responsibility of the Committee identified in the UK Code, the significant issues considered in relation to the financial statements for the year ended 31 March 2015 are set out in the following table, together with details of how each matter was addressed by the Committee. At the Committee's meetings throughout the year the Committee and the external auditor have discussed

the significant issues arising in respect of financial reporting during the year and the areas of particular audit focus, as reported on in the independent auditor's report on pages 96 to 99. In addition to the significant issues set out in the table below, the Committee considered a range of other matters including presentational issues, in particular relating to the quality of earnings, exceptional item classification and contingent liability disclosure.

Significant issues the Committee considered in relation to the financial statements	How the issue was addressed by the Committee
Going concern basis for the preparation of the financial statements	The Board receives a monthly report from the Group Director of Finance on the financial performance of the Group including forward looking assessments of covenant compliance and funding levels under differing scenarios. The Board also regularly reviews and challenges rolling five year strategy projections and the resultant headroom relative to borrowings. A report to the Audit Committee, prepared by the Group Director of Finance, at each half year and year-end, focuses on the Group's liquidity over the 15 months subsequent to a period end and the Group's solvency over a longer period. This report provides the basis for a detailed review and discussion of the key issues at Committee meetings. These discussions together with the ongoing monitoring of the Group's business model and financial performance, provide the evidence on which the Committee forms its assessment and satisfies itself that it remains appropriate for the Group to continue to adopt the going concern basis of accounting in the preparation of the 2014/15 financial statements.
Viridor: asset impairment and provisions	There has been considerable focus at the year-end on Viridor's environmental provisions and the carrying value of its assets, including goodwill. Underlying assumptions, both in respect of markets and individual operating sites, have been discussed and reviewed with executive management, including consideration of external market research where appropriate, at both subsidiary and Group Board levels, before being considered and challenged again at Committee meetings. As part of the year-end reporting to the Committee, the Group Director of Finance presented a report summarising the key issues in relation to the impairment review and Committee members asked questions of the Viridor Chief Executive, the Viridor Finance Director and the Group Director of Finance and discussed the detailed sensitivity analysis in respect of key assumptions carried out by management, which had also been reviewed as part of the year-end audit by the external auditor.
South West Water and Viridor bad and doubtful debt provisions	Both the South West Water board and the Viridor board, as well as the Group Board, receive regular updates on progress against debt collection targets. Performance is monitored regularly against South West Water's historical collection record and the track record of other companies in the sector. At the year-end the external auditor reported on the work it had performed, and the Committee considered the results of this report and asked questions of both the South West Water and the Viridor Chief Executives before forming a view on management's assessment of the year-end position.
Tax and treasury	The Group takes a prudent view of its tax position and has a general policy of releasing tax provisions only when matters under discussion are expected to be cleared by HM Revenue & Customs. If any outstanding issues are considered to be potentially material, such matters are also discussed, and challenged where necessary, at Group Board level. Expert external legal advice is sought as and when appropriate. The external auditors reported on the work they had performed in respect of tax provisions in the Group's balance sheet. Questions raised by this review were addressed at the year-end audit clearance meeting of the Committee and the Group Director of Finance separately reported on the proposed treatment of certain items. The Committee also considered at the year-end the tax and accounting treatment of certain structured treasury transactions and the Group Director of Finance reported on the treatment of these transactions. During the year the Committee gave further consideration to the Group's policies and activities in relation to tax and treasury and approved minor updating to these policies.
Revenue recognition	The key areas reviewed by the Committee at year-end in respect of revenue recognition related to the accrual for metered billing within South West Water, service concession arrangements under IFRIC 12 and accrued powergen income at Viridor. The Committee relied primarily on South West Water's track record of assessing an appropriate level of accrual at previous year-ends given actual outturns and Viridor's internal processes for analysing complex long-term contracts. The Committee also considered the work in respect of these areas at the year-end by the external auditor who was satisfied with the approach taken by the companies.

Effectiveness of the external audit process

We continue to monitor carefully the effectiveness of our external auditor as well as its independence, bearing in mind that it is recognised there is a need to use our external auditor's firm for certain non-audit services. We have full regard to the Auditing Practices Board's Ethical Standards and ensure that our procedures and safeguards meet these standards.

A new external auditor was appointed in the year following a comprehensive audit tender process, which was reported on last year, and approval by shareholders at the Company's 2014 AGM.

The new external auditor initially prepared and followed a transition plan to ensure a good understanding of the Group prior to review of the half year financial statements of the Group. This was followed up with a detailed audit planning report in preparation for the year-end financial statements. These actions have assisted the auditor in delivering the timely audit of the Group's annual report and financial statements.

The effectiveness review of the external auditor is undertaken as part of the Committee's annual performance evaluation. The review demonstrated that there was considerable satisfaction with the performance of the external auditor in its first year in the role. Accordingly the Committee considered that it is appropriate that the external auditor be re-appointed and has made an appropriate recommendation to the Board.

The Committee Chairman has also met privately with the external auditor.

Auditor independence

The Committee carefully reviews on an ongoing basis the relationship with the external auditor to ensure that the auditor's independence and objectivity is fully safeguarded.

Both the previous and the new external auditor reported on their independence during the year and confirmed to the Committee that they have complied with the Auditing Practices Board's Ethical Standards and, based on their assessments, that they were independent of the Group.

Provision of non-audit services

The Committee has a restrictive policy for the engagement of the external auditor's firm for non-audit work. The policy is for non-audit fees not to exceed 70% of the audit fee for statutory work. Where fees for non-audit work exceed 50% of the annual audit fees (but are less than 70%), the Committee must be notified of the assignment with a summary report on the background and the reasons for using the auditor for the work. In exceptional circumstances, where there is good rationale for the auditor's non-audit fees to exceed 70%, the Group Director of Finance is required to set out in a report to the Committee the reasons why the auditor's firm should be appointed for any work. The Committee would carefully review whether it was necessary for the auditor's firm to carry out such work and would only grant approval for the firm's appointment if it was satisfied that the auditor's independence and objectivity would be fully safeguarded. If there was another accounting firm that could provide the required level of experience and expertise in respect of non-audit services, then such firm would be chosen in preference to the external auditor.

The level of non-audit fees payable to the external auditor for the past year is 10% of the audit fee, which is well within the Group's 70% non-audit fee limit. This represents a very significant reduction in the level of fees for non-audit services paid to the Company's previous external auditors.

The Group Director of Finance regularly reports to the Committee on the extent of services provided to the Company by the external auditors and the level of fees paid. The fees paid to the external auditor's firm for non-audit services and for audit services are set out in note 7 to the financial statements on page 118.

Reports of the Board's Committees

Continued

The Audit Committee Continued

Internal audit

The internal audit activities of the Group continue to remain a key part of the internal control and risk management functions of the Group. At Group level there is a long-standing and effective centralised internal audit service led by an experienced head of function who makes a significant contribution to the ability of the Committee to deliver its responsibilities.

A Group internal audit plan is approved in September each year. It takes account of the activities to be undertaken by the external auditor and also the Group's annual and ongoing risk management reviews. This approach seeks to ensure that there is a programme of internal and external audit reviews focused on identified key risk areas throughout the Group.

The Group Audit Manager reports quarterly to the Committee on audit reviews undertaken and their findings and there are regular discussions, correspondence and meetings between the Group Audit Manager and the Committee Chairman.

The areas of the business that received attention from Group internal audit over the past year included:

- Pennon – Group information security framework, Group treasury log audits;
- South West Water – credit management and debt collection, transport control environment, capital expenditure planning and delivery, energy management; and
- Viridor – contract management, purchasing and high risk transactions processes, TPSCo (joint venture) processes, major contract review.

Fair, balanced and understandable assessment

To enable the Committee to provide support to the Board in making its statement that it considered that the Company's Annual Report and Accounts is fair, balanced and understandable (FBU) on page 95, the Committee has applied a detailed FBU framework that was prepared by the Group Company Secretary following consultation with the Committee Chairman and the Group Director of Finance and implemented initially for 2013/14. This framework has been refined and updated for the last year taking on board developments in reporting best practice. The FBU process takes account of the Group's well-documented verification process undertaken in conjunction with the preparation of the Annual Report and Accounts. This is in addition to the formal process carried out by the external auditor to enable the preparation of the independent auditor's report, which is set out on pages 96 to 99.

In preparing and finalising the 2015 Annual Report and Accounts the Committee considered a report on the actions taken by management in accordance with the FBU process and an FBU assessment undertaken by the subsidiary boards. This assisted the Committee in carrying out its own assessment and being able to advise the Board that it considered that the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.



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The Sustainability Committee

Dear Shareholder

I am pleased to introduce the Sustainability Committee's report on its annual activities. Sustainability is an integral part of Pennon's strategy and the Group takes this responsibility very seriously in all its business and operational practices. Our investment and our commitment to high levels of service and performance will contribute to society's needs – for water, energy and resource management – being met in the long term.

The role of the Sustainability Committee is to bring together and review initiatives that drive sustainability, to approve targets and to monitor the progress made in achieving Pennon's strategic sustainability objectives. Those objectives are set out on the following page. During the year the Committee reviewed its programme of work against the best practice framework published by Business in the Community (BitC), a leading business-led charity that promotes responsible business. We concluded that BitC's key areas of sustainability (marketplace, workplace, community and environment) provided a useful structure for reviewing our programmes and the performance of both South West Water and Viridor as they work to achieve the highest standards of corporate responsibility.

On pages 10 and 11, we show how a sound approach to sustainability helps us to draw together the needs of society with the results of commercial success. To further underline these links, this year we have integrated our sustainability report with our strategic report and have provided additional detail within the South West Water and Viridor strategic reviews.

We are pleased to note the results in both businesses, which confirm sustainability is indeed integrated in all we do.

Gill Rider

Sustainability Committee Chairman

Sustainability Committee composition and meetings

Members	Appointment date	Attendance
Gill Rider (Committee Chairman)	September 2012	5/5
Martin Angle	December 2008	4/5
Gerard Connell*	November 2006	4/5
Neil Cooper	September 2014	2/2
Christopher Loughlin	November 2006	5/5
Ian McAulay	September 2013	5/5

* Retiring on 31 July 2015

The Sustainability Committee works with the South West Water sustainability committee and the Viridor board, which direct sustainability activities for their respective organisations, to ensure that the Group's sustainability objectives are met. The subsidiaries develop a range of targets as part of their business planning processes and monitor and report progress to their respective boards and committees throughout the year.

As at 31 March 2015 South West Water had achieved 12 of its 14 targets for the year and Viridor had completed eight out of 12 of its targets. Further details will be provided in South West Water's annual report and Viridor's sustainability report, to be published in July 2015 and August 2015 respectively.

The Sustainability Committee operates in the context of the requirement for companies to conduct their business in a responsible manner (in relation to environmental, social and governance (ESG) matters) while at the same time delivering strong financial performance and lasting value for shareholders and other stakeholders. The Sustainability Committee reviews and approves as appropriate the strategies, policies, management, initiatives, targets and performance of the Pennon Group companies in the areas of occupational health and safety and security, environment, workplace policies, responsible and ethical business practice, customer service and engagement, and the role of the Group in society.

Reports of the Board's Committees

Continued

The Sustainability Committee Continued

During the year the Committee considered a wide range of matters in accordance with its terms of reference, including:

- developments and progress in carbon management and reduction
- pollution and compliance performance
- the Group's approach to community engagement and investment
- the Group's health and safety performance and plans
- performance against the Group's workplace policy
- sustainable procurement and practices within the supply chain
- sustainability reporting for 2014 for the Group, South West Water and Viridor; and the associated verifier's reports and his recommendations for the 2014/15 reports
- progress against the sustainability targets for 2014/15
- sustainability targets for 2015/16
- the coverage and appropriateness of Group policies
- the Group's participation in Business in the Community benchmarking exercises.

In addition the Committee considered:

- the results of employee engagement surveys conducted by the Group, South West Water and Viridor
- the appointment of a new sustainability verifier, Strategic Management Consultants Limited, for the 2014/15 reporting period
- the Committee's performance evaluation results
- the annual review of the Committee's terms of reference.

Strategic sustainability objectives

The Sustainability Committee has defined the following strategic objectives, which inform the sustainability targets set by South West Water and Viridor. Further details are available throughout the strategic report – page references are provided.

Manage Pennon Group as a sustainable and successful business for the benefit of shareholders and other stakeholders

As a well-managed and responsible Group, with sustainability at the core of our business strategy and our operations, we aim to deliver strong performance and lasting value for all our stakeholders. Our services and methods of operation are designed to provide clear community benefits and to protect and enhance the environment.

The key performance indicators by which we measure shareholder value and wider stakeholder benefit are set out on pages 5, 6 and 7.

Aim to ensure that all our business activities have a positive economic, social and environmental impact on the communities in which we operate

Pennon recognises it has a responsibility to contribute positively towards communities affected by its operations.

Details of the Group's economic, social and environmental impact can be found on pages 41 to 49.

Engage with all stakeholders and foster good relationships with them

Pennon aims to be a good neighbour, and consults with its stakeholders in order to understand and respond to their priorities.

Details of the Group's approach to stakeholder engagement and customer satisfaction can be found on pages 17, 19, 27 and 40.

Strive for the highest standards of health and safety in the workplace so as to minimise accidents, incidents and lost time

The Group remains committed to achieving and maintaining improvements in health and safety. Both South West Water and Viridor continue to endeavour to embed health and safety within each organisation's culture.

Details of South West Water's and Viridor's health and safety performance and their future plans are provided on pages 27 and 51.

Develop and motivate our employees, treat them fairly and ensure that they are fully engaged in all aspects of the Pennon Group's objectives

Pennon's success is fundamentally down to its employees. We recruit talented and committed people and provide training packages to equip them with the skills they need to deliver the Group's objectives.

Details of the Group's strategies and performance around employee engagement can be found on pages 18, 27 and 50.

Aspire to leadership in minimising emissions that contribute to climate change, and develop climate change adaption strategies

Pennon continues to strive for a reduction in emissions and encourages its businesses to adopt initiatives for renewable energy generation.

Details of the Group's greenhouse gas emissions and climate change strategies are provided on pages 46 and 47.

Aspire to leadership in all aspects of waste prevention and resource efficiency

Pennon is delivering solutions for society to address the environmental challenge of depleting natural resources by maximising the value of residual materials, transforming waste and improving energy efficiency.

Details can be found on pages 48 and 49.

Reporting and verification

In reporting on sustainability, the Company has sought to comply with the Guidelines on Responsible Investment Disclosure issued by the Association of British Insurers and now maintained by The Investment Association.

Pennon's sustainability performance and reporting has been audited by Strategic Management Consultants Limited (SMC), an independent management consultancy specialising in technical assurance in the utility sector. Pennon considers that SMC's method of verification – which includes testing the assumptions, methods and procedures that are followed in the development of data and auditing that data to ensure accuracy and consistency – complements the best practice insight gained through South West Water's and Viridor's membership of Business in the Community.

Pennon sustainability report

Pennon's sustainability reporting is integrated throughout the strategic report and specifically in the following sections:

Report from the Chief Executive, South West Water, page 14

Report from the Chief Executive, Viridor, page 22

Customer and stakeholder satisfaction, page 40

Sustainability – environmental, economic and social, page 41

Employee well-being and engagement, page 50.

South West Water and Viridor sustainability reports

The full sustainability report for Viridor will be published in August 2015 and this year South West Water will once again incorporate its sustainability reporting in its annual report and accounts, which will be published in July 2015. Both documents will be available to view at www.pennon-group.co.uk and also on the subsidiaries' websites. Full details of the sustainability targets for South West Water and Viridor for 2014/15, and their performance against them, are given in their respective reports.

Reports of the Board's Committees Continued



The Nomination Committee

The Nomination Committee meets in accordance with an annual calendar to consider succession planning, equality and diversity reports and periodically as necessary to manage the Board appointment process and recommend to the Board suitable candidates for appointment as executive and non-executive directors to the Board and also to the boards of South West Water and Viridor.

It is the practice of the Committee, led by the Chairman, to appoint an external search consultancy to assist in Board appointments to ensure that an extensive and robust search can be made for suitable candidates.

During the year the Committee considered:

- its annual performance evaluation;
- the appointment of a new Non-executive Director;
- the appointment of a new Group Director of Finance;
- the appointment of a new Group Chairman (under the leadership of the Senior Independent Director and without the current Chairman being present); and
- reviewed diversity and equality policies and practice throughout the Group.

The appointment of the Non-executive Director was undertaken with the assistance of an external search consultant (Zygos), which had no other connection with the Company.

An external search consultant was not engaged to assist with the recruitment of the Group Director of Finance, due to an exceptionally able internal candidate being available, or the recruitment of the new Group Chairman due to the Senior Independent Director being made aware of the availability of an outstanding candidate with appropriate waste management and utility experience.

Members	Appointment date	Attendance
Kenneth Harvey* (Committee Chairman)	March 1997	5/7
Martin Angle	December 2008	7/7
Gerard Connell*	October 2003	7/7
Neil Cooper	September 2014	3/5
Gill Rider	September 2012	7/7

* Retiring on 31 July 2015

Diversity policy

The Board's diversity policy confirms that the Board is committed to:

- the search for Board candidates being conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender;
- satisfying itself that plans are in place for orderly succession of appointments to the Board and to senior management to maintain an appropriate balance of skills and experience within the Group and on the Board and to ensure progressive refreshing of the Board. In addition, within the spirit of Principle B.2 of the UK Code, the Board has endeavoured to achieve:
 - a minimum of 25% female representation on the Board by 2015; and
 - a minimum of 25% female representation on the Group's senior management team by 2015.

As at 31 March 2015 and as disclosed with the Directors' biographies on page 56, the Group had 25% female representation at Board level. While circumstances on occasion will result in changes in Board composition, the Board remains committed to maintaining and possibly exceeding the 25% level.

As well as its diversity policy, the Group has a number of policies in place embracing workplace matters, including non-discrimination and equal opportunities policies which are reported on separately on page 50, together with information regarding the gender breakdown of the workforce.

The Committee is required by the Board to review and monitor compliance with the Board's diversity policy and report on the targets, achievement against those targets and overall compliance in the Annual Report each year.



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The Remuneration Committee

Directors' remuneration report

The Directors' remuneration report for 2014/15 is set out separately on pages 72 to 92.

The Remuneration Committee meets in accordance with an annual calendar to consider remuneration matters in respect of the Group and in particular is responsible for:

- advising the Board on the framework of executive remuneration for the Group; and
- determining the remuneration and terms of engagement of the Chairman, the Executive Directors and senior management of the Group.

Members	Appointment date	Attendance
Martin Angle (Committee Chairman)	December 2008	11/11
Gerard Connell*	October 2003	9/11
Neil Cooper	September 2014	5/6
Gill Rider	September 2012	11/11

* Retiring on 31 July 2015

The Committee consults with the South West Water remuneration committee and the Viridor personnel committee on director and senior management remuneration within their respective terms of reference.

The Committee's activities during the financial year

During the year the Committee dealt with the following matters:

- annual review of the pay and benefits policies and practices for the staff below Board level in the Group;
- annual executive salary review;
- determining performance targets in respect of the annual incentive bonus plan for 2014/15;
- reviewing final drafts of the Directors' remuneration report for 2013/14 and recommending it to the Board for approval for inclusion in the 2014 Annual Report;
- reviewing early drafts of the Directors' remuneration report for 2014/15;
- review and determination of the Deputy Chairman and new Chairman's fee;
- determining bonuses and deferred bonus awards pursuant to the Company's annual incentive bonus plan in respect of the year 2013/14;
- approving the performance and co-investment plan awards for the year;
- reviewing the annual performance evaluation results of the Committee;
- approving the remuneration arrangements for the new Group Director of Finance and Executive Director of the Board;
- approving the release of the 2011 deferred bonus share awards and the vesting of executive share options pursuant to the annual incentive bonus plan;
- determining the outcome of the 2011 performance and co-investment plan awards; and
- determining subsidiary board non-executive director fees.

Directors' remuneration report

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Annual Statement from Martin Angle, Chairman of the Remuneration Committee

Dear Shareholder

Introduction

As Chairman of the Group's Remuneration Committee and on behalf of the Board I am pleased to present the Directors' remuneration report for the year ended 31 March 2015. In accordance with the remuneration reporting requirements the report is in two parts:

- **Directors' remuneration policy** – a summary of the policy on Directors' remuneration which was approved by shareholders at the 2014 AGM. This is provided for information only as approval is not required and approval is not being sought for a revised policy at the 2015 AGM.
- **Annual report on remuneration** – contains the remuneration of the Directors for the year 2014/15 including the 'single remuneration figure' table providing a value for each element of remuneration for each Director, together with the details of the link between Company performance and remuneration during the year (pages 80 to 83). It also provides details of how our policy will be applied for 2015/16. This section of the report together with this letter is subject to an advisory shareholder vote at this year's AGM.

Last year the Remuneration Committee was pleased to note that 97% and 96% of shareholders who voted approved the remuneration policy and the 2013/14 annual remuneration report respectively. The Committee appreciates the continuing support of its shareholders.

The membership and the role of the Remuneration Committee including how it has operated during the year is set out separately in this Governance and remuneration section on page 71.

Remuneration decisions

For 2015/16 salaries were increased by 3.36% for the Chief Executive, South West Water, reflecting market rates and performance in the year, and by 12.68% for the Chief Executive, Viridor, due to continuing on the glide path from a lower salary on appointment and having gained further experience together with performance in the role over the last year. This is in line with our approved policy on salaries on recruitment where salaries may be set at an initially lower level with the intention of providing potential for higher than usual increases over the following two years to reflect experience gained and performance in the role. Given that this two year period will have passed at the next salary review, we do not anticipate any further increases of this nature for Ian McAulay. The salary of the Group Director of Finance was not increased due to Susan Davy being appointed to the position towards the end of the 2014/15 year.

The bonus outturns for the Executive Directors for 2014/15 reflect the achievements of the Group businesses in the year, the Company's performance against corporate financial targets and the Executive Directors' performance against individual targets. Half of the bonus is deferred into shares. Further details of targets, measures and performance are set out on pages 81 and 82.

As regards the Company's long-term incentive plan, the overall estimated outturn for awards vesting at the end of the three year period ending 31 March 2015 is 0% of the maximum 100%. This reflects that the Company's total shareholder return is estimated to be below the comparator index performance and is expected to rank below the median of the FTSE 250.

Board changes

Neil Cooper was appointed as a Non-executive Director from 1 September 2014 and as the chairman of the Audit Committee. His fee was determined on the same basis as for the other Non-executive Directors.

David Dupont, Group Director of Finance, retired from the Board on 31 January 2015 following 23 years of service with the Company and 12 years as the Group Director of Finance. As a good leaver, the Committee awarded him a part-year bonus based on the predetermined performance measures and targets, but pro-rated for his period of employment in the year. His 2012, 2013 and 2014 deferred share awards are due to be released to him in accordance with the provisions of the deferred share element of the bonus plan. His 2015 award (in respect of his bonus for 2014/15) will be held for three years. Awards made in 2012 and 2013 under the long-term incentive plan were pro-rated for time and will be subject to performance measured at the vesting date. The award made in 2014 was forfeited due to Mr Dupont retiring before the year end.

On 1 February 2015 Susan Davy became Group Director of Finance and joined the Board. Her remuneration package is in line with those of the other Executive Directors, except that her salary has been set at an initially lower level with a view to providing for scope for increases depending on performance over the next two years. As Mrs Davy's appointment was a promotion within the Group (from being finance and regulatory director of South West Water) her pre-existing awards and contractual commitments will continue in accordance with their established terms. This is in accordance with the approved remuneration policy. No cash sign-on payments were made.

Finally in the year Sir John Parker was appointed as a Non-executive Director and as Deputy Chairman of the Board with effect from 1 April 2015. He was also appointed as the successor to Ken Harvey as Chairman following his retirement after the 2015 AGM. His fee was determined to be 50% of the Chairman's fee and will be increased to the same level as the current Chairman's fee when he becomes Chairman on 1 August 2015.

Looking forward

During the year we considered the remuneration structure with the assistance of our independent remuneration consultants. In accordance with the new provisions of the UK Corporate Governance Code and good remuneration practice we decided to introduce explicit malus and clawback provisions under our Performance and Co-investment Plan for awards from 2015. We introduced similar provisions in our Annual Incentive Plan last year.

For awards from 2015, we have also introduced a further two year holding period in respect of any shares which vest at the end of the three year performance period under the Performance and Co-investment Plan. This further aligns the interests of management with the longer-term success of the Company. No other changes have been made to our remuneration package. In particular all maximum opportunities will remain the same in 2015/16.

In conclusion I hope you find our report this year informative and that we can rely on your vote in favour of the annual report on remuneration.

Martin Angle

Remuneration Committee Chairman

Directors' remuneration report Continued

Directors' remuneration policy

Introduction

The remuneration policy set out in the 2014 Annual Report was approved by shareholders at the Company's AGM on 31 July 2014.

We are not seeking approval for our remuneration policy at the 2015 AGM. The intention is that approval of the remuneration policy will be sought at three year intervals in accordance with the remuneration reporting requirements, unless the Company wishes to make amendments to the policy prior to then.

The remuneration policy tables for Executive and Non-executive Directors are set out below for shareholder information. They have been reproduced as approved with the exception of updating to reflect Director changes; additional wording on malus, clawback and the holding period introduced in the year in the Group's Performance and Co-investment Plan; and minor and inconsequential changes.

The Directors' remuneration policy is displayed on the Company's website www.pennon-group.co.uk/about-us/directors-remuneration-policy and is available upon request from the Group Company Secretary.

Future policy table – Executive Directors

The table below sets out the elements of the total remuneration package for the Executive Directors which are comprised in this Directors' remuneration policy.

How the components support the strategic objectives of the Company	How the component operates (including provisions for recovery or withholding of any payment)	Maximum potential value of the component	Description of framework used to assess performance
Base salary			
Set at a competitive level to attract appropriate candidates to meet Company's strategic objectives and to aid retention.	Salaries are generally reviewed annually and any changes are normally effective from 1 April each year. In normal circumstances salary increases will not be materially different to general employee pay increases but there may be exceptions such as where there has been the recruitment of a new executive director at an initially lower salary.	When reviewing salaries the Committee has regard to the following factors: <ul style="list-style-type: none"> • salary increases generally for all employees in the Company and the Group • market rates • performance of the individual and the Company; and • other factors it considers relevant. There is no overall maximum.	None, although individual and Company performance are one of the factors considered when reviewing salaries.
Benefits			
Benefits are provided that are consistent with the market and level of seniority and which aid retention of key skills to assist in meeting strategic objectives.	Benefits currently include the provision of a company vehicle, fuel, health insurance and life assurance. Other benefits may be provided if the Committee considers it appropriate. In the event that an Executive Director is required to relocate, relocation benefits may be provided.	The cost of insurance benefits may vary from year to year depending on the individual's circumstances. There is no overall maximum benefit value but the Committee aims to ensure that the total value of benefits remains proportionate.	None.

Directors' remuneration policy Continued

Future policy table – Executive Directors Continued

How the components support the strategic objectives of the Company	How the component operates (including provisions for recovery or withholding of any payment)	Maximum potential value of the component	Description of framework used to assess performance
Annual bonus			
Linked to achievement of key performance objectives aligned to the strategy of the Company.	<p>Annual bonuses are paid following finalisation of the financial results for the year to which they relate and paid usually three months after the end of the financial year.</p> <p>A portion of any bonus is deferred into shares in the Company, which are normally released after three years. Normally 50% is deferred. Any dividends on the shares during this period are paid to the Directors.</p> <p>The deferred bonus plan is operated in conjunction with the Company's HMRC approved executive share option scheme (ESOS) on the basis that the pre-tax value of awards under both are the same as if the deferred bonus plan had operated alone.</p> <p>For bonuses awarded in respect of the 2014/15 financial year and going forward malus and clawback provisions apply. These provisions permit net cash bonuses and/or deferred bonus shares to be forfeited, repaid or made subject to further conditions where the Committee considers it appropriate in the event of any significant adverse circumstances, including (but not limited to) a material failure of risk management, serious reputational damage, a financial misstatement or misconduct. Clawback may be applied for the period of three years following determination of the cash bonus.</p>	The maximum bonus potential for each Director is 100% of base salary.	<p>Performance targets relate to corporate and personal objectives, which are reviewed each year. Normally at least 70% relates to financial targets or quantitative measures.</p> <p>The measures, weighting and threshold levels may be adjusted for future performance years.</p> <p>Following the financial year-end the Committee, with advice from the Chairman of the Board and following consideration of the outturn against target by the chairman of the Audit Committee, assesses to what extent the targets are met and determines bonus levels accordingly. In doing so the Committee takes into account overall Company performance and may adjust the bonus upwards or downwards for any specific factors such as exceptional outperformance or underperformance.</p>

Directors' remuneration report Continued

Directors' remuneration policy Continued

Future policy table – Executive Directors Continued

How the components support the strategic objectives of the Company	How the component operates (including provisions for recovery or withholding of any payment)	Maximum potential value of the component	Description of framework used to assess performance
Long-term incentive plan (Performance and Co-investment Plan)			
Provide alignment to shareholders and to longer-term Company performance.	<p>Annual grant of conditional shares (or equivalent). Share awards vest dependent upon the achievement of specific performance conditions measured over a performance period of no less than three years.</p> <p>A grant is only made if the Director has acquired or is due to acquire co-investment shares equivalent to one-fifth of the value of the award.</p> <p>Dividend equivalents (including dividend reinvestment) may be paid on vested awards.</p> <p>An 'underpin' applies which allows the Committee to reduce or withhold vesting if the Committee is not satisfied with the underlying operational and economic performance of the Company.</p> <p><i>Introduced for 2015/16</i></p> <p>For grants made from 2015 onwards malus and clawback provisions will apply which permit shares to be forfeited, repaid or made subject to further conditions where the Committee considers it appropriate in certain circumstances. The circumstances in which malus may be applied include (but are not limited to) material misstatement, serious reputational damage, or the participant's misconduct. The circumstances in which clawback may be applied are material misstatement or serious misconduct.</p> <p>In addition a further two year holding period will apply in respect of any shares which vest at the end of the three year performance period.</p> <p>Malus may be applied during the three year performance period and clawback may be applied up until the end of the holding period.</p>	The maximum annual award is 100% of base salary.	<p>The current performance conditions are based on total shareholder return (TSR) with 50% based on TSR against the peer group index (chosen because these companies are regarded as the Company's key listed comparators) and 50% based on TSR against constituents of the FTSE 250 index (excluding investment trusts) (chosen because this is the FTSE index to which the Company belongs currently). No more than 30% of maximum vests for minimum performance.</p> <p>The 'underpin' evaluation includes consideration of environmental, social and governance (ESG) factors and safety performance as well as financial performance.</p> <p>The Committee will keep the performance measures under review and may change the performance condition for future awards if this were considered to be aligned with the Company's interests and strategic objectives. However, the Committee would consult with major shareholders in advance of any proposed material change in performance measures.</p>
Pension			
Provides funding for retirement and aids retention of key skills to assist in meeting the Company's strategic objectives.	Defined benefit pension arrangements are closed to new entrants. Defined contribution pension arrangements have been available to new staff since 2008. A cash allowance may be provided as an alternative and/or in addition where pension limits have been reached.	<p>The maximum annual pension contribution or cash allowance is 20% of salary. For Executive Directors who commenced employment prior to April 2013 the maximum annual pension contribution or cash allowance is 30% of salary.</p> <p>Legacy defined benefit pension arrangements will continue to be honoured.</p>	None.
All-employee share plans			
To align interests of all employees with Company share performance.	Executive Directors may participate in HMRC approved all-employee plans on the same basis as employees.	The maximum is as prescribed under the relevant HMRC legislation governing the plans.	None.

Directors' remuneration policy Continued

Future policy table – Non-executive Directors

The table below sets out the Company's policy in respect of the setting of fees for Non-executive Directors.

How the components support the strategic objectives of the Company	How the component operates	Maximum potential value of the component
Fees		
Set at a market level to attract Non-executive Directors who have appropriate experience and skills to assist in determining the Group's strategy.	<p>Fees are set by the Board with the Chairman's fees being set by the Committee. The relevant Directors are not present at the meetings when their fees are being determined.</p> <p>Non-executive Directors normally receive a basic fee and an additional fee for any specific Board responsibility such as membership or chairmanship of a Committee or occupying the role of Senior Independent Director.</p> <p>In reviewing the fees the Board, or Committee as appropriate, consider the level of fees payable to Non-executive Directors in other companies of similar scale and complexity.</p>	Total fees paid to Non-executive Directors will remain within the limits stated in the Articles of Association.
Benefits		
Benefits for the Chairman are provided which are consistent with the market and level of seniority.	<p>Expenses incurred in the performance of non-executive duties for the Company may be reimbursed or paid for directly by the Company (including any tax due on the expenses).</p> <p>The retiring Chairman's benefits include the provision of a company vehicle, fuel and health insurance.</p> <p>Sir John Parker, who will become the Chairman from 1 August 2015, is entitled to expenses on the same basis as for other Non-executive Directors and, when appropriate for the efficient carrying out of his duties, will be provided with a driver and vehicle.</p>	None.

Directors' Service Contracts / Letters of Appointment

The policy for Executive Directors' service contracts is to provide for 12 months notice from either side. The policy for Non-executive Directors' letters of appointment is to contain three months notice from either side. The policy for the Chairman's letter of appointment is to contain a 12 month notice period from either side. The letter of appointment of the new Chairman from 1 August 2015 contains a six month notice period from either side.

Directors' remuneration report Continued

Annual report on remuneration

Introduction

This section sets out how the Company has applied its remuneration policy in the year, and details how the policy will be implemented for the year 2015/16. In accordance with section 439 of the Companies Act, this section will be put to an advisory vote at the Company's AGM which is scheduled to be held on 30 July 2015.

Operation of the remuneration policy for 2015/16

During 2014/15 the Committee further reviewed the incentive framework for Executive Directors.

The key changes made were:

- adjustment of the corporate performance objectives for the annual bonus to ensure that they were aligned with the areas of challenge in the strategy;
- the introduction of malus and clawback arrangements in the Performance and Co-investment Plan in accordance with best practice; and
- the introduction of a two year holding period in respect of any shares which vest under the Performance and Co-investment Plan.

A summary of the specific remuneration arrangements for Executive Directors in 2015/16 is described below:

Base salary	<p>2015/16 salaries are:</p> <ul style="list-style-type: none"> • Chris Loughlin: £400,000 • Ian McAulay: £400,000 • Susan Davy: £325,000. <p>Chris Loughlin received a salary increase of 3.36%, reflecting market rates and performance, effective 1 April 2015. Ian McAulay received a 12.68% increase to reflect his performance in the role after joining the Company. This is in line with the Committee's approved policy on salaries on recruitment where salaries may be set at an initially lower level with the intention of providing potential for higher than usual increases over the following two years to reflect experience gained and performance in the role. Given that this two year period will have passed at the next salary review, it is not anticipated that there will be any further increases of this nature for Ian McAulay. Susan Davy, having been appointed on 1 February 2015, did not receive an increase.</p>
Pension and benefits	<p>No changes. Salary supplement cash allowance of between 20% and 30% from which is deducted the employer's contribution to the Defined Benefit or Contribution pension schemes for the Directors.</p> <p>Susan Davy, appointed on 1 February 2015 and having been promoted from within the Group, already received a pension benefit equivalent to 25% of salary, in respect of which there has been no change.</p>
Annual bonus	<p>No change to maximum opportunity of 100% of salary. No change to operation of deferral. 50% of the bonus is delivered as deferred shares. No changes will be made to the overall performance measurement framework for the annual bonus for 2015/16. Minor amendments to the role-specific measures have been made to reflect goals for the year, as set out below:</p> <ul style="list-style-type: none"> • 30% EPS (before deferred tax and exceptional items) performance • 30% personal strategic objectives • 40% measures which are specific to the role including net debt, division operating profit, RoRE (Return on Regulated Equity), Totex (Total expenditure), performance and service improvements in South West Water (SWW), PBITDA plus JVs (profit before interest, tax, depreciation and amortisation plus joint ventures) (Viridor). <p>More detail on the measures and weightings is provided on the following page. The objective was to ensure alignment to measures identified as key for each role with an appropriate balance between hard financial measures and objectives aligned to the strategic success of the business.</p> <p>For bonuses from 2014/15 both malus and clawback apply as described in the summary of the remuneration policy report.</p>
Performance and Co-investment Plan (PCP)	<p>No change to maximum performance opportunity of 100% of base salary, awards being subject to co-investment of 20% of the award, and performance measures:</p> <ul style="list-style-type: none"> • 50% TSR vs FTSE 250 (excluding investment trusts) • 50% TSR vs a peer group index. <p>'Underpin' relating to overall Group performance.</p> <p>For awards from 2015/16 both malus and clawback apply as described in the summary of the remuneration policy report.</p> <p>In addition a further two year holding period will apply in respect of any shares which vest at the end of the three year performance period.</p>
Shareholding guideline	<p>No change. 100% of salary to be built up in the first five years of joining.</p>

Forward-looking performance targets

Details of the annual bonus framework that will apply for each Executive Director for 2015/16 are set out in the table below:

Chief Executive, SWW, Chris Loughlin	EPS*	30%
	Average SWW directors' performance including:	40%
	(i) Operating profit	
	(ii) RoRE ⁺ performance	
	(iii) Totex performance	
	(iv) Net debt	
	(v) Service improvement performance	
	Personal	30%

Chief Executive, Viridor, Ian McAulay	EPS*	30%
	Average Viridor directors' performance including:	40%
	(i) Operating profit	
	(ii) Net debt	
	(iii) PBITDA plus JVs	
	Personal	30%

Group Director of Finance, Susan Davy	EPS*	30%
	Net debt	20%
	Operating profit and RoRE ⁺ performance of SWW and operating profit of Viridor	20%
	Personal	30%

* EPS is before deferred tax and exceptional net items

+ RoRE is Return on Regulated Equity

The specific bonus targets are considered to be commercially sensitive. However the Committee intends to disclose details of the targets set retrospectively to the extent they are not considered commercially sensitive.

For the PCP (long-term incentive plan) the targets are set out below:

	Threshold (30% of maximum vests)	Maximum (100% of maximum vests)
Comparator index (50% of award)	Equal to index	15% above the index
FTSE 250 (excluding investment trusts) (50% of award)	Above 50th percentile	At or above 75th percentile

The comparator index will comprise:

- Shanks Group
- National Grid
- United Utilities
- Suez Environnement
- Severn Trent
- S  ch   Environnement
- Veolia Environnement

Non-executive Director fees

Non-executive Director fees for 2015/16 are set out below. They include an overall increase of 2.5% for the Non-executive Directors (excluding the Chairman/Deputy Chairman) approved by the Board, effective from 1 April 2015.

Role	Fees �
Chairman (retiring and successor Chairman)	262,400
Deputy Chairman	131,200
Basic Non-executive Director fee	45,500
Additional fees:	
Senior Independent Director fee	11,600
Additional fee for chairman of the Audit Committee	11,600
Additional fee for chairman of the Remuneration Committee	8,500
Additional fee for chairman of the Sustainability Committee	8,500
Committee fee	4,000

Directors' remuneration report Continued

Annual report on remuneration Continued

Single total figure of remuneration tables (audited information)

	Base salary/ fees (£000)		Benefits (including Sharesave) (£000)		Annual bonus (cash and deferred shares) (£000)		Performance and Co-investment Plan (£000)		Pension (£000)		Total remuneration (£000)	
	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14
Executive Directors												
Susan Davy, Group Director of Finance (appointed 1 February 2015)	54	–	2	–	51	–	–	–	33 ⁽ⁱ⁾	–	140	–
David Dupont, Group Director of Finance (retired 31 January 2015)	323	377	22	28	208	274	–	126	97	113	650	918
Chris Loughlin, Chief Executive, South West Water	387	377	27	30	303	321	–	126	116	113	833	967
Ian McAulay, Chief Executive, Viridor (appointed 9 September 2013)	355	182	34 ⁽ⁱⁱ⁾	117 ⁽ⁱⁱ⁾	202	240 ⁽ⁱⁱⁱ⁾	–	–	71	36	662	575
Non-executive Directors												
Ken Harvey, Chairman	262	256	24	25	–	–	–	–	–	–	286	281
Gerard Connell	63	62	–	–	–	–	–	–	–	–	63	62
Neil Cooper (appointed 1 September 2014)	37	–	–	–	–	–	–	–	–	–	37	–
Martin Angle	60	59	–	–	–	–	–	–	–	–	60	59
Gill Rider	60	58	–	–	–	–	–	–	–	–	60	58

(i) Includes legacy pension benefit accrued in the year in previous position with the Pennon Group

(ii) Benefits included a reimbursement of relocation costs (including income tax) of £107,187 in 2013/14 and £15,000 in 2014/15

(iii) For Ian McAulay £112,000 related to a buyout award as referred to on page 90.

Annual bonus outturn for 2014/15

The performance targets set and the performance achieved in respect of the annual bonus for 2014/15 for each Executive Director is set out below. In line with the Committee's policy, 50% of any bonus is payable in shares.

David Dupont

David Dupont retired as Group Director of Finance on 31 January 2015. Therefore, Mr Dupont's bonus was pro-rated to reflect time served during the year.

Measure	Weighting	Threshold	Target	Maximum	Actual outturn	Bonus outturn
EPS [^]	30%	35.3p	39.3p	45.1p	39.8p	13.65%
SWW operating profit ⁺	15%	£215.7m	£220.1m	£224.5m	£225.4m	15%
Viridor operating profit ⁺	15%	£29.4m	£30.9m	£32.4m	£21.6m	0%
Net debt	10%	No payout for below target. Maximum payout for net debt of 2.5% below target.*			£2,197m	10%
Personal objectives	30%	Relating to key finance business objectives for the Group.*			–	26%
Total outturn						64.65%

* Actual targets considered commercially confidential

+ Before exceptional items

[^] EPS is before deferred tax and exceptional items

Ian McAulay

Measure	Weighting	Threshold	Target	Maximum	Actual outturn	Bonus outturn
EPS [^]	30%	35.3p	39.3p	45.1p	39.8p	13.65%
Average Viridor directors' performance ⁺	40%	<p>The average of the bonus earned by the other executive directors of Viridor including targets that related to:</p> <ul style="list-style-type: none"> • operating profit; • net debt;* • PBITDA plus JVs* <p>The average also took into account collective strategic objectives relating to profitable revenue growth; forecasting process improvements; comparative health and safety performance; and implementation of organisational design.*</p> <p>The operating profit targets were £29.4m at threshold, £30.9m at target and £32.4m at maximum. Actual outturn was £21.6m.</p>				15.3%
Personal objectives	30%	Implementing Viridor strategy and projects and meeting compliance targets.*			–	28%
Total outturn						56.95%

* Actual targets considered commercially confidential

+ Before exceptional net items

[^] EPS is before deferred tax and exceptional items

Directors' remuneration report Continued

Annual report on remuneration Continued

Annual bonus outturn for 2014/15 Continued

Chris Loughlin

Measure	Weighting	Threshold	Target	Maximum	Actual outturn	Bonus outturn
EPS [^]	30%	35.3p	39.3p	45.1p	39.8p	13.65%
Average South West Water directors' performance	40%	The average of the bonus earned by the other executive directors of South West Water in respect of targets which related to: <ul style="list-style-type: none"> operating profit; net debt;* and the position the company achieves in the 'Service Incentive Mechanism' of water and wastewater companies established by Ofwat;* and the achievement of a range of service standards set for the company by Ofwat.* The operating profit targets were £215.7m to £224.5m and were exceeded.				36.53%
Personal objectives	30%	Implementing South West Water's new strategies and projects and meeting compliance targets.*				28%
Total outturn						78.18%

[^] EPS is before deferred tax and exceptional items

* Actual targets considered commercially confidential

Susan Davy

Susan Davy was Group Director of Finance for two months of the financial year. Consequently the majority of her annual bonus for the year (relating to 10 months of the financial year) was based on the targets set relating to her previous role in the Group. Bonus relating to the two month period was based on development in the role as new Group Director of Finance. The bonus outturn for the full 12 months was 93.6% of the total opportunity.

Performance and Co-investment Plan outturn for 2014/15

The PCP awards made on 3 July 2012, which are due to vest on 3 July 2015, are the awards included in the single figure table and currently it is estimated that the outturn will result in a zero vesting as set out in the table on the following page.

50% of the awards vest subject to the Company's TSR performance measured against an index made up of the following six listed comparator companies. These companies were considered to be the Company's key listed comparators:

- National Grid Plc
- Séché Environnement
- Severn Trent
- Shanks Group
- Suez Environnement
- United Utilities

The remaining 50% of the awards vest subject to the Company's ranked TSR performance against the constituents of the FTSE 250 (excluding investment trusts).

The calculation of TSR performance over the three year performance period (being 1 April 2012 to 1 April 2015) for the PCP awards was undertaken by Deloitte LLP for the Committee.

	Threshold (30% of maximum vests)	Maximum (100% of maximum vests)	Achievement in the period to 1 April 2015*	Vesting outturn*
Comparator index (50% of award)	Equal to index	15% above the index	-20.0% below the index	0%
FTSE 250 (excluding investment trusts) (50% of award)	Above 50th percentile	At or above 75th percentile	29.5%	0%
TOTAL				0%
Straight-line vesting between points.				
For below threshold performance, 0% vests				

* As the calculation requires averaging TSR performance over the first three months of the performance period and comparing it to the average over the three months following the end of the performance period (1 April 2015 to 30 June 2015) the achievement and the outturn is an estimate at the date of calculation (12 June 2015)

Vesting of an award is also subject to the 'underpin' described on page 76 which the Committee has determined to the date of this report would be satisfied, if any award was to vest.

Total pension entitlements (audited information)

	Defined benefit pension accrued at 31 March 2015 ⁽¹⁾ £000 p.a.	Normal retirement age (for pension purposes)	Description of additional benefits available to the Director on early retirement
David Dupont	143	Not applicable – Director retired	Not applicable – Director retired
Susan Davy	14	65	None

⁽¹⁾ The accrued pension for Susan Davy is based on service to the year-end and final pensionable salary at that date. Since David Dupont is a pensioner member of Pennon Group's pension schemes the accrued pension shown is the actual pension in payment as at 31 March 2015

David Dupont was a pensioner member of the Pennon Group's defined benefit pension arrangements during the year. As such no further benefits were accrued and no employee or employer contributions were paid (other than the employer's deficit reduction contributions) during the year. The increases in David Dupont's accrued pension over the year are solely as a result of indexation of his pension as set out in the Schemes' Rules.

Susan Davy receives an overall pension benefit from the Company equivalent to 25% of her salary. She is a member of Pennon Group's defined benefit pension arrangements and is entitled to normal retirement pension payable from age 65 of broadly 1/80th of Pensionable Remuneration for each year of Pensionable Service completed.

The employer's contribution to the pension for Susan Davy is deducted from the overall pension allowance.

Pensions in payment are guaranteed to increase at a rate of 5% p.a. or RPI if lower for service accrued in the period up to 30 June 2014 and at a rate of 2.5% p.a. or CPI if lower for service accrued in the period after this date.

If a Director dies within five years of retiring a lump sum equal to the balance of five years' pension payments is paid plus a spouse's pension of one half of the member's pension. Pensions may also be payable to dependants and children.

Ian McAulay is a member of Pennon Group's defined contribution arrangement and received an overall pension benefit from the Company equivalent to 20% of his salary. Chris Loughlin is not a member of any of the Pennon Group's pension schemes and receives a sum in lieu of pension entitlement equivalent to 30% of salary. David Dupont also received a cash allowance of 30% of salary in lieu of ongoing pension provision up to the date of his retirement on 31 January 2015.

No additional benefits will become receivable by a Director in the event that the Director retires early. Chris Loughlin had a normal retirement date of 60 but has an agreement with the Company to continue in office subject to one year's notice on either side. Ian McAulay's normal retirement age is 65 which will be reached on 25 April 2030. Susan Davy's normal retirement age for pension purposes is 65 which will be reached on 17 May 2034.

Dates of Directors' service contracts/letters of appointment

The dates of Directors' service contracts and letters of appointment and details of the outstanding term are shown below.

Executive Directors	Date of service contract	Expiry date of service contract
Susan Davy*	1 February 2015	At age 67 (17 May 2036)
David Dupont	2 January 2003	31 January 2015 (retired on this date)
Chris Loughlin*	16 May 2006	No expiry date
Ian McAulay*	2 August 2013	At age 65 (25 April 2030)

* Each of the Executive Directors' service contracts is subject to 12 months' notice on either side

Directors' remuneration report Continued

Annual report on remuneration Continued

Non-executive Directors	Date of letter of appointment	Expiry date of appointment
Ken Harvey	1 April 2005	31 July 2015 (due to retire on this date)
Martin Angle	28 November 2008	30 November 2017
Neil Cooper	17 July 2014	30 August 2017
Gerard Connell	30 September 2003	31 July 2015 (due to retire on this date)
Sir John Parker	19 March 2015	Ongoing – subject to three months notice on either side currently and six months notice on becoming Chairman on 1 August 2015
Gill Rider	22 June 2012	30 August 2015

The policy for Executive Directors' service contracts is to provide for 12 months notice from either side.

Non-executive Directors' letters of appointment contain three months notice from either side and the current Chairman's letter of appointment contains a 12 months notice period from either side. The letter of appointment of the new Chairman from 1 August 2015 contains a six month notice period from either side.

All Non-executive Directors are subject to annual re-election and are appointed for an initial three year term.

Copies of Directors' service contracts and letters of appointment are available for inspection at the Company's registered office.

Director changes – additional information

Recruitment of Neil Cooper

Neil Cooper was appointed as a Non-executive Director with effect from 1 September 2014 and as chairman of the Audit Committee. His fee is in line with that of other Non-executive Directors.

Leaving arrangements – David Dupont (audited information)

David Dupont retired on 31 January 2015. This followed 23 years of service with the Company and 12 years as the Group Director of Finance. The Committee determined that Mr Dupont's retirement was a 'good leaver' circumstance. Consequently he received a performance related annual bonus, pro-rated for his period of employment in the year which remains subject to share deferral and his other outstanding deferred bonus awards are due to be released to him. Under the rules of the PCP his 2012 and 2013 PCP awards remain in force subject to performance conditions tested at the normal time and subject to pro-rating for time. His 2014 PCP award was forfeited due to his retirement being before the year-end.

Mr Dupont received no payment in lieu of notice or compensation for loss of office.

Recruitment of Susan Davy

Susan Davy joined the Board on 1 February 2015 as an Executive Director and as Group Director of Finance. Her remuneration package is in line with those of the other Executive Directors, except that her salary has been set at an initially lower level with a view to providing for scope for increases depending on performance over the next two years. She also has legacy pension arrangements which will continue to be honoured.

Recruitment of Sir John Parker

Sir John Parker was appointed as a Non-executive Director and as Deputy Chairman of the Board on 1 April 2015. His fee was determined to be 50% of that of the Chairman's fee and is due to be increased to the same level as the current Chairman's fee upon his taking up the appointment as Chairman on 1 August 2015. When appropriate for the efficient carrying out of his duties, he is provided with a driver and vehicle. He is entitled to expenses on the same basis as for other Non-executive Directors.

Outside appointments

Executive Directors may accept one board appointment in another company. Board approval must be sought before accepting an appointment. Fees may be retained by the Director. Currently, no Executive Directors hold outside company appointments other than with industry bodies or governmental or quasi-governmental agencies.

Non-executive Director fees and benefits

The Chairman's and the other Non-executive Directors' fees were increased by 2.5% for 2014/15 compared to the previous year following an assessment of the market and taking account of the time commitment of each Director.

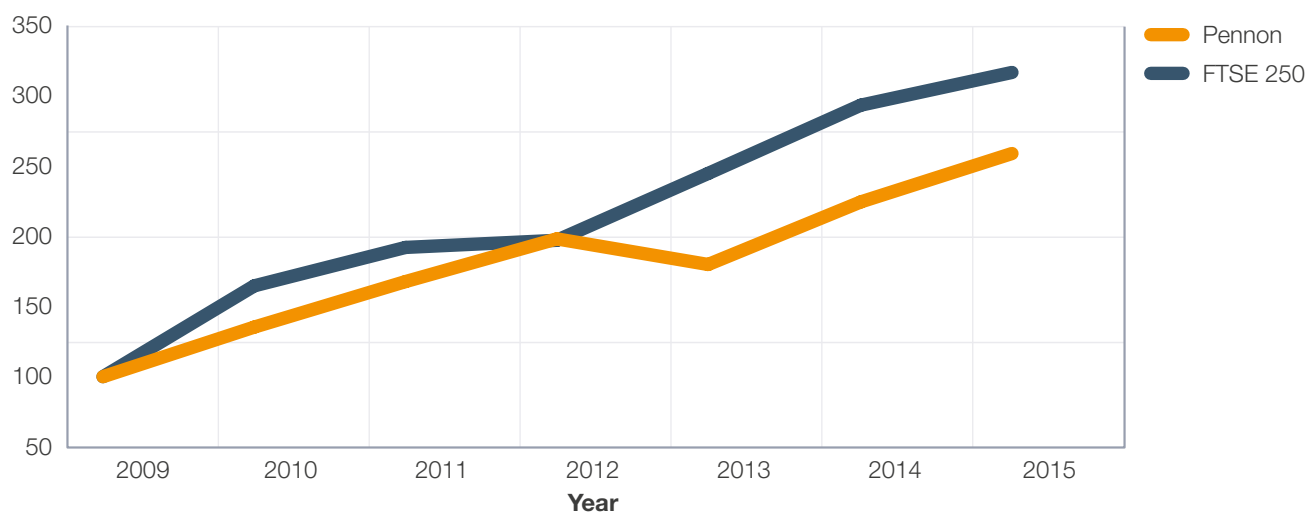
The existing Chairman's benefits comprise a company vehicle, fuel and private health insurance.

All employee, performance and other contextual information

Historical TSR

The graph below shows the value, over the six year period ending on 31 March 2015, of £100 invested in Pennon Group on 1 April 2009 compared with the value of £100 invested in the FTSE 250 Index. This index is considered appropriate as it is a broad equity market index of which the Company is a constituent.

Total shareholder return (TSR)



Equivalent chief executive officer remuneration

As the Company does not have a Group CEO, the Committee has decided to provide historic single figure information in the form of the average remuneration of the Executive Directors. Their remuneration is considered to be the most appropriate to use for this exercise as they are the most senior executives in the Company.

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15 ⁽ⁱ⁾
Average Executive Director single figure of remuneration (£000)	916	1,091	1,221	894 ⁽ⁱⁱ⁾	962	762
Annual bonus payout (% of maximum)	91.79	94.69	72.87	47.00	67.56	68.20
LTIP vesting (% of maximum) ⁽ⁱⁱⁱ⁾	67.30	50.00	79.30	50.00	30.20	0.00

(i) Due to the change in the post holder of Group Director of Finance (David Dupont to Susan Davy) in the year, the amount paid to both post holders has been included in the average

(ii) This figure is a correction to that reported last year

(iii) The LTIP vesting percentage excludes accrued dividends which are added on vesting.

Directors' remuneration report Continued

Annual report on remuneration Continued

Comparison of Executive Director remuneration to employee remuneration

The table below shows the percentage change between 2013/14 and 2014/15 in base salary, benefits and annual bonus for the average of the Executive Directors and all employees. To enable comparison, the remuneration of the previous Chief Executive, Viridor, for 2013/14 has been included in the calculation of the percentage changes.

The percentage increase in average remuneration for employees is calculated using wages and salaries (excluding share-based payments) of £143.9 million (2013/14 £134.3 million), analysed into the three components in the table and the average number of employees of 4,558 (2013/14 4,451) both as detailed in note 13 to the Group financial statements.

	Percentage change in salary	Percentage change in benefits	Percentage change in annual bonus
Average Executive Director remuneration	-0.18	-54.79 ⁽ⁱ⁾	-16.41 ⁽ⁱⁱ⁾
All employees	+4.57	-8.70	+14.81

(i) This figure includes relocation costs for Ian McAulay. Without these benefits the change would have been -13.58%.

(ii) This figure includes £112,000 related to buyout awards for Ian McAulay in 2013/14. Without this the change in annual bonus would have been -4.74%.

Relative importance of spend on pay

	2014/15 (£ million)	2013/14 (£ million)	Percentage change
Overall expenditure on pay ⁽¹⁾	165.4	157.9	+4.7
Distributions to ordinary shareholders	117.0	103.9	+12.6
Distributions to perpetual capital security holders	20.3	20.3	–
Purchase of property, plant and equipment (cash flow)	298.1	346.7	-14.0

(1) Excludes employer's social security costs and exceptional items.

The above table illustrates the relative importance of spend on pay compared with distributions to equity holders. The purchase of property, plant and equipment (cash flow) has also been included as this was the most significant outgoing for the Company in the last financial year.

Share award and shareholding disclosures (audited information)

Share awards granted during 2014/15

The table below sets out details of share awards made in the year to Executive Directors.

Executive Director	Type of interest	Basis of award	Face value £000	Percentage vesting at threshold performance	Performance period end date
Ian McAulay	PCP	100% of salary	355	30% of maximum	31 March 2017
David Dupont			387 ⁽ⁱ⁾		
Chris Loughlin			387		
Susan Davy		80% of salary	143 ⁽ⁱⁱ⁾		
Ian McAulay	Deferred bonus / ESOS	50% of bonus awarded	64	n/a	26 August 2017
David Dupont			137		
Chris Loughlin			161		
Susan Davy			62 ⁽ⁱⁱ⁾		

Sharesave (SAYE) awards were also made, as detailed on the next page.

(i) Due to David Dupont's retirement within the year, this award will be forfeited

(ii) These awards were made to Susan Davy in her previous position with the Group as finance and regulatory director, South West Water.

PCP awards were calculated using the share price at the date of grant (14 July 2014) which was £7.98 per share. Deferred bonus awards were calculated using the share price at the date of grant (27 August 2014) which was £8.21.

The deferred bonus plan is operated in conjunction with the Company's HMRC approved executive share option scheme (ESOS). This is on the basis that the aggregate pre-tax value of the awards made under both the annual bonus and the ESOS would be the same as they would have been if the bonus plan had operated alone. This is achieved by requiring that an amount of deferred shares, equal in value to any gain made on the exercise of ESOS options, is forfeited by the Directors at the end of the three year deferral period.

Directors' shareholding and interest in shares

The Remuneration Committee believes that the interests of Executive Directors and senior management should be closely aligned with the interests of shareholders. To support this, the Committee operates shareholding guidelines. The Executive Directors are expected to build

up a shareholding in the Company in accordance with the Company's shareholding guideline which amounts to a shareholding interest equivalent to 100% of salary to be built up within the first five years of joining the Company at the rate of at least 20% per year by the end of each year. This level of shareholding is then expected to be maintained by each Director and is revalued each year in accordance with the then prevailing share price and the Executive Director's salary.

The beneficial interests of the Executive Directors in the ordinary shares (40.7p each) of the Company as at 31 March 2015 (or date of cessation, if earlier) and 31 March 2014 together with their shareholding guideline obligation and interest are shown in the table below:

	Share interests (including connected parties) at 31 March 2015	Share interests (including connected parties) at 31 March 2014	Shareholding guideline (100% to be accrued over five years)	Shareholding guideline met?	Unvested awards				
					Performance shares (subject to performance conditions)	SAYE	Deferred Bonus shares	ESOS	Buyout award
Susan Davy ⁽ⁱ⁾	38,557	30,085	20%	Yes	56,936	1,530	22,361	4,329	–
David Dupont	371,648	350,194	100%	No longer applicable – retired	71,968 ⁽ⁱⁱ⁾	–	50,519 ⁽ⁱⁱⁱ⁾	4,329 ⁽ⁱⁱⁱ⁾	–
Chris Loughlin	225,045	193,543	100%	Yes	154,420	2,788	57,180	4,329	–
Ian McAulay	–	–	20%	Yes ^(iv)	44,458	–	7,775	3,651	16,091

(i) Susan Davy's unvested awards were those she received in her previous position as finance and regulatory director, South West Water, which she will retain an interest in following her appointment as Group Director of Finance on 1 February 2015

(ii) Following his retirement on 31 January 2015 David Dupont's continuing interest in performance shares has been pro-rated to the period he was employed during each restricted period save for the 2014 award which has been forfeited in its entirety

(iii) David Dupont's deferred bonus share awards are due for release in conjunction with his ESOS award following his retirement on 31 January 2015

(iv) Ian McAulay purchased 9,045 ordinary shares in the Company on 29 May 2015.

Since 31 March 2015 3,233 additional ordinary shares in the Company have been acquired by Chris Loughlin as a result of participation in the Company's Scrip Dividend Alternative and the Company's Share Incentive Plan; 37 additional ordinary shares in the Company have been acquired by Susan Davy as a result of participation in the Company's Share Incentive Plan; and Ian McAulay purchased 9,045 ordinary shares in the Company. There have been no other changes in the beneficial interests or the non-beneficial interests of the above Directors in the ordinary shares of the Company between 1 April 2015 and 18 June 2015.

Directors' remuneration report Continued

Annual report on remuneration Continued

Non-executive Directors' shareholding

The beneficial interests of the Non-executive Directors, including the beneficial interests of their spouses, civil partners, children and step-children, in the ordinary shares (40.7p) of the Company are shown in the table below:

Director	Shares held at 31 March 2015	Shares held at 31 March 2014
Ken Harvey	26,209	26,209
Martin Angle	–	–
Gerard Connell	4,495	4,271
Neil Cooper	–	–
Gill Rider	2,500	2,500

Since 31 March 2015 Sir John Parker has purchased 10,000 ordinary shares in the Company. There have been no other changes in the beneficial interests or the non-beneficial interests of the above Directors in the ordinary shares of the Company between 1 April 2015 and 18 June 2015.

There is no formal shareholding guideline for the Non-executive Directors; however they are encouraged to purchase shares in the Company.

Shareholder dilution

The Company can satisfy awards under all of its share plans with new issue shares or shares issued from Treasury up to a maximum of 10% of its issued share capital in a rolling 10 year period to employees under all its share plans. Within this 10% limit the Company can only issue (as newly issued shares or from Treasury) 5% of its issued share capital to satisfy awards under discretionary or executive plans. The percentage of shares awarded within these guidelines and the headroom remaining available as at 18 June 2015 is as set out below:

	Awarded	Headroom	
Discretionary schemes	1.35%	3.65%	Total 5%
All schemes	3.72%	6.28%	Total 10%

Details of share awards

(a) Performance and Co-investment Plan (long-term incentive plan)

In addition to the above beneficial interests, the following Directors have or had a contingent interest in the number of ordinary shares (40.7p each) of the Company shown below, representing the maximum number of shares to which they would become entitled under the plan should the relevant criteria be met in full:

Director and date of award	Conditional awards held at 1 April 2014	Conditional awards made in year	Market price upon award in year	Vesting in year ⁽ⁱ⁾	Value of shares upon vesting (before tax) £000	Conditional awards held at 31 March 2015	Date of end of period for qualifying conditions to be fulfilled
Susan Davy⁽ⁱⁱ⁾							
1/7/11	18,338	–	698.00p	6,216	50	–	30/6/14
3/7/12	17,696	–	768.50p	–	–	17,696	2/7/15
2/7/13	21,347	–	653.00p	–	–	21,347	1/7/16
14/7/14	–	17,893	798.50p	–	–	17,893	13/7/17
David Dupont							
1/7/11	51,432	–	698.00p	17,434	140	–	30/6/14
3/7/12	48,145	–	768.50p	–	–	41,458 ⁽ⁱⁱⁱ⁾	2/7/15
2/7/13	57,810	–	653.00p	–	–	30,510 ⁽ⁱⁱⁱ⁾	1/7/16
14/7/14	–	48,465	798.50p	–	–	– ⁽ⁱⁱⁱ⁾	13/7/17
Chris Loughlin							
1/7/11	51,432	–	698.00p	17,434	140	–	30/6/14
3/7/12	48,145	–	768.50p	–	–	48,145	2/7/15
2/7/13	57,810	–	653.00p	–	–	57,810	1/7/16
14/7/14	–	48,465	798.50p	–	–	48,465	13/7/17
Ian McAulay							
14/7/14	–	44,458	798.50p	–	–	44,458	13/7/17

(i) 30.2% of the July 2011 award shares vested on 29 August 2014 at a market price of 804.96p per share. The total number of shares that vested included additional shares equivalent in value to such number of shares as could have been acquired by reinvesting the dividends which would otherwise have been received on the vested shares during the restricted period of three years. The balance of the award lapsed

(ii) Susan Davy's share awards are those she received in her previous position as finance and regulatory director, South West Water, which she will retain an interest in following her appointment as Group Director of Finance on 1 February 2015

(iii) Following retirement on 31 January 2015 David Dupont's award shares have been pro-rated to the period of the restricted period he was employed by the Company. The remainder of the awards have lapsed with the exception of the award made on 14 July 2014 which has lapsed in its entirety due to his retirement being before the financial year-end of the year in which the award was made.

Payments to past Directors

As reported in last year's remuneration report Colin Drummond, who retired as an Executive Director of the Company on 30 September 2013, remains entitled to a pro rata share of any Performance and Co-investment Plan (PCP) awards he received for the period of the restricted period he was employed by the Company. 30.2% of the PCP award made on 1 July 2011 vested on 29 August 2014 and Colin Drummond received this award, together with additional shares to the value of the accrued dividends on such shares pro-rated on the same basis as the award shares, amounting in total to 13,076 shares valued at £105,000.

Directors' remuneration report Continued

Annual report on remuneration Continued

Details of share awards Continued

(b) Annual incentive bonus plan – deferred bonus shares
(long-term incentive element)

The following Directors had or have a contingent interest in the number of ordinary shares (40.7p each) of the Company shown below, representing the total number of shares to which they have or would become entitled under the deferred bonus element of the annual incentive bonus plan (the bonus plan) at the end of the relevant qualifying period:

Director and date of award	Conditional awards held at 1 April 2014	Conditional awards made in year	Market price upon award in year	Vesting in year	Value of shares upon vesting (before tax) £000	Conditional awards held at 31 March 2015	Date of end of period for qualifying conditions to be fulfilled
Susan Davy⁽ⁱ⁾							
27/7/11	6,078	–	725.00p	6,078 ⁽ⁱⁱ⁾	49	–	26/7/14
27/7/12	7,263	–	754.50p	–	–	7,263	26/7/15
5/8/13 ⁽ⁱⁱⁱ⁾	7,555	–	693.00p	–	–	7,555	4/8/16
27/8/14	–	7,543	821.50p	–	–	7,543	26/8/17
David Dupont							
27/7/11	22,365	–	725.00p	22,365 ⁽ⁱⁱ⁾	179	–	26/7/14
27/7/12	18,532	–	754.50p	–	–	18,532 ^(iv)	26/7/15
5/8/13 ⁽ⁱⁱⁱ⁾	15,323	–	693.00p	–	–	15,323 ^(iv)	4/8/16
27/8/14	–	16,664	821.50p	–	–	16,664 ^(iv)	26/8/17
Chris Loughlin							
27/7/11	22,141	–	725.00p	22,141 ⁽ⁱⁱ⁾	177	–	26/7/14
27/7/12	20,650	–	754.50p	–	–	20,650	26/7/15
5/8/13 ⁽ⁱⁱⁱ⁾	16,978	–	693.00p	–	–	16,978	4/8/16
27/8/14	–	19,552	821.50p	–	–	19,552	26/8/17
Ian McAulay							
30/9/13 ^(v)	16,091	–	696.00p	–	–	16,091	29/9/16
27/8/14 ⁽ⁱⁱⁱ⁾	–	7,775	821.50p	–	–	7,775	26/8/17

(i) Susan Davy's share awards are those she received in her previous position as finance and regulatory director, South West Water, which she will retain an interest in following her appointment as Group Director of Finance on 1 February 2015

(ii) These shares vested on 18 August 2014 at 798.91p per share

(iii) In addition to the awards made on 5 August 2013 (and 27 August 2014 to Ian McAulay) the Directors received options pursuant to the Company's executive share option scheme (ESOS), details of which are set out on page 91. These awards were made in conjunction with the operation of the bonus plan, details of which are set out on page 75

(iv) These shares are due to be released to David Dupont in conjunction with the operation of the ESOS following his retirement on 31 January 2015

(v) This was a buy-out award.

During the year the Directors received dividends on the above shares in accordance with the conditions of the bonus plan as follows:

Susan Davy £6,334; David Dupont £17,040;
Chris Loughlin £18,116*.

*Chris Loughlin received his dividend in the form of ordinary shares (40.7p each) in the Company as a result of participation in the Company's Scrip Dividend Alternative and these shares are included in the figure given for the additional ordinary shares (40.7p each) in the Company that he acquired since 31 March 2015 given on page 87.

(c) Executive Share Option Scheme (ESOS)

The following Directors had a contingent interest in the number of options shown in the ordinary shares (40.7p each) of the Company pursuant to the Company's ESOS. Further details relating to the operation of the scheme are set out on page 87.

Date of award	Options held at 1 April 2014	Granted in year	Exercised in year	Exercise price per share	Market price of each share on exercising	Market value of each share at 31 March 2015	Options held at 31 March 2015	Maturity date
Susan Davy⁽ⁱ⁾								
5/8/13	4,329	–	–	693.00p	–	826.00p	4,329	5/8/16
David Dupont								
5/8/13	4,329	–	–	693.00p	–	826.00p	4,329 ⁽ⁱⁱ⁾	5/8/16
Chris Loughlin								
5/8/13	4,329	–	–	693.00p	–	826.00p	4,329	5/8/16
Ian McAulay								
27/8/14	–	3,651	–	821.50p	–	826.00p	3,651	27/8/17

(i) Susan Davy's share options are those she received in her previous position as finance and regulatory director, South West Water, which she will retain an interest in following her appointment as Group Director of Finance on 1 February 2015

(ii) David Dupont's option is exercisable in conjunction with the release of his deferred bonus share awards following his retirement on 31 January 2015.

(d) Sharesave scheme

Details of options to subscribe for ordinary shares (40.7p each) of the Company under the all-employee sharesave scheme were:

Date of award	Options held at 1 April 2014	Granted in year	Exercised in year	Exercise price per share	Market price of each share on exercising	Market value of each share at 31 March 2015	Options held at 31 March 2015	Exercise period/ maturity date
Susan Davy⁽ⁱ⁾								
29/6/12	1,530	–	–	588.00p	–	826.00p	1,530	1/9/15 – 28/2/16
Chris Loughlin								
3/7/13	2,788	–	–	538.00p	–	826.00p	2,788	1/9/18 – 28/2/19

(i) Susan Davy's share options are those she received in her previous position as finance and regulatory director, South West Water, which she will retain an interest in following her appointment as Group Director of Finance on 1 February 2015.

Directors' remuneration report Continued

Annual report on remuneration Continued

Advisers to the Remuneration Committee

During the year the Committee received advice or services which materially assisted the Committee in the consideration of remuneration matters from Ken Harvey, Chairman of the Company, Ken Woodier, Group General Counsel & Company Secretary, and from the following advisors who were appointed directly by the Committee:

- Deloitte LLP on calculating the Company's total shareholder return compared with two comparator groups for the Company's long-term incentive plan, on remuneration trends and on the fee level for the Deputy Chairman. Subsequent to the year-end Deloitte LLP provided advice to the Committee on the introduction of malus and clawback provisions in the Company's Performance and Co-investment Plan and on the form of the Directors' remuneration report. Deloitte LLP's fees in respect of advice which materially assisted the Committee during 2014/15 were £51,250. Deloitte LLP also provided tax and share scheme advice to the Group, and consulting, corporate finance and assurance advisory services to Viridor. Deloitte LLP is a member of the Remuneration Consultants' Group and as such voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice it has received from Deloitte LLP has been objective and independent.

Statement of voting at General Meeting

The table below sets out the voting by the Company's shareholders on the resolution to approve the Directors' remuneration report and the Directors' remuneration policy at the Annual General Meeting held on 31 July 2014, including votes for, against and withheld.

	Remuneration report	Remuneration policy
For % (including votes at the Chairman's discretion)	95.82	97.11
Against %	4.18	2.89
Withheld number	259,985	264,354

A vote withheld is not counted in the calculation of the proportion of votes 'for' and 'against' a resolution.

The Remuneration Committee is pleased to note that over 95% of shareholders who voted approved the 2013/14 Directors' remuneration report and remuneration policy. The Committee appreciates the continuing support of its shareholders.

On behalf of the Board

Martin Angle

Chairman of the Remuneration Committee
22 June 2015



Strategic
overview



South West
Water



Viridor



Group



Governance



Financial
statements

Directors' report – other statutory disclosures

Introduction

This Directors' report is prepared in accordance with the provisions of the Companies Act 2006 and regulations made thereunder. It comprises pages 53 to 71 and 93 to 95 as well as the following matters which the Board considers are of strategic importance and, as permitted by legislation, has chosen to include in the strategic report rather than the Directors' report:

- internal control and risk management systems (page 61 of the governance report)
- likely future developments of the Company (pages 9, 19 and 27 of the strategic report)
- important post-balance sheet events (page 33 of the strategic report and page 155 of the financial statements)
- all matters relating to sustainability, which include details of the Group's carbon emissions (page 46 of the strategic report) and information relating to employee involvement (pages 18, 27 and 50 of the strategic report, as well as the disclosure below).

In addition, the Directors' report includes the following disclosures (and any other disclosures) which are incorporated by reference:

- financial risk management (pages 110 to 112 of the notes to the financial statements)
- financial instruments (pages 108 and 128 of the notes to the financial statements).

Board of Directors

The Directors in office as at the date of this report (all of whom served during the year with the exception of Sir John Parker, who was appointed on 1 April 2015) are named on pages 56 and 57. In addition, Mr David Dupont, who occupied the position of Group Director of Finance, served as a Director during the year until his retirement from the Board on 31 January 2015.

Financial results and dividend

The Directors recommend a final dividend of 21.82p per ordinary share to be paid on 2 October 2015 to shareholders on the register on 7 August 2015, making a total dividend for the year of 31.80p, the cost of which will be £129.5 million, resulting in a reduction in reserves of £3 million. The strategic report on pages 28 to 33 analyses the Group's financial results in more detail and sets out other financial information.

Directors' insurance and indemnities

The Directors have the benefit of the indemnity provisions contained in the Company's Articles of Association ('Articles'), and the Company has maintained throughout the year Directors' and officers' liability insurance for the benefit of the Company, the Directors and its officers. The Company has entered into qualifying third party indemnity arrangements for the benefit of all its Directors in a form and scope which comply with the requirements of the Companies Act 2006 and which were in force throughout the year and remain in force.

Employment policies and employee involvement

The Group has a culture of continuous improvement through investment in people at all levels within the Group. The Group is committed to pursuing equality and diversity in all its employment activities including recruitment, training, career development and promotion and ensuring there is no bias or discrimination in the treatment of people. In particular, applications for employment are welcomed from persons with disabilities, and special arrangements and adjustments as necessary are made to ensure that applicants are treated fairly when attending for interview or for pre-employment aptitude tests. Wherever possible the opportunity is taken to retrain people who become disabled during their employment in order to maintain their employment within the Group. Information regarding the Group's workplace policies is provided on page 50.

The Board has a diversity policy and encourages gender diversity in particular. Further details of the Board's diversity policy are set out in the report of the Nomination Committee on page 70, and information regarding the diversity of the workforce is provided on page 50.

Employees are consulted regularly about changes which may affect them either through their trade union-appointed representatives or by means of the elected staff council which operates in South West Water for staff employees.

These forums, together with regular meetings with particular groups of employees, are used to ensure that employees are kept up to date with the business performance of their employer and the financial and economic factors affecting the performance of the Group. The Group also cascades information monthly to all employees to provide them with important and up to date information about key events and to obtain feedback from them. Further information about employment matters relating to the Group is set out on pages 18, 27 and 50 of the strategic report.

The Group encourages share ownership among its employees by operating an HM Revenue & Customs approved Sharesave Scheme and Share Incentive Plan. Following shareholder approval at the 2014 AGM, these were amended to provide for the increased savings limits approved by government. At 31 March 2015 around 40% of the Group's employees were participating in these plans.

Human rights

The Group is fully supportive of the principles set out in the UN Declaration of Human Rights, and the Group Ethics Policy outlines the high standards of employment practice with which everyone in Pennon Group is expected to comply. The Group also supports the International Labour Organisation's core conventions for the protection and safety of workforces wherever they may be throughout the Group.

Directors' report – other statutory disclosures Continued

Research and development

Research and development within the Group involving water and waste treatment processes amounted to £0.1 million during the year (2013/14 £0.1 million).

Overseas branches

The Company has no overseas branches.

Pennon Group donations

No political donations were made or political expenditure incurred and no contributions were made to a non-EU political party (2013/14 nil).

Purchase of own ordinary shares

The Company has authority from shareholders to purchase up to 10% of its own ordinary shares (as renewed at the Annual General Meeting in 2014), which was valid as at 31 March 2015 and remains currently valid. No purchases were made during the year. As at 1 April 2014, 1,282,690 shares were held in Treasury, with a nominal value of £522,055 and representing 0.34% of issued share capital. 893,175 Treasury shares representing 0.24% of issued share capital as at 1 April 2014 were re-issued during the year under the Company's employee share schemes for proceeds of £3.9 million.

Disclosures required by publicly traded companies

The following disclosures are made pursuant to Part 6 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts & Reports) Regulations 2008 and Rule 7.2.6.R of the UK Listing Authority's Disclosure and Transparency Rules (DTR).

As at 31 March 2015:

- a) Details of the Company's issued share capital, which consists of ordinary shares of nominal value 40.7 pence each, are set out in note 33 to the financial statements on pages 146 to 148. All of the Company's issued shares are fully paid up, rank equally in all respects and are listed on the Official List and traded on the London Stock Exchange. The rights and obligations attaching to the Company's shares, in addition to those conferred on their holders by law, are set out in the Company's Articles, copies of which can be obtained from Companies House in the UK or by writing to the Group Company Secretary at the Company's registered office;
- b) There are no restrictions on the transfer of issued shares of the Company or on the exercise of voting rights attached to them, except where the Company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the Company with information requested by it in accordance with Part 22 of the Companies Act 2006 or where their holder is precluded from exercising voting rights by the Financial Conduct Authority's Listing Rules or the City Code on Takeovers and Mergers. There are no persons with special rights regarding control of the Company. No shares issued under the Employee Share Schemes have rights with regard to control of the Company that are not exercisable directly by the employees;
- c) Details of significant direct or indirect holdings of securities of the Company are set out in the shareholder analysis on page 159. The Company is not aware of any agreements between shareholders which may result in restrictions on the transfer of securities or on voting rights;
- d) The Company's rules about the appointment and replacement of Directors are contained in the Articles and accord with usual English company law provisions. The powers of Directors are determined by UK legislation and the Articles in force from time to time. Changes to the Articles must be approved by the Company's shareholders by passing a special resolution;
- e) The Directors have the power to make purchases of the Company's own shares in issue as set out above. The Directors also have the authority to allot shares up to an aggregate nominal value of: (i) £51,879,733 (such amount to be reduced by any shares allotted or rights granted under (ii) below in excess of £51,879,733); and (ii) £103,759,466 by way of a rights issue (such amount to be reduced by any shares allotted or rights granted from (i) above), which was approved by shareholders at the 2014 Annual General Meeting (AGM). In addition, shareholders approved a resolution giving the Directors a limited authority to allot shares for cash other than pro rata to existing shareholders. These resolutions remain valid until the conclusion of this year's AGM. Similar resolutions will be proposed at this year's AGM. The Directors have no present intention to issue ordinary shares other than pursuant to the Company's employee share schemes and the Scrip Dividend Alternative;
- f) There are a number of agreements which take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as bank loan agreements, eurobond documentation, hybrid capital securities documentation, private placement debt and employees' share plans. This may result in certain funding agreements being altered or repaid early. The impact on employees' share plans is not considered significant; and
- g) There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.

Going concern

Having considered the Group's funding position and financial projections the Directors have a reasonable expectation that the Group has adequate resource to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for the year.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates which are reasonable and prudent
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, and disclose with reasonable accuracy at any time the financial position of the Group and the Company; and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, article 4 of the International Accounting Standards (IAS) Regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors, whose names and functions are listed on pages 56 and 57, confirms that, to the best of his or her knowledge:

- The financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group and of the Company.
- The strategic report (pages 4 to 51) and the Directors' report (pages 53 to 95) include a fair review of the development and performance of the business during the year and the position of the Company and the Group at the year end, together with a description of the principal risks and uncertainties they face.
- Following receipt of advice from the Audit Committee, that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the shareholders to assess the Group's performance, business model and strategy.

The Directors are responsible for the maintenance and integrity of the Company's website www.pennon-group.co.uk

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement as to disclosure of information to the auditor

- So far as each of the Directors in office at the date of the signing of the report is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each of the Directors has taken all the steps each Director ought to have taken individually as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors' report consisting of pages 53 to 71 and 93 to 95 was approved by the Board on 22 June 2015.

By Order of the Board

Kenneth Woodier
Group Company Secretary
22 June 2015

Independent auditor's report

Independent auditor's report to the members of Pennon Group Plc

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

We have audited the financial statements of Pennon Group Plc for the year ended 31 March 2015 which comprise the consolidated income statement, consolidated statement of comprehensive income, the Group and Parent Company balance sheets, the Group and Parent Company statements of changes in equity, the Group and Parent Company cash flow statements and the related notes 1 to 45. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the statement of Directors' responsibilities set out on page 95, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

An overview of the scope of the audit

Full scope locations are those in which we obtain audit coverage over all significant financial statement line items related to that location. Specific scope locations are those in which we obtain audit coverage over selected financial statement line items, which are determined based upon size and risk. The audit procedures in full and specific scope locations are performed by audit teams based in the corresponding locations. Other scope locations for which the financial statement line items are determined to be immaterial individually and in the aggregate based on both size and risk, are subject to analytical procedures performed by the Group audit team. The audit scopes we have adopted are set out below. During the year, the Senior Statutory Auditor visited key infrastructure assets and the head office of each full scope business where she attended meetings with management and engaged with the audit team on the planning and execution of our work. We included the full scope component teams in our Group audit planning briefing and interacted regularly with component teams where appropriate throughout the various stages of the audit.

Business	Scope
Pennon Group Plc	Full scope
Viridor	Full scope
South West Water	Full scope
Peninsula Insurance Limited	Specific scope
All other entities	Other scope

The three full scope components, over which we performed our audit procedures, represent the principal businesses within the Group's operations and account for just under 100% of the Group's revenue and profit before tax and 95% of the Group's total assets. The only change to the prior year is Peninsula Insurance Limited which has moved from 'other' to 'specific scope'.

Our assessment of risks of material misstatement

We identified the following risks that have had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. For each risk identified, we have documented our response and audit procedures below and these are broadly consistent with the prior year:

Risk of material misstatement	Our response to the risks of material misstatement included the following procedures
<p>Valuation of goodwill (Group)</p> <p>The value of goodwill is £339.3 million, as included in note 15. The recoverable value of the waste management business, to which goodwill belongs, is sensitive to changes in assumptions over future landfill volumes, power generation prices and discount rates. The Group's annual assessment of the recoverable value requires judgement as to the future cash flow projections and the discount rates to be used. Audit Committee commentary is on page 64.</p>	<ul style="list-style-type: none"> • We validated management's determination of cash generating units (CGUs), through a detailed review of whether they have independent cash flows • We audited the underlying cash flow/ fair value models supporting the carrying value of Viridor assets (discussed below) • We agreed input data into the goodwill impairment model and cash flow forecasts, to information from the Viridor business as audited by our Viridor component team, and performed sensitivity analysis over this data, including growth rates, volumes, costs and powergen prices • We audited the discount rate calculation applied at Group level, using our internal valuation experts to assist in our review of whether management's assumptions are within an acceptable range based on comparative market data • We confirmed the clerical accuracy of the models • We assessed whether disclosures made are in accordance with IFRS.
<p>Valuation of non-current assets (Viridor)</p> <p>The net book value of these assets is £945.3 million, as included in note 17. The Group is required to review the carrying value of assets when any impairment indicators are identified. In calculating the recoverable amounts, key assumptions are made by management over the cash flow forecasts, discount rates and grouping of assets into CGUs. Audit Committee commentary is on page 64.</p>	<ul style="list-style-type: none"> • We evaluated the cash flow forecasts and the key assumptions, agreeing assumptions made to supporting evidence, such as budgets and current performance, and using our internal valuation experts to assess management's projection of future electricity prices and whether management's discount rate assumptions are within an acceptable range based on comparative market data • We compared the strategic plans with prior year plans and assessed changes in these plans over time and management's ability to forecast • We evaluated the fair value calculations for any Fair Value Less Cost of Disposal (FVLCD) recoverable amounts • We performed sensitivity analysis on the key assumptions, including growth rates, volumes, costs and powergen prices • We reviewed the impairment model and tested it for clerical accuracy.
<p>Landfill related provisions (Viridor)</p> <p>Landfill related provisions of £193.0 million are recorded in note 32 and consist of aftercare, restoration and remediation provisions.</p> <p>Calculation of the aftercare provision involves significant judgement over the expected period of aftercare, the level of costs to be incurred and the discount rate to be used.</p> <p>Key areas of estimation for the restoration provision include the expected restoration costs, the void space to be filled and timing of site closure.</p> <p>Judgement over the remedial action required to comply with current environmental legislation, where breaches have been identified, is key for the remediation provision. Audit Committee commentary is on page 64.</p>	<ul style="list-style-type: none"> • We evaluated the forecast costs in the models, agreeing these to supporting evidence such as budgets and current performance • We assessed the reasonableness of material judgements made, including expected gas generation and anticipated cost savings to detailed plans and current performance • We reviewed the reasonableness of key assumptions used in the calculation of the provisions, including the discount rates, inflation rates, void space and remaining lives of the sites to available market information • We performed sensitivity analysis on these key assumptions • We reviewed the aftercare, restoration and remediation provision models, and ensured that the models are clerically accurate.

Independent auditor's report Continued

Independent auditor's report to the members of Pennon Group Plc

Risk of material misstatement	Our response to the risks of material misstatement included the following procedures
<p>Revenue recognition across the Group's operations The Group's material revenue streams relate to the provision of water and wastewater services by South West Water and revenue generated from the renewable energy, recycling and waste management services provided by Viridor. ISAs (UK & Ireland) presume there is a risk of fraud relating to revenue recognition and for the Group this risk over revenue recognition specifically arises in the following judgemental areas:</p> <p>South West Water</p> <ul style="list-style-type: none"> Income from measured water services requires an estimation of the amount of unbilled charges at the year-end. This is calculated using a combination of system generated information, based on previous customer volume usage, together with management judgements as to the likely impact on usage of factors such as recent weather patterns. <p>Viridor</p> <ul style="list-style-type: none"> Calculations of accrued income on waste management contracts and powergen revenue to be received involve estimation by management Accounting for revenue from long-term service concession arrangements under IFRIC12 requires revenue to be recognised on construction, during service delivery and as a capital return on the asset Recognition of revenue in the correct period through the correct cut-off of invoices raised close to the balance sheet date. <p>Audit Committee commentary is on page 64.</p>	<p>South West Water</p> <ul style="list-style-type: none"> We tested key controls linked to system generated information and around the estimation process We challenged the key assumptions and estimates made by management in recognising revenue We understood the process for the supply of measured services, meter reading and related billing in order to challenge the completeness of adjustments to reflect the accrual or deferral of revenue. This included considering whether contract terms and conditions were met and revenue recognised at the correct time in accordance with IFRS We performed detailed analytical procedures by comparing revenue balances for the year against expectation and obtained support for significant variances We compared the accrued income to bills raised post year end for a sample of customers, and compared management's history of estimating the accrued income to bills raised in the subsequent year In performing our journal testing, we paid increased attention to entries impacting revenue. <p>Viridor</p> <ul style="list-style-type: none"> We challenged the key assumptions and estimates made by management in recognising revenue For material items we re-performed the calculation to confirm the accuracy of the accrued income recorded by management In performing our journal testing, we paid increased attention to entries impacting revenue, particularly those raised close to the balance sheet date We assessed whether the revenue recognition policies adopted complied with IFRSs, in particular the requirements of IFRIC 12 and whether margins used to recognise revenue were appropriate We performed cut-off testing of invoices raised prior to and after the balance sheet date to ensure revenue has been recognised in the correct period.
<p>Adequacy of the provision for doubtful debts (South West Water) As shown in note 22, there is a provision of £86.8 million at the year-end against gross trade debtors of £282.5 million.</p> <p>The South West Water provision is calculated using a combination of system generated information on historic debt recovery rates and management's judgement of the future likely recovery rates. Audit Committee commentary is on page 64.</p>	<ul style="list-style-type: none"> We tested controls over the integrity of data and the report utilised to generate the ageing and categorisation of debt within South West Water's billing system We tested historic data on collection rates and how this data was used in the preparation of the bad debt provision We challenged the assumptions used by management in determining the amounts provided against the different categories and age of debt, by comparing these assumptions to historic collection rates and by considering the impact of changes in the methods adopted by management to collect debt.
<p>Provisions for uncertain tax positions (Group) The Company's current tax liability of £52.2 million shown in note 27, includes £36.6 million in respect of open tax computations relating to prior years, where liabilities are yet to be agreed with HM Revenue & Customs (HMRC). The Company establishes provisions for individual tax items where the tax position is uncertain. Audit Committee commentary is on page 64.</p>	<ul style="list-style-type: none"> We inspected the latest correspondence between the Group and HMRC and reviewed details of any new enquiries that have been opened We reviewed and inspected any legal advice or opinion management have obtained in the period in relation to uncertain tax positions We reviewed the adequacy of disclosure in the annual report We obtained an updated view from treasury tax specialists as to HMRC's current position on open matters We challenged the level of provision maintained for uncertain tax positions, in light of evidence obtained We tested whether the tax accounting and disclosures in note 9 complied with the requirements of IAS12 'Income Taxes'.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. For the purposes of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

When establishing our overall audit strategy, we determined a magnitude for uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined materiality for the Group to be £10 million, which is the same as in the prior year, and is approximately 5% of profit before taxation before exceptional items. This provided the basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment and being our first year audit, our judgement was that overall performance materiality for the Group should be 50% of materiality, namely £5 million.

Audit work at individual components is undertaken based on a percentage of our total performance materiality. The performance materiality set for each component is based on the relative size of the component and our view of the risk of misstatement at that component. In the current year the range of performance materiality allocated to components was £1 million to £4.25 million.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.5 million. We also agreed to report differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 95, in relation to going concern; and
- the part of the corporate governance statement relating to the Company's compliance with the 10 provisions of the UK Corporate Governance Code specified for our review.

Debbie O'Hanlon (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
Reading
22 June 2015

Notes:

- The maintenance and integrity of the Pennon Group Plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

For the year ended 31 March 2015

	Notes	Before exceptional items 2015 £m	Exceptional items (Note 6) 2015 £m	Total 2015 £m	Before exceptional items 2014 £m	Exceptional items (Note 6) 2014 £m	Total 2014 £m
Revenue	5	1,357.2	–	1,357.2	1,321.2	–	1,321.2
Operating costs	7						
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	5	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	5	246.6	(13.7)	232.9	257.5	(48.6)	208.9
Finance income	8	44.0	–	44.0	43.3	–	43.3
Finance costs	8	(84.8)	–	(84.8)	(97.2)	–	(97.2)
Net finance costs	8	(40.8)	–	(40.8)	(53.9)	–	(53.9)
Share of post-tax profit from joint ventures	20	4.9	–	4.9	3.7	–	3.7
Profit before tax	5	210.7	(13.7)	197.0	207.3	(48.6)	158.7
Taxation (charge)/credit	9	(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)	11						
– Basic				32.3			38.8
– Diluted				32.2			38.6
– Before exceptional items and deferred tax				39.8			42.6

Consolidated statement of comprehensive income

For the year ended 31 March 2015

	Notes	Before exceptional items 2015 £m	Exceptional items (Note 6) 2015 £m	Total 2015 £m	Before exceptional items 2014 £m	Exceptional items (Note 6) 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							
<i>Items that will not be reclassified to profit or loss</i>							
Remeasurement of defined benefit obligations	30	(2.1)	–	(2.1)	26.2	–	26.2
Income tax on items that will not be reclassified	9, 31	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
<i>Items that may be reclassified subsequently to profit or loss</i>							
Share of other comprehensive income from joint ventures	20	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	9, 31	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	36	(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

The notes on pages 105 to 156 form part of these financial statements.

Balance sheets

At 31 March 2015

		Group		Company	
	Notes	2015 £m	2014 £m	2015 £m	2014 £m
Assets					
Non-current assets					
Goodwill	15	339.3	339.3	–	–
Other intangible assets	16	56.4	30.6	–	–
Property, plant and equipment	17	3,578.8	3,450.4	0.1	0.2
Other non-current assets	19	291.1	230.3	790.0	834.0
Deferred tax assets	31	–	–	3.0	1.3
Derivative financial instruments	23	60.2	25.9	–	0.2
Investments in subsidiary undertakings	20	–	–	1,523.6	1,323.3
Investments in joint ventures	20	0.1	0.1	–	–
		4,325.9	4,076.6	2,316.7	2,159.0
Current assets					
Inventories	21	15.0	12.1	–	–
Trade and other receivables	22	287.7	278.2	156.2	11.4
Financial assets at fair value through profit	24	0.1	0.4	–	–
Derivative financial instruments	23	8.1	2.6	–	–
Cash and cash deposits	25	771.0	613.1	532.5	326.7
		1,081.9	906.4	688.7	338.1
Liabilities					
Current liabilities					
Borrowings	28	(113.6)	(273.9)	(333.9)	(407.5)
Derivative financial instruments	23	(19.5)	(20.8)	(2.9)	(2.4)
Trade and other payables	26	(277.7)	(298.8)	(5.6)	(7.4)
Current tax liabilities	27	(52.2)	(37.7)	(23.8)	(1.1)
Provisions	32	(32.9)	(33.3)	–	–
		(495.9)	(664.5)	(366.2)	(418.4)
Net current assets/(liabilities)		586.0	241.9	322.5	(80.3)
Non-current liabilities					
Borrowings	28	(2,854.5)	(2,533.2)	(885.4)	(691.3)
Other non-current liabilities	29	(110.1)	(82.8)	(8.7)	(8.7)
Financial liabilities at fair value through profit	24	(57.3)	(15.6)	(0.5)	–
Derivative financial instruments	23	(46.0)	(3.9)	(14.5)	(0.1)
Retirement benefit obligations	30	(59.6)	(79.3)	(4.2)	(6.2)
Deferred tax liabilities	31	(235.9)	(227.1)	–	–
Provisions	32	(194.4)	(179.0)	–	–
		(3,557.8)	(3,120.9)	(913.3)	(706.3)
Net assets		1,354.1	1,197.6	1,725.9	1,372.4
Shareholders' equity					
Share capital	33	162.4	151.3	162.4	151.3
Share premium account	34	118.6	4.9	118.6	4.9
Capital redemption reserve	35	144.2	144.2	144.2	144.2
Retained earnings and other reserves	36	634.1	602.4	1,005.9	777.2
Total shareholders' equity		1,059.3	902.8	1,431.1	1,077.6
Perpetual capital securities	37	294.8	294.8	294.8	294.8
Total equity		1,354.1	1,197.6	1,725.9	1,372.4

The notes on pages 105 to 156 form part of these financial statements.

The financial statements on pages 100 to 156 were approved by the Board of Directors and authorised for issue on 22 June 2015 and were signed on its behalf by:

K G Harvey
Chairman

Pennon Group Plc, Registered Office: Peninsula House, Rydon Lane, Exeter, Devon, England EX2 7HR. Registered in England Number 2366640

Statements of changes in equity

For the year ended 31 March 2015

Group	Share capital (Note 33) £m	Share premium account (Note 34) £m	Capital redemption reserve (Note 35) £m	Retained earnings and other reserves (Note 36) £m	Perpetual capital securities (Note 37) £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	–	–	–	(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 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
Total transactions with equity shareholders	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
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	–	–	–	(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 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
Total transactions with equity shareholders	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

The notes on pages 105 to 156 form part of these financial statements.

Company

	Share capital (Note 33) £m	Share premium account (Note 34) £m	Capital redemption reserve (Note 35) £m	Retained earnings and other reserves (Note 36) £m	Perpetual capital securities (Note 37) £m	Total equity £m
At 1 April 2013	149.2	7.0	144.2	684.8	294.8	1,280.0
Profit for the year (note 10)	–	–	–	157.9	15.6	173.5
Other comprehensive income for the year	–	–	–	0.7	–	0.7
Total comprehensive income for the year	–	–	–	158.6	15.6	174.2
Transactions with equity shareholders						
Dividends paid	–	–	–	(103.9)	–	(103.9)
Adjustment for shares issued under the Scrip Dividend Alternative	2.1	(2.1)	–	34.5	–	34.5
Distributions to perpetual capital security holders	–	–	–	–	(20.3)	(20.3)
Current tax relief on distributions to perpetual capital security holders	–	–	–	–	4.7	4.7
Adjustment in respect of share-based payments (net of tax)	–	–	–	0.8	–	0.8
Proceeds from treasury shares re-issued	–	–	–	2.4	–	2.4
Total transactions with equity shareholders	2.1	(2.1)	–	(66.2)	(15.6)	(81.8)
At 31 March 2014	151.3	4.9	144.2	777.2	294.8	1,372.4
Profit for the year (note 10)	–	–	–	300.1	16.0	316.1
Other comprehensive loss for the year	–	–	–	(5.9)	–	(5.9)
Total comprehensive income for the year	–	–	–	294.2	16.0	310.2
Transactions with equity shareholders						
Dividends paid	–	–	–	(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
Distributions to perpetual capital security holders	–	–	–	–	(20.3)	(20.3)
Current tax relief on distributions to perpetual capital security holders	–	–	–	–	4.3	4.3
Adjustment in respect of share-based payments (net of tax)	–	–	–	0.9	–	0.9
Charge in respect of share options vesting	–	–	–	(0.8)	–	(0.8)
Proceeds from treasury shares re-issued	–	–	–	3.9	–	3.9
Total transactions with equity shareholders	11.1	113.7	–	(65.5)	(16.0)	43.3
At 31 March 2015	162.4	118.6	144.2	1,005.9	294.8	1,725.9

The notes on pages 105 to 156 form part of these financial statements.

Cash flow statements

For the year ended 31 March 2015

		Group		Company	
	Notes	2015 £m	2014 £m	2015 £m	2014 £m
Cash flows from operating activities					
Cash generated/(outflow) from operations	38	310.9	338.0	(103.8)	(208.0)
Interest paid	38	(62.0)	(65.3)	(34.7)	(28.6)
Tax (paid)/repaid		(21.0)	(58.1)	15.2	(16.6)
Net cash generated/(outflow) from operating activities		227.9	214.6	(123.3)	(253.2)
Cash flows from investing activities					
Interest received		20.3	26.5	50.7	60.3
Dividends received	45	6.0	8.5	311.6	162.1
Investments in subsidiary undertakings	20	–	–	(200.3)	–
Loan repayments received from joint ventures		0.3	0.3	–	–
Purchase of property, plant and equipment		(298.1)	(346.7)	(0.1)	(0.1)
Proceeds from sale of property, plant and equipment		5.7	5.4	0.1	–
Net cash (used in)/received from investing activities		(265.8)	(306.0)	162.0	222.3
Cash flows from financing activities					
Proceeds from treasury shares re-issued	33	3.9	2.4	3.9	2.4
Purchase of ordinary shares by the Pennon Employee Share Trust		(0.8)	(0.4)	–	–
Deposit of restricted funds		(23.0)	(29.6)	1.4	–
Proceeds from new borrowing		345.0	294.0	345.0	171.0
Repayment of borrowings		(123.6)	(146.1)	(92.5)	(125.0)
Finance lease sale and lease back		160.1	40.5	–	–
Finance lease principal repayments		(99.5)	(30.3)	–	–
Dividends paid		(69.0)	(69.4)	(69.0)	(69.4)
Perpetual capital securities periodic return	37	(20.3)	(20.3)	(20.3)	(20.3)
Net cash received from/(used in) financing activities		172.8	40.8	168.5	(41.3)
Net increase/(decrease) in cash and cash equivalents		134.9	(50.6)	207.2	(72.2)
Cash and cash equivalents at beginning of the year	25	439.9	490.5	325.3	397.5
Cash and cash equivalents at end of the year	25	574.8	439.9	532.5	325.3

The notes on pages 105 to 156 form part of these financial statements.

Notes to the financial statements

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 101. Pennon Group's business is operated through its main subsidiaries. South West Water Limited holds the water and wastewater services appointments for Devon, Cornwall and parts of Dorset and Somerset. Viridor Limited's business is renewable energy, recycling and waste management.

2. Principal accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to the years presented.

(a) Basis of preparation

These financial statements have been prepared on the historical cost accounting basis (except for fair value items, principally acquisitions, transfers of assets from customers and certain financial instruments as described in accounting policy notes (b), (v) and (n) respectively) and in accordance with International Financial Reporting Standards (IFRS) and interpretations of the IFRS Interpretations Committee as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. A summary of the principal accounting policies is set out below, together with an explanation where changes have been made to previous policies on the adoption of new accounting standards and interpretations in the year.

The going concern basis has been adopted in preparing these financial statements as stated by the Directors on page 95.

The new standards 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 has been presented in these financial statements.

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.

(b) Basis of consolidation

The Group financial statements include the results of Pennon Group Plc and its subsidiaries, joint ventures and associate undertakings.

The results of subsidiaries, joint ventures and associate undertakings are included from the date of acquisition or incorporation, and excluded from the date of disposal. The results of subsidiaries are consolidated where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of joint ventures and associate undertakings are accounted for on an equity basis.

Intra-group trading, loan balances and transactions are eliminated on consolidation.

The acquisition method of accounting is used to account for the purchase of subsidiaries. The excess of the value transferred to the seller in return for control of the acquired business, together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets, is recorded as goodwill.

Notes to the financial statements

Continued

2. Principal accounting policies Continued

(c) Revenue recognition

Revenue represents the fair value of consideration receivable, excluding value added tax, trade discounts and inter-company sales, in the ordinary course of business for goods and services provided.

Revenue is recognised once the services or goods have been provided to the customer.

Income from main water and wastewater charges includes billed amounts for estimated usage and also an estimation of the amount of unbilled charges at the year-end based upon a defined methodology reflecting historical consumption and current tariffs.

Income from electricity generated from waste management landfill gas production during the year includes an estimation of the amount to be received under Renewables Obligation Certificates.

Accrued income from waste management contracts at the balance sheet date is recognised using management's expectation of amounts to be subsequently billed for services rendered to the client in accordance with the terms of the contract.

Income from recycling activities within waste management includes amounts based upon market prices for recycle products and industry schemes for waste electrical and electronic equipment ('WEEE' notes) and packaging volumes ('PRNs') processed.

Revenue from long-term service concession arrangements is recognised based on the fair value of work performed. Where an arrangement includes more than one service, such as construction and operation of waste management facilities, revenue and profit are recognised in proportion to a fair value assessment of the total contract value split across the services provided.

(d) Landfill tax

Landfill tax is included within both revenue and operating costs.

(e) Segmental reporting

Each of the Group's business segments provides services which are subject to risks and returns which are different from those of the other business segments. The Group's internal organisation and management structure and its system of internal financial reporting are based primarily on business segments. The reportable business segments comprise the regulated water and wastewater services undertaken by South West Water Limited and the waste management business of Viridor Limited. Segmental revenue and results include transactions between businesses. Inter-segmental transactions are eliminated on consolidation.

(f) Goodwill

Goodwill arising on consolidation from the acquisition of subsidiary and joint venture undertakings represents the excess of the purchase consideration over the fair value of net assets acquired, less any subsequent impairment charges.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units or group of cash generating units, that is expected to benefit from the synergies of the combination. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal reporting purposes. Goodwill is allocated and monitored at the reportable operating segment level. Further details are contained in accounting policy (j).

When a subsidiary or joint venture undertaking is sold, the profit or loss on disposal is determined after including the attributable amount of unamortised goodwill.

(g) Other intangible assets

Other intangible assets are recognised in relation to long-term service concessions contracts to the extent that future amounts to be received are not certain.

Other intangible assets include assets acquired in a business combination and are capitalised at fair value at the date of acquisition. Following initial recognition, finite life intangible assets are amortised on a straight-line basis over their estimated useful lives, with the expense charged to the income statement through operating costs.

(h) Property, plant and equipment

i) Infrastructure assets (being water mains and sewers, impounding and pumped raw water storage reservoirs, dams, pipelines and sea outfalls)

Infrastructure assets were included at fair value on transition to IFRS, and subsequent additions are recorded at cost less accumulated depreciation and impairment charges. Expenditure to increase capacity or enhance infrastructure assets is capitalised where it can be reliably measured, and it is probable that incremental future economic benefits will flow to the Group. The cost of day-to-day servicing of infrastructure components is recognised in the income statement as it arises.

Infrastructure assets are depreciated evenly over their useful economic lives, and are principally:

Dams and impounding reservoirs	200 years
Water mains	40 – 100 years
Sewers	40 – 100 years

Assets in the course of construction are not depreciated until commissioned.

ii) Landfill sites

Landfill sites are included within land and buildings at cost less accumulated depreciation. Cost includes acquisition and development expenses. The cost of a landfill site is depreciated to its residual value (which is linked to gas production at the site post-closure) over its estimated operational life taking account of the usage of void space.

iii) Landfill restoration

Where the obligation to restore a landfill site is an integral part of its future economic benefits, a non-current asset within property, plant and equipment is recognised. The asset recognised is depreciated based on the usage of void space.

iv) Other assets (including energy recovery facilities, property, overground plant and equipment)

Other assets are included at cost less accumulated depreciation.

Freehold land is not depreciated. Other assets are depreciated evenly to their residual value over their estimated economic lives, and are principally:

Land and buildings – freehold buildings	30 – 60 years
Land and buildings – leasehold buildings	Over the estimated economic lives or the finance lease period, whichever is the shorter
Operational properties	40 – 80 years
Energy Recovery Facilities (including major refurbishments)	25 – 30 years
Fixed plant	20 – 40 years
Vehicles, mobile plant and computers	3 – 10 years

Assets in the course of construction are not depreciated until commissioned.

The cost of assets includes directly attributable labour and overhead costs which are incremental to the Group. Borrowing costs directly attributable to the construction of a qualifying asset (an asset necessarily taking a substantial period of time to be prepared for its intended use) are capitalised as part of the asset. Assets transferred from customers are recognised at fair value as set out in accounting policy (v).

The assets' residual values and useful lives are reviewed annually, and adjusted if appropriate.

Gains and losses on disposal are determined by comparing sale proceeds with carrying amounts. These are included in the income statement.

(i) Leased assets

Assets held under finance leases are included as property, plant and equipment at the lower of their fair value at commencement or the present value of the minimum lease payments, and are depreciated over their estimated economic lives or the finance lease period, whichever is the shorter. The corresponding liability is recorded as borrowings. The interest element of the rental costs is charged against profits using the actuarial method over the period of the lease.

Rental costs arising under operating leases are charged against profits in the year they are incurred.

(j) Impairment of non-financial assets

Assets with an indefinite useful life are not subject to amortisation and are tested annually for impairment, or whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.

Assets subject to amortisation or depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Value in use represents the present value of projected future cash flows expected to be derived from a cash generating unit, discounted using a pre-tax discount rate which reflects an assessment of the market cost of capital of the cash generating unit.

Impairments are charged to the income statement in the year in which they arise.

Non-financial assets other than goodwill that have been impaired are reviewed for possible reversal of the impairment at each reporting date.

(k) Investment in subsidiary undertakings

Investments in subsidiary undertakings are initially recorded at cost, being the fair value of the consideration paid. Subsequently investments are reviewed for impairment on an individual basis annually or if events or changes in circumstances indicate that the carrying value may not be fully recoverable.

(l) Investment in joint ventures

Joint ventures are entities over which the Group exercises joint control. Investments in joint ventures are accounted for using the equity method of accounting. Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the joint venture at the date of acquisition is recognised as goodwill and is included in the carrying value of the investment in the joint venture.

The carrying value of the Group's investment is adjusted for the Group's share of post-acquisition profits or losses recognised in the income statement and statement of comprehensive income. Losses of a joint venture in excess of the Group's interest are not recognised unless the Group has a legal or constructive obligation to fund those losses.

(m) Cash and cash deposits

Cash and cash deposits comprise cash in hand and short-term deposits held at banks. Bank overdrafts are shown within current borrowings.

Notes to the financial statements

Continued

2. Principal accounting policies Continued

(n) Derivatives and other financial instruments

The Group classifies its financial instruments in the following categories:

i) Loans and receivables

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Following initial recognition, interest-bearing loans and borrowings are subsequently stated at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the instruments are derecognised or impaired. Premia, discounts and other costs and fees are recognised in the income statement through the amortisation process.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

The fair value of the liability component of a convertible bond is determined using the market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished on conversion or maturity of the bonds. The remainder of the proceeds are allocated to the conversion option. This is recognised in shareholders' equity.

ii) Trade receivables

Trade receivables do not carry any interest receivable and are recognised initially at fair value and subsequently at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due in accordance with the original terms of the receivables.

iii) Trade payables

Trade payables are not interest-bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

iv) Financial assets arising from service concession arrangements

Where the provision of waste management services is performed through a contract with a public sector entity which controls a significant residual interest in asset infrastructure at the end of the contract, then consideration is treated as contract receivables, split between profit on the construction of assets, operation of the service and the provision of finance which is recognised in notional interest within finance income.

v) Derivative financial instruments and hedging activities

The Group uses derivative financial instruments, principally interest rate swaps, foreign exchange forward contracts and cross-currency interest rate swaps to hedge risks associated with interest rate and exchange rate fluctuations. Derivative instruments are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value for the reported balance sheet.

The Group designates certain hedging derivatives as either:

- a hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge) or
- a hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge).

The gain or loss on remeasurement is recognised to the income statement except for cash flow hedges which meet the conditions for hedge accounting, when the portion of the gain or loss on the hedging instrument which is determined to be an effective hedge is recognised directly in equity, and the ineffective portion in the income statement. The gains or losses deferred in equity in this way are subsequently recognised in the income statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the income statement.

In order to qualify for hedge accounting, the Group is required to document in advance the relationship between the item being hedged and the hedging instrument. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is reperformed at the end of each reporting period to ensure that the hedge remains highly effective.

Where a non-derivative transaction or series of transactions with the same counterparty has the aggregate effect in substance of a derivative instrument, the transaction or series of transactions shall be recognised as a single derivative instrument at fair value with associated movements recorded in the income statement.

The full fair value of a hedging derivative is apportioned on a straight line basis between non-current and current assets or liabilities based on the remaining maturity of the hedging derivative.

Derivative financial instruments deemed held for trading, which do not qualify for hedge accounting, are classified as a current asset or liability with any change in fair value recognised immediately in the income statement.

The Group uses cross-currency swaps for some of its foreign currency denominated private placement borrowings. The swaps either have the effect of (i) converting variable rate foreign currency borrowings into fixed rate sterling borrowings, (ii) converting fixed rate foreign currency borrowings into fixed rate sterling borrowings, or (iii) converting fixed rate foreign currency borrowings into floating rate sterling borrowings.

vi) Financial instruments at fair value through profit

Financial instruments at fair value through profit reflect the fair value movement of the hedged risk on a hedged item which has been designated in a fair value hedging relationship. The fair values of these financial instruments are initially recognised on the date the hedging relationship is entered into and subsequently remeasured at each subsequent balance sheet date. The gain or loss on remeasurement for the period is recognised in the income statement.

(o) Taxation including deferred tax

The tax charge for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in the statement of comprehensive income or directly in equity. In this case the tax is also recognised in the statement of comprehensive income or directly in equity.

Current tax is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates tax items subject to interpretation and establishes provisions on individual tax items where in the judgement of management the position is uncertain.

The Group includes a number of companies, including the parent company, which are part of a tax group for certain aspects of the tax legislation. One of these aspects relates to group relief whereby current tax liabilities can be offset by current tax losses arising in other companies within the same tax group. Payment for group relief is made equal to the tax benefit and amounts are included within the current tax disclosures.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates enacted or substantively enacted at the balance sheet date, and expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

(p) Provisions

Provisions are made where there is a present legal or constructive obligation as a result of a past event and it is probable that there will be an outflow of economic benefits to settle this obligation and a reliable estimate of this amount can be made. Where the effect of the time value of money is material, the current amount of a provision is the present value of the expenditures expected to be required to settle obligations. The unwinding of the discount to present value is included as notional interest within finance costs.

The Group's policies on specific provisions are:

i) Landfill restoration costs

Provisions for the cost of restoring landfill sites are made when the obligation arises. Where the obligation recognised as a provision gives access to future economic benefits, an asset in property, plant and equipment is recognised. Provisions are otherwise charged against profits based on the usage of void space.

ii) Environmental control and aftercare costs

Environmental control and aftercare costs are incurred during the operational life of each landfill site and for a considerable period thereafter. Provision for all such costs is made over the operational life of the site and charged to the income statement on the basis of the usage of void space at the site. Further provisions required after the operational life of a site are recognised immediately in the income statement.

iii) Underperforming contracts

Where the unavoidable costs of meeting a contract's obligations exceed the economic benefits derived from that contract, the unavoidable costs, less revenue anticipated under the terms of the contract, are recognised as a provision and charged to the income statement. An impairment loss on any assets dedicated to that contract is also recognised as described in accounting policy (j).

(q) Share capital and treasury shares

Ordinary shares are classified as equity.

Where the Company purchases the Company's equity share capital (treasury shares) the consideration paid, including any directly attributable costs, is deducted from equity until the shares are cancelled or re-issued. Where such shares are subsequently re-issued, any consideration received, net of any directly attributable transaction costs, is included in equity.

The Group balance sheet includes the shares held by the Pennon Employee Share Trust, relating to employee share-based payments, which have not vested at the balance sheet date. These are shown as a deduction from shareholders' equity until such time as they vest.

(r) Dividend distributions

Dividend distributions are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid; final dividends when approved by shareholders at the Annual General Meeting.

(s) Employee benefits

i) Retirement benefit obligations

The Group operates defined benefit and defined contribution pension schemes.

Defined benefit pension schemes

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the year less the fair value of plan assets. If the value of a plan's assets exceeds the present value of its obligations, the resulting surplus is only recognised if the Group has an unconditional right to that surplus.

The defined benefit obligation is calculated by independent actuaries who advise on the selection of Directors' best estimates, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds, and that have terms to maturity approximating to the terms of the related pension obligation. The increase in liabilities of the Group's defined benefit pension schemes, expected to arise from employee service in the year, is charged against operating profit.

Changes in benefits granted by the employer are recognised immediately as past service cost in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the statement of comprehensive income in the period in which they arise.

Notes to the financial statements

Continued

2. Principal accounting policies Continued

Defined contribution scheme

Costs of the defined contribution pension scheme are charged to the income statement in the year in which they arise. The Group has no further payment obligations once the contributions have been paid.

ii) Share-based payment

The Group operates a number of equity-settled share-based payment plans for employees. The fair value of the employee services required in exchange for the grant is recognised as an expense over the vesting period of the grant.

Fair values are calculated using an appropriate pricing model. Non-market-based vesting conditions are adjusted for in assumptions as to the number of shares which are expected to vest.

(t) Pre-contract and development costs

Pre-contract and development costs, including bid costs are expensed as incurred, except where it is probable that the contract will be awarded or the development completed, in which case they are recognised as an asset which is amortised to the income statement over the life of the contract.

(u) Fair values

The fair value of interest rate swaps is based on the market price to transfer the asset or liability at the balance sheet date in an orderly transaction between market participants.

The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values. In the case of non-current bank loans and other loans, the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

(v) Transfers of assets from customers

Where an item of property, plant and equipment that must be used to connect customers to the network is received from a customer, or where cash is received from a customer for the acquisition or construction of such an item, that asset is recorded and measured on initial recognition at its fair value. The credit created by the recognition of the asset is recognised in the income statement. The period over which the credit is recognised depends upon the nature of the service provided, as determined by the agreement with the customer. Where the service provided is solely a connection to the network, the credit is recognised at the point of connection. If the agreement does not specify a period, revenue is recognised over a period no longer than the economic life of the transferred asset used to provide the ongoing service.

The fair value of assets on transfer from customers is determined using a cost valuation approach allowing for depreciation.

(w) Foreign exchange

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at the closing balance sheet rate. The resulting gain or loss is recognised in the income statement.

(x) Perpetual capital securities

Perpetual capital securities are issued securities that qualify for recognition as equity. Accordingly any periodic returns are accounted for as dividends and recognised directly in equity and as a liability at the time the Company becomes obligated to pay the periodic return. This reflects the nature of the periodic returns and repayment of principal being only made at the Company's discretion. Any associated tax impacts are recognised directly in equity.

(y) 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.

3. Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: liquidity risk, market risk (interest rate and foreign currency risk) and credit risk. The Group's treasury function seeks to ensure that sufficient funding is available to meet foreseeable needs, maintains reasonable headroom for contingencies and manages inflation and interest rate risk.

The principal financial risks faced by the Group relate to liquidity, interest rate and credit counterparty risk.

These risks and treasury operations are managed by the Group Director of Finance in accordance with policies established by the Board. Major transactions are individually approved by the Board. Treasury activities are reported to the Board and are subject to review by internal audit.

Financial instruments are used to raise finance, manage risk, optimise the use of surplus funds and manage overall interest rate performance. The Group does not engage in speculative activity.

i) Liquidity risk

The Group actively maintains a mixture of long-term and short-term committed facilities which are designed to ensure the Group has sufficient available funds for operations and planned expansions equivalent to at least one year's forecast requirements at all times. Details of undrawn committed facilities and short-term facilities are provided in note 28.

Refinancing risk is managed under a Group policy that permits no more than 20% of Group net borrowings to mature in any financial year.

The Group and South West Water have entered into covenants with lenders. While terms vary, these typically provide for limits on gearing (primarily based on South West Water Limited's Regulatory Capital Value and Viridor Limited's EBITDA) and interest cover.

Contractual undiscounted cash flows, including interest payments, at the balance sheet date were:

	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Over 5 years £m	Total £m
Group					
31 March 2015					
Non-derivative financial liabilities					
Borrowings excluding finance lease liabilities	81.8	113.6	410.0	1,027.0	1,632.4
Interest payments on borrowings	48.4	46.8	132.0	753.8	981.0
Finance lease liabilities including interest	43.6	46.3	198.2	2,157.8	2,445.9
Trade and other payables	277.7	–	–	–	277.7
Guarantees	169.8	–	–	–	169.8
Derivative financial liabilities					
Derivative contracts – net payments/ (receipts)	6.7	5.5	4.2	(105.4)	(89.0)
31 March 2014					
Non-derivative financial liabilities					
Borrowings excluding finance lease liabilities	155.4	143.6	468.5	1,582.1	2,349.6
Interest payments on borrowings	26.3	24.8	62.2	642.9	756.2
Finance lease liabilities including interest	62.5	73.2	224.6	2,037.7	2,398.0
Trade and other payables	298.8	–	–	–	298.8
Guarantees	150.0	–	–	–	150.0
Derivative financial liabilities					
Derivative contracts – net payments/ (receipts)	15.3	4.3	1.9	(43.8)	(22.3)
Company					
31 March 2015					
Non-derivative financial liabilities					
Borrowings excluding intercompany borrowings	50.7	74.9	310.0	500.5	936.1
Intercompany borrowings	283.2	–	–	–	283.2
Interest payments on borrowings	30.8	29.0	78.8	139.3	277.9
Trade and other payables	5.6	–	–	–	5.6
Guarantees	556.4	–	–	–	556.4
Derivative financial liabilities					
Derivative contracts – net payments	1.1	1.0	1.2	–	3.3
31 March 2014					
Non-derivative financial liabilities					
Borrowings excluding intercompany borrowings	124.3	112.5	356.7	222.0	815.5
Intercompany borrowings	283.2	–	–	–	283.2
Interest payments on borrowings	16.0	13.4	25.9	10.9	66.2
Trade and other payables	7.4	–	–	–	7.4
Guarantees	588.6	–	–	–	588.6
Derivative financial liabilities					
Derivative contracts – net payments	1.2	0.8	1.1	–	3.1

No liability is expected to arise in respect of the guarantees noted above. Guarantees are analysed in note 42.

(ii) Market risk

The Group has a policy of maintaining at least 50% of interest-bearing liabilities at fixed rates. The Group uses a combination of fixed rate and index-linked borrowings and fixed rate interest swaps as cash flow hedges of future variable interest payments to achieve this policy. At the year-end 72% (2014 62%) of Group net borrowings were at fixed rates (including at least 50% of South West Water's borrowings fixed for the period to March 2016) and 18% (2014 18%) index-linked, after the impact of financial derivatives. The notional principal amounts of the interest rate swaps are used to determine settlement under those swaps and are not therefore an exposure for the Group. These instruments are analysed in note 23.

The interest rate for index-linked debt is based upon an RPI measure, which is also used in determining the amount of income from customers in South West Water.

The Group has no significant interest-bearing assets upon which the net return fluctuates from market risk. Deposit interest receivable is expected to fluctuate in line with interest payable on floating rate borrowings. Consequently the Group's income and cash generated from operations (note 38) are independent of changes in market interest rates.

For 2015 if interest rates on variable net borrowings had been on average 0.5% higher/lower with all other variables held constant, post-tax profit for the year and equity would have decreased/increased by £0.4 million (2014 £1.2 million), for the equity sensitivity fair value, derivative impacts are excluded.

For 2015 if RPI on index-linked borrowings had been on average 0.5% higher/lower with all other variables held constant, post-tax profit for the year and equity would have decreased/increased by £1.5 million (2014 £1.4 million).

Notes to the financial statements

Continued

3. Financial risk management Continued

Foreign currency risk occurs at transactional and translation level from borrowings and transactions in foreign currencies. These risks are managed through forward contracts, which provide certainty over foreign currency risk.

iii) Credit risk

Credit counterparty risk arises from cash and cash deposits, derivative financial instruments and exposure to customers, including outstanding receivables. Further information on the credit risk relating to trade receivables is given in note 22.

Counterparty risk arises from the investment of surplus funds and from the use of derivative financial instruments. The Board has agreed a policy for managing such risk which is controlled through credit limits, counterparty approvals, and rigorous monitoring procedures.

The Group has no other significant concentration of credit risk. The Group's surplus funds are managed by the Group's treasury function and are usually placed in short-term fixed interest deposits or the overnight money markets. Deposit counterparties must meet a credit rating threshold set by the Board of P1 (Moody's) or A1 (Standard & Poor's).

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimise the cost of capital.

The Group's policy is to have a minimum of 12 months pre-funding of projected capital expenditure. At 31 March 2015 the Group had cash and facilities, excluding restricted funds, of over £1.5 billion, meeting this objective.

In order to maintain or adjust the capital structure, the Group seeks to maintain a balance of returns to shareholders through dividends and an appropriate capital structure of debt and equity for each business segment and the Group.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net borrowings divided by total capital. Net borrowings are analysed in note 39 and calculated as total borrowings less cash and cash deposits. Total capital is calculated as total shareholders' equity plus net borrowings.

The gearing ratios at the balance sheet date were:

	2015 £m	2014 £m
Net borrowings (note 39)	2,197.1	2,194.0
Total equity	1,354.1	1,197.6
Total capital	3,551.2	3,391.6
Gearing ratio	61.9%	64.7%

South West Water Limited is also monitored on the basis of the ratio of its net borrowings to Regulatory Capital Value. Ofwat's optimum range for the K5 (2010-2015) regulatory period for gearing was 55%-65% and for K6 (2015-2020) Ofwat's optimum gearing is set at 62.5%.

	2015 £m	2014 £m
Regulatory Capital Value	2,928.0	2,958.8
Net borrowings	1,817.5	1,645.7
Net borrowings/Regulatory Capital Value	62.1%	55.6%

The Group has entered into covenants with lenders and, while terms vary, these typically provide for limits on gearing and interest cover.

The Group has been in compliance with its covenants during the year.

(c) Determination of fair values

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

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's financial instruments are valued principally using level 2 measures as analysed in note 23.

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

The carrying values, less impairment provision, of trade receivables and payables are assumed to approximate to their fair values. The fair value of financial liabilities, principally environmental provisions, is calculated as the present value of the estimated future cash flows.

4. Critical accounting judgements and estimates

The Group's principal accounting policies are set out in note 2. Management is required to exercise significant judgement and make use of estimates and assumptions in the application of these policies. Estimates are based on factors including historical experience and expectations of future events that management believe to be reasonable. However, given the judgemental nature of such estimates, actual results could be different from the assumptions used.

Impairment of non-financial assets and goodwill

In order to determine whether impairments are required, the Group estimates the recoverable amount of an individual asset or assets grouped at the lowest level for which there are separately identifiable cash flows (cash generating units). For the purposes of assessing impairment of goodwill, the waste management segment is considered an integrated business and this is the lowest level to which goodwill is allocated, monitored and tested by management.

Impairment calculations are based on projections of future cash flows for the cash generating unit and the use of a terminal value to incorporate expectations of growth after the period covered by specific plans. The cash flows are discounted by the weighted average cost of capital appropriate to the business activity which is reviewed on an annual basis.

If the cash flow or discount rate assumptions were to change because of market conditions, the level of impairment could be different and could result in the impairment being increased or reversed, in part or in full, at a future date.

The principal assumptions used to assess impairment are set out in notes 15 and 17.

Impairment of intangible assets

The Group records all assets and liabilities acquired in business acquisitions, including goodwill, at fair value. Intangible assets which have an indefinite useful life, principally goodwill, are assessed at least annually for impairment.

The initial goodwill recorded and subsequent impairment analysis require management to make estimations of future cash flows, terminal values and an assessment of the long-term pre-tax discount rate to be applied to those cash flows which reflects an assessment of the cost of capital of the cash generating unit.

Environmental and landfill restoration provisions

Environmental control and aftercare costs are incurred during the operational life of each landfill site and for a considerable period thereafter. The period of aftercare post-closure and the level of costs expected are uncertain and can vary significantly from site to site. Key factors are the type of waste, the speed at which it decomposes, the volume of leachate requiring treatment and regulatory requirements specific to the site. The amounts expected to be incurred are based on landfill site operating lives, taking account of the anticipated decline in landfill activity.

The provisions are based on latest assumptions reflecting recent historic data and future cost estimates.

The provisions are recognised in the financial statements at the net present value of the estimated future expenditure required to settle the Group's obligations. A discount rate is applied to recognise the time value of money and is unwound over the life of the provision. This is included in the income statement as a financial item within finance costs.

As at 31 March 2015 the Group's environmental and landfill restoration provisions were £193.0 million (2014 £190.5 million) (note 32).

Where a restoration provision gives access to future economic benefits, an asset is recognised and depreciated in accordance with the Group's depreciation policy. As at 31 March 2015 these assets had a net book value of £17.9 million (2014 £20.8 million) (note 17).

Retirement benefit obligations

The Group operates defined benefit pension schemes for which actuarial valuations are carried out as determined by the trustees at intervals of not more than three years. The last such valuation of the main scheme was as at 31 March 2013.

The pension cost and liabilities under IAS 19 are assessed in accordance with Directors' best estimates using the advice of an independent qualified actuary and assumptions in the latest actuarial valuation. The assumptions are based on member data supplied to the actuary and market observations for interest rates and inflation, supplemented by discussions between the actuary and management. The mortality assumption uses a scheme-specific calculation based on CMI 2013 actuarial tables with an allowance for future longevity improvement. The principal assumptions used to measure schemes' liabilities, sensitivities to changes in those assumptions and future funding obligations are set out in note 30.

Taxation

The Group current income tax provision of £52.2 million (note 27) reflects management's judgement of the amount of tax payable for fiscal years with open tax computations where liabilities remain to be agreed with HM Revenue & Customs. Management periodically evaluates items detailed in tax returns where the tax treatment is subject to interpretation. The Group establishes provisions for individual tax items where the tax position is assessed as uncertain.

Service concession arrangements

Consideration from public sector entities for the operation of waste management service concessions is treated as contract receivables or other intangible assets, depending upon the right to receive cash from the asset. Consideration relating to contract receivables is split between profit on the construction of assets, operation of the service and provision of finance recognised as interest receivable. Management's allocation between these three elements is assessed to reflect external market conditions according to the type of service provided.

Notes to the financial statements

Continued

4. Critical accounting judgements and estimates Continued

Landfill costs

The estimation of landfill reserves is of particular importance in assessing landfill costs since the projected cost of a landfill site is depreciated over its estimated operational life taking into account the usage of void space and gas production at the site post-closure. In estimating the operational life of a landfill site, consideration is given to the expected ongoing decline in the landfill market. Where Viridor plans or has constructed a competing energy recovery facility at certain existing landfill sites, the void which consequently is no longer expected to be used is excluded from the calculation of operational life. The estimates of landfill reserves are regularly reviewed and updated during the financial year for usage and other events (for example site extensions). Estimates are also subject to physical review by external advisers.

A number of factors impact on the depreciation of landfill reserves including the available void space, future capital expenditure and operating costs. The assumptions are revised as these factors change.

The estimate of gas production at landfill sites post-closure reduces the depreciation of landfill reserves. An assessment is undertaken for individual sites of the historic profile of gas production during landfilling activity and the projected generation post-closure according to the type of waste contained in the landfill and expected profile of gas production over time.

Revenue recognition

The Group recognises revenue at the time of delivery of services. Payments received in advance of services delivered are recorded as a liability.

South West Water raises bills and recognises revenue in accordance with its entitlement to receive revenue in line with the limits established by the Periodic Review price-setting process. For water and wastewater customers with water meters, revenue recognised is dependent upon the volume supplied including an estimate of the sales value of units supplied between the date of the last meter reading and the year-end. Estimated usage is based on historic data, judgement and assumptions.

Viridor estimates income from certain contractual revenue streams based on tonnages, cost and historic data which are dependent on agreement with the customer after the delivery of the service.

Provision for doubtful debts

At the balance sheet date each subsidiary evaluates the collectability of trade receivables and records provisions for doubtful debts based on experience including comparisons of the relative age of accounts and consideration of actual write-off history.

The actual level of debt collected may differ from the estimated levels of recovery. As at 31 March 2015 the Group's current trade receivables were £282.5 million, against which £86.8 million had been provided for impairment (note 22).

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.

5. 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 wastewater business comprises the regulated water and wastewater services undertaken by South West Water Limited. The waste management business is the renewable energy, recycling and waste management services provided by Viridor Limited. Segment assets include goodwill and other intangible assets, property, plant and equipment, inventories, trade and other receivables and cash and cash deposits. Segment liabilities comprise operating liabilities and exclude taxation. The other segment liabilities include the Company's financing arrangements and Group taxation liabilities. Capital expenditure comprises additions to property, plant and equipment, including additions resulting from acquisitions through business combinations.

	2015 £m	2014 £m
Revenue		
Water and wastewater	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/(loss) before depreciation, amortisation and exceptional items (EBITDA)		
Water and wastewater	331.3	330.9
Waste management	80.4	76.3
Other	(0.7)	0.1
	411.0	407.3
Operating profit/(loss) before exceptional items		
Water and wastewater	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 wastewater	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 wastewater	179.7	162.5
Waste management	1.0	(21.0)
Other	16.3	17.2
	197.0	158.7

* Intra-segment transactions between and to different segments is under normal market-based commercial terms and conditions. Intra-segment revenue of the other segment is at cost.

Notes to the financial statements

Continued

5. Segmental information Continued

	Water and wastewater £m	Waste management £m	Other £m	Eliminations £m	Group £m
Balance sheet					
31 March 2015					
Assets (excluding investments in joint ventures)	3,067.7	1,828.7	1,779.6	(1,268.3)	5,407.7
Investments in joint ventures	–	0.1	–	–	0.1
Total assets	3,067.7	1,828.8	1,779.6	(1,268.3)	5,407.8
Liabilities	(2,359.2)	(1,413.4)	(1,549.4)	1,268.3	(4,053.7)
Net assets	708.5	415.4	230.2	–	1,354.1
31 March 2014					
Assets (excluding investments in joint ventures)	3,051.5	1,659.6	1,472.5	(1,200.7)	4,982.9
Investments in joint ventures	–	0.1	–	–	0.1
Total assets	3,051.5	1,659.7	1,472.5	(1,200.7)	4,983.0
Liabilities	(2,215.8)	(1,377.5)	(1,392.8)	1,200.7	(3,785.4)
Net assets	835.7	282.2	79.7	–	1,197.6

Segment liabilities of the water and wastewater and waste management segments comprise operating liabilities. The other segment liabilities include the Group taxation liabilities.

	Notes	Water and wastewater £m	Waste management £m	Other £m	Group £m
Other information					
31 March 2015					
Amortisation of other intangible assets	7	–	2.7	–	2.7
Capital expenditure	17	145.1	156.3	–	301.4
Depreciation	7	105.9	56.1	(0.3)	161.7
Impairment	7	–	24.3	–	24.3
Finance income	8	2.8	30.6	10.6	44.0
Finance costs	8	60.3	14.0	10.5	84.8
31 March 2014					
Amortisation of other intangible assets	7	–	2.7	–	2.7
Capital expenditure	17	141.6	219.1	0.1	360.8
Depreciation	7	103.9	43.4	(0.2)	147.1
Impairment	7	–	42.9	–	42.9
Finance income	8	3.0	18.8	21.5	43.3
Finance costs	8	67.5	12.0	17.7	97.2

Geographic analysis of revenue based on location of customers

	2015 £m	2014 £m
Revenue		
United Kingdom	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 Group's country of domicile is the United Kingdom and is the country in which it generates the majority of its revenue. The Group's non-current assets are all located in the United Kingdom.

6. 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.

	Notes	2015 £m	2014 £m
Operating credits/ (costs)			
Pension costs – past service (a)	30	14.9	–
Environmental provisions (b)	32	6.7	(5.7)
Underperforming contracts (c)	32	(11.0)	–
Impairment of property, plant and equipment (d)	17	(24.3)	(42.9)
Total net operating costs		(13.7)	(48.6)
Tax credit arising on exceptional items	9	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 £6.7 million 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 £11.0 million 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 £24.3 million 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 £9.2 million.

Notes to the financial statements

Continued

7. Operating costs

	Notes	2015 £m	2014 £m
Manpower costs	13	149.4	161.4
Raw materials and consumables		103.8	111.6
Other operating expenses include:			
Profit on disposal of property, plant and equipment		(3.7)	(4.2)
Operating lease rentals payable:			
– Plant and machinery		15.7	13.2
– Property		9.2	8.4
Research and development expenditure		0.1	0.1
Trade receivables impairment	22	12.8	10.2
Depreciation of property, plant and equipment:			
– Owned assets		125.6	109.2
– Under finance leases		36.1	37.9
– Impairment of property, plant and equipment		24.3	42.9
Amortisation of other intangible assets	16	2.7	2.7

Fees payable to the Company's auditors in the year were:

	2015 £000	2014 £000
Fees payable to the Company's auditors and its associates for the audit of parent Company and consolidated financial statements	75	136
Fees payable to the Company's auditors and its associates for other services:		
The audit of Company's subsidiaries	471	527
Audit related assurance services	–	303
Tax advisory services	–	99
Corporate finance services	–	843
Other non-audit services	57	409
Total fees	603	2,317
Fees payable to the Company's auditors in respect of Pennon Group pension schemes:		
Audit	17	19

Expenses reimbursed to the auditors in relation to the audit of the Group were £40,000 (2014 £45,000).

A description of the work of the Audit Committee is set out in its report on pages 62 to 66 which includes an explanation of how the auditors' objectivity and independence are safeguarded when non-audit services are provided by the auditors' firm.

8. Net finance costs

		2015			2014		
	Notes	Finance cost £m	Finance income £m	Total £m	Finance cost £m	Finance income £m	Total £m
Cost of servicing debt							
Bank borrowing 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	30	(2.7)	–	(2.7)	(4.0)	–	(4.0)
Unwinding of discounts in 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 derivative financial instruments		–	7.8	7.8	–	8.4	8.4
		(84.8)	44.0	(40.8)	(97.2)	43.3	(53.9)

Other finance income received last year reflects enhanced yields from investment income received on short-term 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.

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

9. Taxation

	Notes	Before exceptional items 2015 £m	Exceptional items (Note 6) 2015 £m	Total 2015 £m	Before exceptional items 2014 £m	Exceptional items (Note 6) 2014 £m	Total 2014 £m
Analysis of charge in year							
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)	31	18.2	(3.3)	14.9	(25.8)	(8.9)	(34.7)
Tax charge for year		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 £5.5 million (2014 £16.5 million) and a prior year deferred tax charge of £9.7 million (2014 £12.1 million).

The 2014 deferred tax credit includes a credit of £38.8 million reflecting a reduction in the rate of UK corporation tax.

Notes to the financial statements

Continued

9. Taxation Continued

The tax for the year differs from the theoretical amount which would arise using the standard rate of corporation tax in the UK (21%) from:

	2015 £m	2014 £m
Profit before tax	197.0	158.7
Profit before tax multiplied by the standard rate of UK corporation tax of 21% (2014 23%)	41.4	36.5
Effects of:		
Expenses not deductible for tax purposes	9.2	7.5
Other	(0.1)	(0.2)
Change in rate of corporation tax	–	(38.8)
Adjustments to tax charge in respect of prior years	4.2	(4.4)
Tax charge for year	54.7	0.6

The average applicable tax rate for the year before exceptional items was 27% (2014 5%).

In addition to the amounts recognised in the income statement the following tax charges and credits were also recognised:

	2015 £m	2014 £m
Amounts recognised directly in other comprehensive income		
Deferred tax (credit)/charge on defined benefit pension schemes	(0.4)	10.2
Deferred tax (credit)/charge on cash flow hedges	(5.7)	7.0
Amounts recognised directly in equity		
Deferred tax credit on share based payments	–	(0.5)
Current tax credit on perpetual capital securities periodic return	(4.3)	(4.7)

10. Profit of the parent company

	2015 £m	2014 £m
Profit attributable to ordinary shareholders' equity dealt with in the accounts of the parent company	300.1	157.9

As permitted by Section 408 of the Companies Act 2006, no income statement or statement of comprehensive income is presented for the Company.

11. 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 (note 36), which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to include all dilutive potential ordinary shares. The Group has two types of dilutive potential ordinary shares – those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year; and the contingently issuable shares under the Group's Performance and Co-investment Plan and the deferred shares element of the Annual Incentive Bonus Plan, to the extent that the performance criteria for vesting of the awards are expected to be met.

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

	2015	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 share

Earnings per ordinary share before exceptional items and deferred tax are presented as the Directors believe that this measure provides a more useful comparison on business trends and performance, since deferred tax reflects distortive effects of changes in corporation tax rates and the level of long-term capital investment. Earnings per share have been calculated:

	2015			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 charge/ (credit) before exceptional items	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

12. Dividends

	2015 £m	2014 £m
Amounts recognised as distributions to ordinary equity holders in the year:		
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		
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.

13. Employment costs

	Notes	2015 £m	2014 £m
Wages and salaries		143.9	134.3
Social security costs		13.8	13.1
Pension costs	30	17.9	20.2
Share-based payments	33	3.5	3.3
Exceptional items	6, 30	(14.9)	–
Total employment costs		164.2	170.9
Charged:			
Manpower costs (excluding exceptional items) – consolidated income statement		164.3	161.4
Exceptional items	6	(14.9)	–
Capital schemes – property, plant and equipment		14.8	9.5
Total employment costs		164.2	170.9

Details of Directors' emoluments are set out in note 14. There are no personnel, other than Directors, who as key management exercise authority and responsibility for planning, directing and controlling the activities of the Group.

Notes to the financial statements

Continued

13. Employment costs Continued

	2015	2014
Employees (average full time equivalent number)		
The average monthly number of employees (including Executive Directors) was:		
Water and wastewater	1,408	1,356
Waste management	3,101	3,044
Other	49	51
Group totals	4,558	4,451

The total number of employees at 31 March 2015 was 4,590 (2014 4,498).

14. Directors' emoluments

	2015 £000	2014 £000
Executive Directors:		
Salary	1,119	1,121
Performance-related bonus paid or payable	382	400
Share-based payments	750	997
Other emoluments, including payments in lieu of pension provision	327	501
Non-executive Directors	506	480
	3,084	3,499

The cost of share-based payments represents the amount charged to the income statement, as described in note 33.

The aggregate gains on vesting of Directors' share-based awards amounted to a total of £642,000 (2014 £1,576,000).

Total gains made by Directors on the exercise of share options were nil (2014 £1,000).

Total emoluments include £1,359,000 (2014 £1,599,000) payable to Directors for services as directors of subsidiary undertakings.

At 31 March 2015 one Director (2014 nil) is accruing retirement benefits under defined benefit pension schemes in respect of which the Group contributed £5,000 (2014 nil).

At 31 March 2015 one Director (2014 one) is a member of the Group's defined contribution pension scheme in respect of which the Group contributed £49,700 (2014 £25,550).

At 31 March 2015 three Directors (2014 three) receive payments in lieu of full pension provision.

More detailed information concerning Directors' emoluments (including pensions and the highest paid Director) and share interests is shown in the Directors' remuneration report on pages 72 to 92.

15. Goodwill

	£m
Cost:	
At 1 April 2013	339.3
At 31 March 2014	339.3
At 31 March 2015	339.3
Carrying amount:	
At 1 April 2013	339.3
At 31 March 2014	339.3
At 31 March 2015	339.3

Goodwill acquired in a business combination is allocated at acquisition to the cash generating unit (CGU) expected to benefit from that business combination. All of the carrying amount of goodwill is allocated to the waste management segment and this is the lowest level at which goodwill is monitored and tested.

Impairment testing of goodwill

The Group tests goodwill for impairment annually, or more frequently if there are any indications that impairment may have arisen. The recoverable amount of the waste management segment, to which goodwill is allocated, is determined based on value-in-use calculations which, under IAS 36 "Impairment of Assets", require the use of base cash flow projections that reflect reasonable and supportable assumptions with specific restrictions on the estimates to be used. These include limitations on reflecting cash flows to take account of future cost restructuring, or improvement or enhancement of asset performance. Uncommitted projects are excluded. Discount rates are required to be derived independently of the Group's capital structure and reflect management's prudent estimate of a rate that investors would require if they were to choose a similar investment.

The base cash flow projections have been derived by prudently adjusting key assumptions underlying the Group's detailed budget and strategic plan projections. These cover a period of seven years and are prepared as part of the annual planning cycle. This period is believed to lead to a more realistic estimate of future cash flows than five years.

These plans are based on detailed market-by-market forecasts of projected volumes, prices and costs for each business activity. These forecasts reflect, on an individual operational site basis, numerous assumptions and estimates. The key assumptions include anticipated changes in market size and volumes; recyclate prices; energy selling prices; gate fees; the level of future landfill tax; and cost inflation. Management has determined the value assigned to each assumption based on historical experience, market surveys, industry analysis and current legislation. For business activities with an indefinite life a terminal growth rate has been used.

The key assumptions which management has applied to the cash flow projections include:

Assumption	Basis for assumption
Discount rate	
Pre-tax discount rates used range from 7.5% to 10% (across the segment's business activities).	Discount rates have been determined based on an estimate of the waste management segment's weighted average cost of capital adjusted for the different risk profiles of the segment's business activities to the extent that the cash flows have not already been adjusted. Investments in joint ventures reflect an expected equity return only.
Long-term growth rates	
0.5% applied to overheads beyond the period of the detailed projections.	Ongoing efficiencies and benefits from economies of scale.
2.5% applied to other cash flows beyond the period of the detailed projections.	Based on forecasts of growth in waste management markets and the UK economy.

Using management's cash flow projections on the above basis, the value-in-use of the waste management business exceeds the carrying amount by £561 million ('headroom'). The headroom relative to the Company's investment in the waste management business (note 20) is £320 million. A reasonably possible change, with all other variables held constant, of a 0.5% increase in discount rates, or a 1.5% increase in long-term real growth rate of overheads, or a 0.5% reduction in the long-term growth rate of other cash flows, or a 5.0% reduction in overall net cash flows would reduce headroom by £151 million, £46 million, £49 million and £108 million respectively.

Notes to the financial statements

Continued

16. Other intangible assets

	Service concession arrangements £m	Customer contracts £m	Patents £m	Total £m
Acquired intangible assets				
Cost:				
At 1 April 2013	–	32.7	0.2	32.9
Additions	19.6	–	–	19.6
At 31 March 2014	19.6	32.7	0.2	52.5
Additions	28.5	–	–	28.5
At 31 March 2015	48.1	32.7	0.2	81.0
Accumulated amortisation:				
At 1 April 2013	–	19.1	0.1	19.2
Charge for year	–	2.7	–	2.7
At 31 March 2014	–	21.8	0.1	21.9
Charge for year	–	2.7	–	2.7
At 31 March 2015	–	24.5	0.1	24.6
Carrying amount:				
At 1 April 2013	–	13.6	0.1	13.7
At 31 March 2014	19.6	10.9	0.1	30.6
At 31 March 2015	48.1	8.2	0.1	56.4

Service concession arrangements, once available for use, are amortised over the useful life of each contract. The average remaining life, once in use, is 25 years (2014 25 years).

Customer contracts are amortised over the useful life of each contract which at acquisition ranged between two and 15 years. The weighted average remaining life is three years (2014 four years).

Patents are amortised over their estimated useful lives which at acquisition was 13 years. The average remaining life is three years (2014 four years).

The carrying values of other intangible assets are reviewed annually or when events or changes in circumstance indicate that the carrying amounts may not be fully recoverable.

The principal assumptions used to assess impairment are set out in note 17.

During the year borrowing costs of £1.4 million have been capitalised on qualifying assets, at an average rate of 4.1%.

17. Property, plant and equipment

	Land and buildings £m	Infrastructure assets £m	Operational properties £m	Fixed and mobile plant, vehicles and computers £m	Landfill restoration £m	Construction in progress £m	Total £m
Group							
Cost:							
At 1 April 2013	461.5	1,570.7	633.0	1,551.2	63.4	528.4	4,808.2
Additions	16.8	13.8	1.2	30.8	–	298.2	360.8
Assets adopted at fair value	–	5.9	–	0.1	–	–	6.0
Grants and contributions	–	(1.6)	–	–	–	–	(1.6)
Disposals	–	(1.2)	(0.4)	(23.6)	–	–	(25.2)
Transfers/reclassifications	3.6	21.0	7.5	64.0	–	(96.1)	–
At 31 March 2014	481.9	1,608.6	641.3	1,622.5	63.4	730.5	5,148.2
Additions	9.7	11.5	3.5	34.8	–	241.9	301.4
Assets adopted at fair value	–	6.9	–	0.1	–	–	7.0
Grants and contributions	–	(1.8)	–	–	–	–	(1.8)
Disposals	(0.5)	(1.2)	(0.1)	(25.6)	–	–	(27.4)
Transfers/reclassifications	2.6	17.5	4.9	519.8	4.0	(536.8)	12.0
At 31 March 2015	493.7	1,641.5	649.6	2,151.6	67.4	435.6	5,439.4
Accumulated depreciation:							
At 1 April 2013	259.9	156.0	191.9	893.9	27.9	–	1,529.6
Charge for year	13.1	23.8	12.0	90.8	9.6	–	149.3
Impairment charge for the year	39.8	–	–	(2.0)	5.1	–	42.9
Disposals	–	(1.2)	(0.4)	(22.4)	–	–	(24.0)
At 31 March 2014	312.8	178.6	203.5	960.3	42.6	–	1,697.8
Charge for year	22.7	23.9	11.7	98.7	6.9	–	163.9
Impairment charge for the year	–	–	–	24.3	–	–	24.3
Disposals	(0.2)	(1.2)	(0.1)	(23.9)	–	–	(25.4)
At 31 March 2015	335.3	201.3	215.1	1,059.4	49.5	–	1,860.6
Net book value:							
At 1 April 2013	201.6	1,414.7	441.1	657.3	35.5	528.4	3,278.6
At 31 March 2014	169.1	1,430.0	437.8	662.2	20.8	730.5	3,450.4
At 31 March 2015	158.4	1,440.2	434.5	1,092.2	17.9	435.6	3,578.8

Of the total depreciation charge of £163.9 million (2014 £149.3 million), £1.3 million (2014 £1.4 million) has been charged to capital projects, £0.9 million (2014 £0.8 million) has been offset by deferred income and £161.7 million (2014 £147.1 million) has been charged against profits.

Asset lives and residual values are reviewed annually.

During the year borrowing costs of £21.1 million (2014 £21.8 million) have been capitalised on qualifying assets, at an average borrowing rate of 4.1%.

Notes to the financial statements

Continued

17. Property, plant and equipment Continued

Impairment testing for property, plant and equipment and other intangible assets

Property, plant and equipment and finite lived intangible assets are reviewed for impairment when any indicators of impairment are identified. Most of the individual assets do not generate independent cash flows and as a result, for the purposes of impairment reviews, the assets are grouped into cash generating units (CGUs). The CGUs of the waste management segment comprise individual sites which constitute the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or group of assets.

The carrying value of these individual sites is compared to the recoverable amount of the CGUs, which is based predominantly on value-in-use. Value-in-use calculations use the same base cash flow projections used for testing goodwill (note 15) and are derived by adjusting the Group's detailed budget and strategic plan which cover a period of seven years and are approved by the Board annually. The key assumptions are the same as for the impairment testing of goodwill (note 15).

For certain CGUs the recoverable amount is determined by reference to the fair value less costs to sell of the underlying assets using external and internal valuations of property and equipment and management's estimate of disposal costs.

Net impairment charges of £24.3 million (2014 £42.9 million) for property, plant and equipment has been identified in the waste management segment relating to CGUs in landfill activities, reflecting higher than anticipated landfill energy site costs and lower than expected volumes due to site specific circumstances. Included in the net charge are impairment reversals of £9.2 million.

The total recoverable value of CGUs impaired in the year, including cash flows from both assets and liabilities, is below zero (2014 below zero). The total recoverable value of CGUs where there has been an impairment reversal in the year is £16.0 million.

For the purposes of disclosing the results of the impairment review the CGUs have been grouped together by business activity as each CGU within a business activity exhibits a similar risk profile. The key assumptions in the Group's detailed budget and strategic plan are the same as those used for testing goodwill (note 15). The assumptions applied to these cash flow projections are:

Assumption	Basis for assumption
Discount rate	
The pre-tax discount rate used for landfill is 9%.	Discount rates have been determined based on an estimate of the waste management segment's weighted average cost of capital adjusted for the different risk profiles of the segment's business activities to the extent that the cash flows have not already been adjusted.
Long-term growth rates	
0.5% applied to overheads beyond the period of the detailed projections.	Ongoing efficiencies and benefits from economies of scale.
2.5% applied to other cash flows beyond the strategic plan period up to the end of the life of the assets on projected volumes.	Based on forecasts of growth in waste management markets and the UK economy.

Using management cash flow projections, a 1.5% increase in real long-term growth rate of overheads, or a 0.5% increase in discount rate, or a 0.5% reduction in the long-term growth rate of other cash flows, or a 5% reduction in overall net cash flows, with all other variables held constant, would not have a material impact on the impairment charge.

Assets held under finance leases included above were:

	Infrastructure assets £m	Operational properties £m	Fixed and mobile plant, vehicles and computers £m	Construction in progress £m	Total £m
Cost:					
At 31 March 2014	357.0	465.2	421.3	0.2	1,243.7
At 31 March 2015	398.0	422.3	492.3	1.1	1,313.7
Accumulated depreciation:					
At 31 March 2014	41.9	112.8	200.9	–	355.6
At 31 March 2015	47.4	96.9	210.1	–	354.4
Net book amount:					
At 31 March 2014	315.1	352.4	220.4	0.2	888.1
At 31 March 2015	350.6	325.4	282.2	1.1	959.3

	Fixed and mobile plant, vehicles and computers £m
Company	
Cost:	
At 1 April 2013	0.4
Additions	0.1
Disposals	(0.2)
At 31 March 2014	0.3
Additions	0.1
Disposals	(0.1)
At 31 March 2015	0.3
Accumulated depreciation:	
At 1 April 2013	0.2
Charge for year	0.1
Disposals	(0.2)
At 31 March 2014	0.1
Charge for year	0.1
Disposals	–
At 31 March 2015	0.2
Net book value:	
At 1 April 2013	0.2
At 31 March 2014	0.2
At 31 March 2015	0.1

Asset lives and residual values are reviewed annually.

Notes to the financial statements

Continued

18. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items:

			Fair value		Amortised cost		
		Derivatives used for fair value hedging £m	Derivatives used for cash flow hedging £m	Derivatives deemed held for trading £m	Loans and receivables £m	Trade receivables and trade payables £m	Total £m
	Notes						
Group							
31 March 2015							
<i>Financial assets</i>							
Trade receivables	22	–	–	–	–	195.7	195.7
Other receivables	19,22	–	–	–	300.2	–	300.2
Derivative financial instruments	23	68.1	0.2	–	–	–	68.3
Cash and cash deposits	25	–	–	–	771.0	–	771.0
Total		68.1	0.2	–	1,071.2	195.7	1,335.2
<i>Financial liabilities</i>							
Borrowings	28	–	–	–	(2,968.1)	–	(2,968.1)
Derivative financial instruments	23	(6.5)	(45.9)	(13.1)	–	–	(65.5)
Trade payables	26	–	–	–	–	(102.5)	(102.5)
Total		(6.5)	(45.9)	(13.1)	(2,968.1)	(102.5)	(3,136.1)
31 March 2014							
<i>Financial assets</i>							
Trade receivables	22	–	–	–	–	184.5	184.5
Other receivables	19,22	–	–	–	233.7	–	233.7
Derivative financial instruments	23	20.0	8.5	–	–	–	28.5
Cash and cash deposits	25	–	–	–	613.1	–	613.1
Total		20.0	8.5	–	846.8	184.5	1,059.8
<i>Financial liabilities</i>							
Borrowings	28	–	–	–	(2,807.1)	–	(2,807.1)
Derivative financial instruments	23	(4.8)	(15.3)	(4.6)	–	–	(24.7)
Trade payables	26	–	–	–	–	(100.7)	(100.7)
Total		(4.8)	(15.3)	(4.6)	(2,807.1)	(100.7)	(2,932.5)
Company							
31 March 2015							
<i>Financial assets</i>							
Amounts owed by subsidiaries	19,22	–	–	–	945.2	–	945.2
Cash and cash deposits	25	–	–	–	532.5	–	532.5
Total		–	–	–	1,477.7	–	1,477.7
<i>Financial liabilities</i>							
Amounts due to subsidiaries	26	–	–	–	(0.3)	–	(0.3)
Borrowings	28	–	–	–	(1,219.3)	–	(1,219.3)
Derivative financial instruments	23	(0.7)	(13.1)	(3.6)	–	–	(17.4)
Trade payables	26	–	–	–	–	(0.1)	(0.1)
Total		(0.7)	(13.1)	(3.6)	(1,219.6)	(0.1)	(1,237.1)
31 March 2014							
<i>Financial assets</i>							
Amounts owed by subsidiaries	19,22	–	–	–	843.7	–	843.7
Derivative financial instruments	23	–	0.2	–	–	–	0.2
Cash and cash deposits	25	–	–	–	326.7	–	326.7
Total		–	0.2	–	1,170.4	–	1,170.6
<i>Financial liabilities</i>							
Borrowings	28	–	–	–	(1,098.8)	–	(1,098.8)
Derivative financial instruments	23	–	(0.1)	(2.4)	–	–	(2.5)
Trade payables	26	–	–	–	–	(0.1)	(0.1)
Total		–	(0.1)	(2.4)	(1,098.8)	(0.1)	(1,101.4)

19. Other non-current assets

Non-current receivables

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Amounts owed by subsidiary undertakings	–	–	789.6	833.5
Amounts owed by related parties (note 45)	97.6	87.9	–	–
Service concession arrangements	182.9	126.0	–	–
Other receivables	10.6	16.4	0.4	0.5
	291.1	230.3	790.0	834.0

Non-current receivables were due:

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Between 1 and 2 years	20.3	23.1	63.0	166.8
Over 2 years and less than 5 years	31.5	22.8	229.1	500.2
Over 5 years	239.3	184.4	497.9	167.0
	291.1	230.3	790.0	834.0

The fair values of non-current receivables were:

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Amounts owed by subsidiary undertakings	–	–	897.5	845.1
Amounts owed by related parties	170.7	165.2	–	–
Service concession arrangements	182.9	126.0	–	–
Other receivables	10.6	16.4	0.4	0.5
	364.2	307.6	897.9	845.6

The fair value of amounts owed by related parties is based on cash flows using a rate based on the borrowings rate of 2.5% (2014 2.5%).

The discount rate is equal to London Interbank Offered Rate plus an allowance to reflect an appropriate credit margin.

The effective interest rate on amounts owed by related parties was 12.3% (2014 13.0%).

Other receivables include site development and pre-contract costs of £9.3 million (2014 £15.9 million).

Notes to the financial statements

Continued

20. Investments

Subsidiary undertakings

	£m
Company	
At 1 April 2013	1,323.3
At 31 March 2014	1,323.3
Additions	200.3
At 31 March 2015	1,523.6

Joint ventures

	Shares £m
Group	
At 1 April 2013	0.1
Share of post-tax profit	3.7
Share of other comprehensive profit	4.8
Dividends received	(8.5)
At 31 March 2014	0.1
Share of post-tax profit	4.9
Share of other comprehensive profit	1.1
Dividends received	(6.0)
At 31 March 2015	0.1

The recoverable amount of investments is determined based on value-in-use calculations, which are set out in note 15.

Details of the Group's principal subsidiary, joint venture and unconsolidated structured entity undertakings are set out in note 40.

The Group's joint ventures and associate listed below all have share capital consisting solely of ordinary shares which is held directly by the Group.

Name of Entity	Place of business/ country of incorporation	% of ownership	Measurement method
Lakeside Energy from Waste Holdings Limited ⁽¹⁾	England	50	Equity
Viridor Laing (Greater Manchester) Holdings Limited ⁽²⁾	England	50	Equity
INEOS Runcorn (TPS) Holdings Limited ⁽³⁾	England	20	Equity

⁽¹⁾ Lakeside Energy from Waste Holdings Limited provides energy recovery facility services.

⁽²⁾ Viridor Laing (Greater Manchester) Holdings Limited is delivering the 25 year Greater Manchester Waste PFI contract, which is a combined energy and renewable energy project.

⁽³⁾ INEOS Runcorn (TPS) Holdings Limited provides energy recovery facility services. The Group's economic interest is 37.5% as set out in note 40.

The Group's joint ventures and associate are all private companies and there are no quoted market prices available for their shares.

Summarised financial information for the Group's joint ventures and associate:

Summarised balance sheet

	2015			2014		
	Lakeside Energy from Waste Holdings Limited £m	Viridor Laing (Greater Manchester) Holdings Limited £m	INEOS Runcorn (TPS) Holdings Limited £m	Lakeside Energy from Waste Holdings Limited £m	Viridor Laing (Greater Manchester) Holdings Limited £m	INEOS Runcorn (TPS) Holdings Limited £m
Current						
Cash and cash equivalents	22.0	104.4	29.3	23.8	90.1	43.4
Other current assets	7.5	8.9	11.0	5.6	23.3	10.7
Total current assets	29.5	113.3	40.3	29.4	113.4	54.1
Borrowings	(0.1)	–	–	(0.7)	–	–
Other current liabilities	(6.1)	(42.4)	(20.0)	(5.9)	(44.3)	(10.4)
Total current liabilities	(6.2)	(42.4)	(20.0)	(6.6)	(44.3)	(10.4)
Non-current						
Assets	130.6	328.0	297.2	137.6	338.0	276.7
Borrowings	(125.8)	(387.3)	(319.1)	(133.7)	(381.4)	(316.6)
Other liabilities	(39.6)	(56.4)	(46.0)	(34.8)	(52.8)	(29.6)
Total non-current liabilities	(165.4)	(443.7)	(365.1)	(168.5)	(434.2)	(346.2)
Net liabilities	(11.5)	(44.8)	(47.6)	(8.1)	(27.1)	(25.8)
Net debt	(103.9)	(282.9)	(289.8)	(110.6)	(291.3)	(273.2)
Associated shareholder loans	18.5	114.4	84.2	19.1	101.4	74.9
Net debt (excluding shareholder loans)	(85.4)	(168.5)	(205.6)	(91.5)	(189.9)	(198.3)

Summarised statement of comprehensive income/(loss)

	2015			2014		
	Lakeside Energy from Waste Holdings Limited £m	Viridor Laing (Greater Manchester) Holdings Limited £m	INEOS Runcorn (TPS) Holdings Limited £m	Lakeside Energy from Waste Holdings Limited £m	Viridor Laing (Greater Manchester) Holdings Limited £m	INEOS Runcorn (TPS) Holdings Limited £m
Revenue	49.6	141.4	57.0	48.4	123.2	39.7
EBITDA	36.2	6.0	21.8	30.4	5.0	29.3
Depreciation and amortisation	(7.9)	(1.3)	(2.9)	(9.1)	(1.3)	–
Net interest charge	(9.4)	(8.4)	(24.3)	(9.9)	(6.1)	(30.0)
Pre-tax profit/ (loss)	18.9	(3.7)	(5.4)	11.4	(2.4)	(0.7)
Income tax (expense)/ income	(2.5)	1.1	–	(2.5)	1.4	–
Post-tax profit/ (loss)	16.4	(2.6)	(5.4)	8.9	(1.0)	(0.7)
Other comprehensive (loss)/ income	(7.8)	(15.1)	(16.4)	8.0	15.9	14.8
Total comprehensive income/ (loss)	8.6	(17.7)	(21.8)	16.9	14.9	14.1
Dividends paid by joint venture	(12.0)	–	–	(17.0)	–	–

The information above reflects the amounts presented in the financial statements of the joint ventures and associate adjusted for differences in accounting policies between the Group and the joint ventures and associate. The information reflects 100% of the joint ventures and associate results and net liabilities.

Notes to the financial statements

Continued

20. Investments Continued

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture/associate.

	2015			2014		
	Lakeside Energy from Waste Holdings Limited £m	Viridor Laing (Greater Manchester) Holdings Limited £m	INEOS Runcorn (TPS) Holdings Limited £m	Lakeside Energy from Waste Holdings Limited £m	Viridor Laing (Greater Manchester) Holdings Limited £m	INEOS Runcorn (TPS) Holdings Limited £m
Opening net liabilities 1 April	(8.1)	(27.1)	(25.8)	(8.0)	(42.0)	(39.9)
Profit/(loss) for the year	16.4	(2.6)	(5.4)	8.9	(1.0)	(0.7)
Other comprehensive (loss)/income	(7.8)	(15.1)	(16.4)	8.0	15.9	14.8
Dividends paid	(12.0)	–	–	(17.0)	–	–
Closing net liabilities	(11.5)	(44.8)	(47.6)	(8.1)	(27.1)	(25.8)
Interest in joint venture	(5.8)	(22.4)	(17.9)	(4.1)	(13.6)	(9.7)
Share of net liabilities not recognised	5.9	22.4	17.9	4.2	13.6	9.7
Carrying value	0.1	–	–	0.1	–	–

Net liabilities in excess of the Group's interest are not recognised unless the Group has a legal or constructive obligation to fund those liabilities.

21. Inventories

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Raw materials and consumables	15.0	12.1	–	–

22. Trade and other receivables – current

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Trade receivables	282.5	270.6	–	–
Less: provision for impairment of receivables	(86.8)	(86.1)	–	–
Net trade receivables	195.7	184.5	–	–
Amounts owed by related parties (note 45)	19.7	19.3	–	–
Amounts owed by subsidiary undertakings	–	–	155.6	10.2
Other receivables	10.9	24.5	0.3	1.0
Prepayments and accrued income	61.4	49.9	0.3	0.2
	287.7	278.2	156.2	11.4

Trade receivables include accrued income relating to customers with water metered budget plans.

The Directors consider that the carrying amounts of trade and other receivables approximate to their fair value.

There is no concentration of credit risk in trade receivables. The Group has a large number of customers who are dispersed and there is no significant loss on trade receivables expected that has not been provided for. The Group has created IAS 39 portfolio provisions, but cannot practicably identify which receivables specifically are the ones impaired. It is Group policy to consider a receivable in a portfolio to which an impairment has been allocated on a collective basis as not being impaired for the purposes of IFRS 7 disclosures until the loss can be specifically identified with the receivable.

The ageing of trade receivables which are past due but not specifically impaired was:

	2015 £m	2014 £m
Group		
Past due 1 – 30 days	33.6	43.7
Past due 31 – 120 days	20.8	17.8
More than 120 days	134.4	130.5

The aged trade receivables above are taken directly from aged sales ledger records before deduction of credit balances and other adjustments.

The Group's two principal operating businesses specifically review separate categories of debt to identify an appropriate provision for impairment. South West Water Limited has a duty under legislation to continue to provide domestic customers with services regardless of payment.

The movement in the allowance for impairment in respect of trade receivables was:

	2015 £m	2014 £m
At 1 April	86.1	76.4
Provision for receivables impairment	12.8	10.2
Receivables written off during the year as uncollectable	(19.2)	(8.4)
Cumulative amounts previously excluded from debt	7.1	7.9
At 31 March	86.8	86.1

23. Derivative financial instruments

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Derivatives used for cash flow hedging				
Non-current assets	0.2	6.7	–	0.2
Current assets	–	1.8	–	–
Current liabilities	(13.2)	(15.3)	(2.9)	–
Non-current liabilities	(32.7)	–	(10.2)	(0.1)
Derivatives used for fair value hedging				
Non-current assets	60.0	19.2	–	–
Current assets	8.1	0.8	–	–
Current liabilities	(2.4)	(1.2)	–	–
Non-current liabilities	(4.1)	(3.6)	(0.7)	–
Derivative deemed held for trading				
Current liabilities	(3.9)	(4.3)	–	(2.4)
Non-current liabilities	(9.2)	(0.3)	(3.6)	–

The fair value of hedging derivatives is split between current and non-current assets or liabilities based on the maturity of the cash flows.

The ineffective portion recognised in the income statement arising from hedging relationships was £nil (2014 £nil).

Interest rate swaps, primarily cash flow hedges, and fixed rate borrowings are used to manage the mix of fixed and floating rates to ensure at least 50% of Group net borrowings are at fixed rate. At 31 March 2015 72% of Group net borrowings were at fixed rate (2014 62%).

At 31 March 2015 the Group had interest rate swaps to swap from floating to fixed rate and hedge financial liabilities with a notional value of £1,103.0 million and a weighted average maturity of 4.4 years (2014 £1,563.0 million, with 3.7 years). The weighted average interest rate of the swaps for their nominal amount was 2.1% (2014 2.7%).

Notes to the financial statements

Continued

23. Derivative financial instruments Continued

Derivatives deemed held for trading includes a derivative with a fair value of £3.6 million (2014 £2.4 million) which does not qualify for hedge accounting under IAS 39, but is designed to improve the Group's overall interest rate performance. This derivative arises from a combination of non-derivative instruments entered into during the year that when combined result in a derivative instrument. Included in the derivative instrument is a £200 million floating interest rate-linked loan from Peninsula MB Limited to the Company and a fixed rate £200 million obligation due to the Company from Peninsula MB Limited. This derivative has an expected life of 12 years.

Valuation hierarchy

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

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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

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

Level 2 inputs	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Assets				
Derivatives used for cash flow hedging	0.2	8.5	–	0.2
Derivatives used for fair value hedging	68.1	20.0	–	–
Total assets	68.3	28.5	–	0.2
Liabilities				
Derivatives used for cash flow hedging	45.9	15.3	13.1	0.1
Derivatives used for fair value hedging	6.5	4.8	0.7	–
Derivatives deemed held for trading	9.5	2.2	–	–
Total liabilities	61.9	22.3	13.8	0.1

Financial instruments valued using level 3 measures are valued by the counterparty using cash flows discounted at prevailing mid-market rates. The fair value of such financial instruments is not significantly sensitive to unobservable inputs.

Level 3 inputs	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Liabilities				
Derivatives deemed held for trading	3.6	2.4	3.6	2.4

The following table presents the changes in level 3 financial instruments for the year:

Level 3 inputs	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
At 1 April	(2.4)	9.7	(2.4)	9.7
Gains and losses recognised in net finance costs	7.8	8.4	7.8	8.4
Settlement of recognised gains	(9.0)	(20.5)	(9.0)	(20.5)
At 31 March	(3.6)	(2.4)	(3.6)	(2.4)

24. Financial instruments at fair value through profit

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Current assets	0.1	0.4	–	–
Non-current liabilities	(57.3)	(15.6)	(0.5)	–

Financial instruments at fair value through profit reflect the fair value movement of the hedged risk on a hedged item which has been designated in a fair value hedging relationship.

25. Cash and cash deposits

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Cash at bank and in hand	49.6	90.1	42.4	85.5
Short-term bank deposits	125.0	145.0	125.0	90.0
Other deposits	596.4	378.0	365.1	151.2
Total cash and cash deposits (note 39)	771.0	613.1	532.5	326.7

Group short-term deposits have an average maturity of one day.

Group other deposits have an average maturity of 116 days.

Group other deposits include restricted funds of £186.5 million (2014 £164.1 million) to settle long-term lease liabilities (note 28) and £9.7 million (2014 £9.1 million) relating to letters of credit. Restricted funds are available for access, subject to being replaced by an equivalent valued security.

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

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Cash and cash deposits as above	771.0	613.1	532.5	326.7
Less: deposits with a maturity of three months or more (restricted funds)	(196.2)	(173.2)	–	(1.4)
	574.8	439.9	532.5	325.3

26. Trade and other payables – current

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Trade payables	102.5	100.7	0.1	0.1
Amounts owed to subsidiary undertakings	–	–	0.3	0.1
Amounts owed to joint ventures (note 45)	1.2	1.5	–	–
Other tax and social security	64.2	72.2	0.3	0.3
Accruals and other payables	109.8	124.4	4.9	6.9
	277.7	298.8	5.6	7.4

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

Notes to the financial statements

Continued

27. Current tax liabilities

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Current tax liabilities	52.2	37.7	23.8	1.1

28. Borrowings

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Current				
Short-term loans	50.9	0.9	50.7	0.9
Convertible bond	–	123.4	–	123.4
European Investment Bank	31.1	31.1	–	–
Amounts owed to subsidiary undertakings (note 45)	–	–	283.2	283.2
	82.0	155.4	333.9	407.5
Obligations under finance leases	31.6	118.5	–	–
Total current borrowings (note 39)	113.6	273.9	333.9	407.5
Non-current				
Bank and other loans	338.0	469.3	338.0	469.3
Private placements	547.4	222.0	547.4	222.0
Bond 2040	133.0	132.7	–	–
RPI index-linked bond	258.8	253.8	–	–
European Investment Bank	273.2	304.3	–	–
	1,550.4	1,382.1	885.4	691.3
Obligations under finance leases	1,304.1	1,151.1	–	–
Total non-current borrowings (note 39)	2,854.5	2,533.2	885.4	691.3
Total borrowings	2,968.1	2,807.1	1,219.3	1,098.8

The Company issued a £100 million private placement in July 2007 maturing in 2022. Interest is payable at a fixed rate of 3.3%.

South West Water Finance Plc issued a £200 million RPI index-linked bond in July 2008 maturing in 2057 with a cash coupon of 1.99%.

The Company issued £125 million 4.625% convertible bonds in August 2009. The value of the equity conversion component was determined to be £10 million and was recognised in shareholders' equity in retained earnings. During 2014/15 all bonds were converted into 20.9 million Pennon Group Plc shares, at the holders' option, at the conversion price of 597.81 pence per ordinary share.

South West Water Finance Plc issued a £150 million bond in July 2010 maturing in 2040 with a cash coupon of 5.875%.

The fair values of non-current borrowings, valued using level 2 measures (as set out in note 23) were:

	2015		2014	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Group				
Bank and other loans	338.0	338.0	469.3	469.3
Private placements	547.4	606.9	222.0	215.9
Bond 2040	133.0	199.9	132.7	170.0
RPI index-linked bond	258.8	203.4	253.8	163.7
European Investment Bank	273.2	250.6	304.3	260.1
	1,550.4	1,598.8	1,382.1	1,279.0
Obligations under finance leases	1,304.1	1,182.0	1,151.1	978.8
	2,854.5	2,780.8	2,533.2	2,257.8
Company				
Bank and other loans	338.0	337.9	469.3	469.3
Private placements	547.4	606.9	222.0	215.9
	885.4	944.8	691.3	685.2

Where market values are not available, fair values of borrowings have been calculated by discounting expected future cash flows at prevailing interest rates.

The maturity of non-current borrowings was:

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Between 1 and 2 years	133.7	174.0	74.9	112.5
Over 2 years and less than 5 years	465.2	560.6	310.0	356.8
Over 5 years	2,255.6	1,798.6	500.5	222.0
	2,854.5	2,533.2	885.4	691.3

The weighted average maturity of non-current borrowings was 23 years (2014 21 years).

Finance lease liabilities – minimum lease payments were:

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Within 1 year	50.6	62.5	–	–
Over 1 year and less than 5 years	251.3	297.8	–	–
Over 5 years	2,167.6	2,037.7	–	–
	2,469.5	2,398.0	–	–
Less: future finance charges	(1,133.8)	(1,128.4)	–	–
Present value of finance lease liabilities	1,335.7	1,269.6	–	–

Notes to the financial statements

Continued

28. Borrowings Continued

The maturity of finance lease liabilities was:

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Within 1 year	23.7	118.5	–	–
Over 1 year and less than 5 years	123.8	122.3	–	–
Over 5 years	1,188.2	1,028.8	–	–
	1,335.7	1,269.6	–	–

Included above are accrued finance charges arising on obligations under finance leases totalling £132.8 million (2014 £127.3 million), of which £2.9 million (2014 £6.9 million) is repayable within one year.

Within obligations under finance leases, South West Water Limited has utilised finance lease facilities of £180.0 million for certain water and wastewater business property, plant and equipment which are secured by bank letters of credit issued by United Kingdom financial institutions. These letters of credit, covering the full period of the finance leases, are renewable between the financial institutions and South West Water Limited at five-yearly intervals, the next being March 2016.

The period for repayment of certain leases includes an agreement to deposit with the lessor group amounts equal to the difference between the original and revised payments due. The accumulated deposits, £70.7 million at 31 March 2015 (2014 £60.1 million), are being held to settle the lease liability over the period from the end of the original lease term. The deposits are subject to a registered charge given as security to the lessor for the balance outstanding.

The period for repayment of certain other existing leases includes an agreement to deposit with the lessor group amounts equal to the difference between the original and revised payments due. The accumulated deposits, £115.8 million at 31 March 2015 (2014 £104.0 million), are being held to settle the lease liability at the end of the lease term, subject to rights to release by negotiation with the lessor.

Undrawn committed borrowing facilities at the balance sheet date were:

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Floating rate:				
Expiring within 1 year	150.0	30.0	–	–
Expiring after 1 year	820.4	660.0	420.0	415.0
	970.4	690.0	420.0	415.0

In addition, at 31 March 2015 the Group had undrawn uncommitted short-term bank facilities of £25.0 million (2014 £25.0 million) available to the Company or South West Water Limited.

29. Other non-current liabilities

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Amounts owed to subsidiary undertakings	–	–	8.7	8.7
Other payables	110.1	82.8	–	–
	110.1	82.8	8.7	8.7

Other payables include deferred income resulting from the adoption at fair value of assets transferred from customers in the water and wastewater segment.

Included in accruals and other payables are amounts provided by the Group in relation to claims received which are considered by the Directors and the management of the Group to be the best estimate of the amounts that might be finally settled. Further disclosures have not been provided in accordance with IAS 37 paragraph 92.

30. Retirement benefit obligations

During the year the Group operated a number of defined benefit pension schemes and also a defined contribution section within the main scheme.

The assets of the Group's pension schemes are held in separate trustee administered funds. The trustees of the funds are required to act in the best interest of the funds' beneficiaries. The appointment of schemes' trustees is determined by the schemes' trust documentation. The Group has a policy for the main fund that one-half of all trustees, other than the Chairman, are nominated by members of the schemes, including pensioners.

Defined contribution schemes

Pension costs for defined contribution schemes were £5.4 million (2014 £4.5 million).

Defined benefit schemes

Assumptions

The principal actuarial assumptions at 31 March were:

	2015 %	2014 %	2013 %
Rate of increase in pensionable pay	2.9	3.4	3.4
Rate of increase for current and future pensions	2.9	3.2	3.4
Rate used to discount schemes' liabilities and expected return on schemes' assets	3.35	4.30	4.35
Inflation	2.9	3.4	3.4

Mortality

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. The mortality assumption uses a scheme-specific calculation based on CMI 2013 actuarial tables with an allowance for future longevity improvement.

The average life expectancy in years of a member having retired at age 62 on the balance sheet date is projected as:

	2015	2014	2013
Male	25.0	24.9	25.0
Female	27.2	27.1	27.0

The average life expectancy in years of a future pensioner retiring at age 62, 20 years after the balance sheet date, is projected as:

	2015	2014	2013
Male	26.4	26.3	25.9
Female	29.5	29.4	28.3

The sensitivities regarding the principal assumptions used to measure the schemes' liabilities are:

	Change in assumption	Impact on schemes' liabilities
Rate of increase in pensionable pay	+/- 0.5%	+/- 0.2%
Rate of increase in current and future pensions	+/- 0.5%	+/- 6.1%
Rate used to discount schemes' liabilities	+/- 0.5%	+/- 9.2%
Inflation	+/- 0.5%	+/- 6.3%
Life expectancy	+/- 1 year	+/- 3.6%

Notes to the financial statements

Continued

30. Retirement benefit obligations Continued

The amounts recognised in the balance sheet were:

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Present value of financial obligations	(742.2)	(677.4)	(50.8)	(47.2)
Fair value of plan assets	692.7	608.4	46.6	41.0
Deficit of funded plans	(49.5)	(69.0)	(4.2)	(6.2)
Impact of minimum funding asset ceiling	(10.1)	(10.3)	–	–
Net liability recognised in the balance sheet	(59.6)	(79.3)	(4.2)	(6.2)

The movement in the net defined benefit obligation over the accounting period is as follows:

	2015			2014		
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 April	(687.7)	608.4	(79.3)	(680.0)	580.4	(99.6)
Current service cost	(12.5)	–	(12.5)	(15.5)	–	(15.5)
Past service cost and gains and losses on settlements*	14.6	–	14.6	(0.2)	–	(0.2)
Interest (expense)/ income	(28.6)	25.9	(2.7)	(29.1)	25.1	(4.0)
	(26.5)	25.9	(0.6)	(44.8)	25.1	(19.7)
Remeasurements:						
Return on plan on assets excluding amounts included in interest expense	–	58.7	58.7	–	8.0	8.0
Gain/ (loss) from change in demographic assumptions	19.0	–	19.0	(5.9)	–	(5.9)
(Loss)/ gain from change in financial assumptions	(81.5)	–	(81.5)	9.9	–	9.9
Experience gains	1.7	–	1.7	15.1	–	15.1
Change in asset ceiling, excluding amounts included in interest expense	–	–	–	(0.9)	–	(0.9)
	(60.8)	58.7	(2.1)	18.2	8.0	26.2
Contributions:						
Employers	–	22.4	22.4	–	13.8	13.8
Plan participants	(1.2)	1.2	–	(1.1)	1.1	–
Payments from plans:						
Benefit payments	23.9	(23.9)	–	20.0	(20.0)	–
At 31 March	(752.3)	692.7	(59.6)	(687.7)	608.4	(79.3)

* includes exceptional credit of £14.9 million in 2015.

The movement in the Company's net defined benefit obligation over the accounting period is as follows:

	2015			2014		
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Present value of obligation £m	Fair value of plan assets £m	Total £m
1 April	(47.2)	41.0	(6.2)	(47.3)	39.4	(7.9)
Current service cost	(0.4)	–	(0.4)	(0.4)	–	(0.4)
Past service cost and gains and losses on settlement	1.2	–	1.2	–	–	–
Interest (expense)/income	(2.0)	1.8	(0.2)	(2.0)	1.7	(0.3)
	(1.2)	1.8	0.6	(2.4)	1.7	(0.7)
Remeasurements:						
Return on plan on assets excluding amounts included in interest expense	–	3.7	3.7	–	0.3	0.3
Gain/ (loss) from change in demographic assumptions	1.4	–	1.4	(0.3)	–	(0.3)
(Loss)/gain from change in financial assumptions	(5.8)	–	(5.8)	0.9	–	0.9
Experience gains	0.1	–	0.1	0.4	–	0.4
	(4.3)	3.7	(0.6)	1.0	0.3	1.3
Contributions:						
Employers	–	2.0	2.0	–	1.1	1.1
Payments from plans:						
Benefit payments	1.9	(1.9)	–	1.5	(1.5)	–
At 31 March	(50.8)	46.6	(4.2)	(47.2)	41.0	(6.2)

Changes in the effect of the asset ceiling during the year were:

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Irrecoverable asset at start of the year	10.3	8.1	–	–
Interest on irrecoverable surplus	0.4	0.4	–	–
Actuarial (losses)/ gains	(0.6)	1.8	–	–

The Group has two minor pension schemes which are in surplus. These surpluses are deemed irrecoverable assets in accordance with IFRIC 14 'The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction'.

Notes to the financial statements

Continued

30. Retirement benefit obligations Continued

The schemes' assets were:

	2015			2014		
	Quoted prices in active market £m	Prices not quoted in active market £m	Fund %	Quoted prices in active market £m	Prices not quoted in active market £m	Fund %
Equities	240.4	–	35	288.4	–	47
Government bonds	106.2	–	15	84.2	–	14
Other bonds	123.3	–	18	115.3	–	19
Diversified growth	71.2	–	10	69.3	–	11
Property	44.8	1.5	7	38.0	1.4	7
Other (including cash funds)	95.9	9.4	15	4.3	7.5	2
	681.8	10.9	100	599.5	8.9	100

Other assets at 31 March 2015 represented principally cash contributions received from the Group towards the year-end which was invested during the subsequent financial year.

The Company's share of the schemes' assets at the balance sheet date were:

	2015			2014		
	Quoted prices in active market £m	Prices not quoted in active market £m	Fund %	Quoted prices in active market £m	Prices not quoted in active market £m	Fund %
Equities	15.4	–	33	19.8	–	48
Government bonds	8.2	–	18	5.5	–	14
Other bonds	6.4	–	14	6.7	–	16
Diversified growth	5.7	–	12	5.9	–	15
Property	3.6	–	8	3.0	–	7
Other	7.3	–	15	0.1	–	–
	46.6	–	100	41.0	–	100

Through its defined benefit pension plans, the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The schemes hold a significant proportion of growth assets (equities and diversified growth funds) which are expected to outperform corporate bonds in the long-term, but can give rise to volatility and risk in the short-term. The allocation to growth assets is monitored such that it is suitable with the schemes' long-term objectives.
Changes in bond yields	A decrease in corporate bond yields will increase the schemes' liabilities, although this will be partially offset by an increase in the value of the schemes' bond holdings.
Inflation risk	The majority of the schemes' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.
Life expectancy	The majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

In conjunction with its investment advisers, the trustees have structured the schemes' investments with the objective of balancing investment returns and levels of risk. The asset allocation for the main scheme has three principal elements:

- holdings of cash funds and bonds which are expected to be less volatile than most other asset classes and reflects market movements in the schemes' liabilities
- a proportion of equities, with fund managers having freedom in making investment decisions to maximise returns
- investment of a relatively small proportion of the schemes' assets in alternative asset classes which give the potential for diversification (currently property and diversified growth).

The liabilities of the defined benefit schemes are measured by using the projected unit credit method which is an accrued benefits valuation method in which the scheme liabilities make allowance for projected increases in pensionable pay.

The future cash flows arising from the payment of the defined benefits are expected to be settled primarily in the period between 15 and 40 years from the balance sheet date.

The last triennial actuarial valuation of the principal defined benefit scheme was at 31 March 2013. The Group has made a deficit recovery contribution of £11.0 million to the main scheme during the year (2014 £nil million). The Group monitors funding levels on an annual basis and expects to pay total contributions of around £12 million during the year ended 31 March 2016.

31. Deferred tax

Deferred tax is provided in full on temporary differences under the liability method using a tax rate of 20% (2014 20%).

Movements on deferred tax were:

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Liabilities/(assets) at 1 April	227.1	245.1	(1.3)	(2.1)
Charged/ (credited) to the income statement	14.9	(34.7)	(0.1)	0.1
(Credited)/ charged to equity	(6.1)	16.7	(1.6)	0.7
Liabilities/(assets) at 31 March	235.9	227.1	(3.0)	(1.3)

Deferred tax assets have been recognised in respect of all temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

The majority of the Group's deferred tax liability is expected to be recovered over more than one year.

The majority of the Company's deferred tax asset is expected to be recovered over more than one year.

All deferred tax assets and liabilities within the same jurisdiction are offset.

The deferred tax balance was reduced in 2014 by a credit of £34.1 million to recognise the changes in the rate of corporation tax enacted on 17 July 2013 to reduce the rate from 1 April 2014 from 23% to 20%. From 1 April 2014 2% of the reduction took place, followed by a further 1% reduction from 1 April 2015.

The movements in deferred tax assets and liabilities were:

Group

Deferred tax liabilities

	Accelerated tax depreciation		Other £m	Total £m
	Owned assets £m	Leased assets £m		
At 1 April 2013	256.2	15.8	23.2	295.2
(Credited)/ charged to the income statement	(31.5)	(1.4)	5.4	(27.5)
At 31 March 2014	224.7	14.4	28.6	267.7
(Credited)/charged to the income statement	(0.8)	(0.6)	18.9	17.5
Exceptional credit	(2.7)	–	–	(2.7)
At 31 March 2015	221.2	13.8	47.5	282.5

Notes to the financial statements

Continued

31. Deferred tax Continued

Deferred tax assets

	Provisions £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2013	(8.8)	(22.9)	(18.4)	(50.1)
Credited to the income statement	(0.3)	(3.2)	(3.7)	(7.2)
Charged to equity	–	10.2	6.5	16.7
At 31 March 2014	(9.1)	(15.9)	(15.6)	(40.6)
(Credited)/ charged to the income statement	(0.5)	1.5	(0.3)	0.7
Credited to equity	–	(0.4)	(5.7)	(6.1)
Exceptional (credit)/ charge	(3.6)	3.0	–	(0.6)
At 31 March 2015	(13.2)	(11.8)	(21.6)	(46.6)
Net liability:				
At 31 March 2014				227.1
At 31 March 2015				235.9

Company

Deferred tax assets

	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2013	(1.8)	(0.3)	(2.1)
Charged to the income statement	–	0.1	0.1
Charged to equity	0.6	0.1	0.7
At 31 March 2014	(1.2)	(0.1)	(1.3)
Charged/(credited) to the income statement	0.5	(0.6)	(0.1)
Credited to equity	(0.1)	(1.5)	(1.6)
At 31 March 2015	(0.8)	(2.2)	(3.0)

Deferred tax credited/(charged) to equity during the year was:

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Actuarial losses/ (gains) on defined benefit schemes	0.4	(10.2)	0.1	(0.6)
Cash flow hedges	5.7	(7.0)	1.6	(0.1)
Deferred tax on other comprehensive loss/ (gain)	6.1	(17.2)	1.7	(0.7)
Share-based payments (note 36)	–	0.5	(0.1)	–
	6.1	(16.7)	1.6	(0.7)

32. Provisions

	Environmental and landfill restoration £m	Other provisions £m	Total £m
Group			
At 1 April 2014	190.5	21.8	212.3
Charged to the income statement	18.3	6.2	24.5
Exceptional (credit)/charge (note 6)	(6.7)	11.0	4.3
Transfers	(1.3)	(1.1)	(2.4)
Utilised	(7.8)	(3.6)	(11.4)
At 31 March 2015	193.0	34.3	227.3

The amount charged to the income statement includes £10.5 million (2014 £9.3 million) charged to finance costs as the unwinding of discounts in provisions.

The analysis of provisions between current and non-current is:

	2015 £m	2014 £m
Current	32.9	33.3
Non-current	194.4	179.0
	227.3	212.3

Environmental and landfill restoration provisions are incurred during the operational life of each landfill site and for a considerable period thereafter. The period of aftercare post-closure and the level of costs expected are uncertain and can vary significantly from site to site. Key factors are the type of waste, the speed at which it decomposes, the volume of leachate requiring treatment and regulatory requirements specific to the site. Environmental and landfill restoration provisions are expected to be substantially utilised throughout the operational life of a site and for landfill sites within 60 years of closure. The provisions have been established assuming current waste management technology based upon estimated costs at future prices which have been discounted to present value.

Other provisions comprise principally of underperforming contracts and restructuring provisions. Underperforming contracts are provided for at the net present value of the operating losses of the underperforming contracts and are to be utilised over the remaining period of the contract to which they relate. The restructuring provision relates principally to severance costs and will be utilised within one year.

Notes to the financial statements

Continued

33. Share capital

Allotted, called-up and fully paid

	Number of shares		
	Treasury shares	Ordinary shares	£m
Group and Company			
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 £0.4 million, shares re-issued to the Pennon Employee Share Trust	(69,336)	69,336	–
For consideration of £0.1 million, shares re-issued under the Executive Share Option Scheme	(11,134)	11,134	–
For consideration of £1.9 million, shares re-issued under the Company's Sharesave Scheme	(438,302)	438,302	–
At 31 March 2014 ordinary shares of 40.7p each	1,282,690	370,552,276	151.3
Shares issued in respect of the £125 million 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 £0.8 million, shares re-issued to the Pennon Employee Share Trust	(99,455)	99,455	–
For consideration of £0.1million, shares re-issued under the Executive Share Option Scheme	(5,027)	5,027	–
For consideration of £3.0 million, shares re-issued under the Company's Sharesave Scheme	(657,008)	657,008	–
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 or re-issued for any of the Company's share schemes, or cancelled.

Employee share schemes

The Group operates a number of equity-settled share plans for the benefit of employees. Details of each plan are:

i) Sharesave Scheme

An all-employee savings related plan is operated that enables employees, including Executive Directors, to invest up to a maximum of £250 per month for three or five years. These savings can then be used to buy ordinary shares, at a price set at a 20% discount to the market value at the start of the savings period, at the third, fifth or seventh year anniversary of the option being granted. Options expire six months following the exercise date and, except for certain specific circumstances such as redundancy, lapse if the employee leaves the Group before the option exercise period commences.

Outstanding options to subscribe for ordinary shares of 40.7p each under the Company's share option schemes are:

Date granted	Subscription price fully paid	Period when options normally exercisable	Thousands of shares in respect of which options outstanding at 31 March	
			2015	2014
3 July 2007	522p	2010 – 2014	–	11
8 July 2008	517p	2011 – 2015	6	8
6 July 2009	386p	2012 – 2016	49	398
28 June 2010	431p	2013 – 2017	205	217
29 June 2011	536p	2014 – 2018	156	457
29 June 2012	588p	2015 – 2017	561	611
3 July 2013	538p	2016 – 2018	581	628
14 July 2014	611p	2017 – 2019	772	–
			2,330	2,330

i) Sharesave Scheme continued

The number and weighted average exercise price of Sharesave options are:

	2015		2014	
	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)
At 1 April	2,330	515	2,341	498
Granted	811	611	658	538
Forfeited	(97)	559	(199)	559
Exercised	(657)	457	(438)	436
Expired	(57)	550	(32)	517
At 31 March	2,330	561	2,330	515

The weighted average price of the Company's shares at the date of exercise of Sharesave options during the year was 811p (2014 703p). The options outstanding at 31 March 2015 had a weighted average exercise price of 561p (2014 515p) and a weighted average remaining contractual life of 1.9 years (2014 1.7 years).

The aggregate fair value of Sharesave options granted during the year was £0.8 million (2014 £0.9 million), determined using the Black-Scholes valuation model. The significant inputs into the valuation model at the date of issue of the options were:

	2015	2014
Weighted average share price	764p	673p
Weighted average exercise price	611p	538p
Expected volatility	17.0%	18.0%
Expected life	3.4 years	3.4 years
Risk-free rate	1.4%	0.7%
Expected dividend yield	4.0%	4.2%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous two years.

ii) Performance and Co-investment Plan

Executive Directors and senior management receive a conditional award of ordinary shares in the Company and are also required to hold a substantial personal shareholding in the Company. The eventual number of shares, if any, which vest is dependent upon the achievement of conditions of the plan over the restricted period, being not less than three years.

The number and price of shares in the Performance and Co-investment Plan are:

	2015		2014	
	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)
At 1 April	1,200	711	1,322	669
Granted	400	799	449	653
Vested	(132)	698	(276)	546
Lapsed	(273)	698	(295)	590
At 31 March	1,195	744	1,200	711

The awards outstanding at 31 March 2015 had a weighted exercise price of 744p (2014 711p) and a weighted average remaining contractual life of 1.3 years (2014 1.3 years).

Notes to the financial statements

Continued

33. Share capital Continued

The aggregate fair value of awards granted during the year was £1.9 million (2014 £1.6 million) determined using a Monte-Carlo simulation model. The significant inputs into the valuation model at the date of the share awards were:

	2015	2014
Weighted average share price	799p	653p
Expected volatility	17.0%	18.0%
Risk-free rate	1.4%	0.7%

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous two years.

iii) Annual Incentive Bonus Plan – deferred shares

Awards under the plan to Executive Directors and senior management involve the release of ordinary shares in the Company to participants. There is no performance condition since vesting is conditional upon continuous service with the Group for a period of three years from the award. The number and weighted average price of shares in the Annual Incentive Bonus Plan are:

	2015		2014	
	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)	Number of ordinary shares (thousands)	Weighted average exercise price per share (p)
At 1 April	315	727	429	680
Granted	107	822	99	693
Vested	(106)	728	(211)	616
Lapsed	–	–	(2)	573
At 31 March	316	758	315	727

The awards outstanding at 31 March 2015 had a weighted average exercise price of 758p (2014 727p) and a weighted average remaining contractual life of 1.3 years (2014 1.2 years). The Company's share price at the date of the awards ranged from 693p to 822p.

The aggregate fair value of awards granted during the year was £0.9 million (2014 £0.7 million), determined from market value. No option pricing methodology is applied since dividends paid on the shares are receivable by the participants in the scheme.

Further details of the plans and options granted to Directors, included above, are shown in the Directors' remuneration report.

34. Share premium account

	£m
Group and Company	
At 1 April 2013	7.0
Adjustment for shares issued under the Scrip Dividend Alternative	(2.1)
At 31 March 2014	4.9
Convertible bond – equity issuance	116.3
Adjustment for shares issued under the Scrip Dividend Alternative	(2.6)
At 31 March 2015	118.6

35. Capital redemption reserve

The capital redemption reserve represents the redemption of B shares and cancellation of deferred shares arising from a capital return to shareholders undertaken during 2006.

	£m
Group and Company	
At 1 April 2013	144.2
At 31 March 2014	144.2
At 31 March 2015	144.2

36. Retained earnings and other reserves

	Own shares £m	Hedging reserve £m	Retained earnings £m	Total £m
Group				
At 1 April 2013	(2.3)	(29.7)	508.9	476.9
Profit for the year	–	–	142.5	142.5
Other comprehensive income for the year	–	25.2	20.8	46.0
Transfer from hedging reserve to property, plant and equipment	–	0.6	–	0.6
Dividends paid relating to 2013	–	–	(103.9)	(103.9)
Adjustment for shares issued under the Scrip Dividend Alternative	–	–	34.5	34.5
Credit to equity in respect of share-based payments	–	–	3.3	3.3
Deferred tax in respect of share-based payments	–	–	0.5	0.5
Charge in respect of share options vesting	1.0	–	(1.0)	–
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
At 31 March 2014	(1.7)	(3.9)	608.0	602.4
Profit for the year	–	–	126.3	126.3
Other comprehensive loss for the year	–	(33.0)	(0.6)	(33.6)
Transfer from hedging reserve to property, plant and equipment	–	1.9	–	1.9
Dividends paid relating to 2014	–	–	(117.0)	(117.0)
Adjustment for shares issued under the Scrip Dividend Alternative	–	–	48.0	48.0
Credit to equity in respect of share-based payments	–	–	3.5	3.5
Charge in respect of share options vesting	0.7	–	(0.7)	–
Own shares acquired by the Pennon Employee Share Trust in respect of share options granted	(0.8)	–	–	(0.8)
Convertible bond – equity issuance	–	–	(0.5)	(0.5)
Proceeds from treasury shares re-issued	–	–	3.9	3.9
At 31 March 2015	(1.8)	(35.0)	670.9	634.1

The own shares reserve represents the cost of ordinary shares in Pennon Group Plc issued to or purchased in the market and held by the Pennon Employee Share Trust to satisfy awards under the Group's Annual Incentive Bonus Plan.

The market value of the 304,000 ordinary shares (2014 331,000 ordinary shares) held by the trust at 31 March 2015 was £2.5 million (2014 £2.5 million).

Notes to the financial statements

Continued

36. Retained earnings and other reserves Continued

	Hedging reserve £m	Retained earnings £m	Total £m
Company			
At 1 April 2013	–	684.8	684.8
Profit for the year	–	157.9	157.9
Other comprehensive income for the year	–	0.7	0.7
Dividends paid relating to 2013	–	(103.9)	(103.9)
Adjustment for shares issued under the Scrip Dividend Alternative	–	34.5	34.5
Credit to equity in respect of share-based payments	–	0.8	0.8
Proceeds from treasury shares re-issued	–	2.4	2.4
At 31 March 2014	–	777.2	777.2
Profit for the year	–	300.1	300.1
Other comprehensive loss for the year	(5.5)	(0.4)	(5.9)
Dividends paid relating to 2014	–	(117.0)	(117.0)
Adjustment for shares issued under the Scrip Dividend Alternative	–	48.0	48.0
Credit to equity in respect of share-based payments	–	1.0	1.0
Deferred tax in respect of share-based payments	–	(0.1)	(0.1)
Charge in respect of share options vesting	–	(0.8)	(0.8)
Convertible bond – equity issuance	–	(0.5)	(0.5)
Proceeds from treasury shares re-issued	–	3.9	3.9
At 31 March 2015	(5.5)	1,011.4	1,005.9

37. Perpetual capital securities

	£m
Group and Company	
At 1 April 2013	294.8
Distributions to perpetual capital security holders	(20.3)
Current tax relief on distributions to perpetual capital security holders	4.7
Profit for the year attributable to perpetual capital security holders	15.6
At 31 March 2014	294.8
Distributions to perpetual capital security holders	(20.3)
Current tax relief on distributions to perpetual capital security holders	4.3
Profit for the year attributable to perpetual capital security holders	16.0
At 31 March 2015	294.8

On 8 March 2013 the Company issued £300 million perpetual capital securities. Costs directly associated with the issue of £5.2 million 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.

As the Company paid a dividend in the 12 months prior to the periodic return date of 8 March 2015, a periodic return of £20.3 million was paid during the year.

38. Analysis of cash flows given in the statement of cash flows

Reconciliation of profit for the year to cash generated from operations:

Cash generated from operations

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Continuing operations				
Profit for the year	142.3	158.1	316.1	173.5
Adjustments for:				
Share-based payments	3.5	3.3	1.0	0.8
Profit on disposal of property, plant and equipment	(3.7)	(4.2)	–	–
Depreciation charge	161.7	147.1	0.1	0.1
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 defined benefit pension credit	(14.9)	–	(1.2)	–
Share of post-tax profit from joint ventures	(4.9)	(3.7)	–	–
Finance income	(44.0)	(43.3)	(51.0)	(60.8)
Finance costs	84.8	97.2	35.6	44.0
Dividends receivable	–	–	(311.6)	(162.1)
Taxation charge	54.7	0.6	11.7	5.3
Changes in working capital:				
Increase in inventories	(2.9)	(1.6)	–	–
Increase in trade and other receivables	(17.1)	(13.2)	(101.6)	(206.6)
Increase in service concession arrangements receivable	(71.9)	(47.5)	–	–
Increase/(decrease) in trade and other payables	5.7	7.3	(1.2)	(1.4)
(Decrease)/increase in retirement benefit obligations from contributions	(9.6)	1.9	(1.7)	(0.8)
Decrease in provisions	(4.1)	(15.3)	–	–
Cash generated/(outflow) from operations	310.9	338.0	(103.8)	(208.0)

Reconciliation of total interest paid:

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Interest paid in operating activities	62.0	65.3	34.7	28.6
Interest paid in investing activities (purchase of property, plant and equipment)	22.5	21.8	–	–
Total interest paid	84.5	87.1	34.7	28.6

Notes to the financial statements

Continued

39. Net borrowings

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Cash and cash deposits	771.0	613.1	532.5	326.7
Borrowings – current				
Other current borrowings	(82.0)	(155.4)	(50.7)	(124.3)
Finance lease obligations	(31.6)	(118.5)	–	–
Amounts owed to subsidiary undertakings	–	–	(283.2)	(283.2)
Total current borrowings	(113.6)	(273.9)	(333.9)	(407.5)
Borrowings – non-current				
Bank and other loans	(338.0)	(469.3)	(338.0)	(469.3)
Other non-current borrowings	(1,212.4)	(912.8)	(547.4)	(222.0)
Finance lease obligations	(1,304.1)	(1,151.1)	–	–
Total non-current borrowings	(2,854.5)	(2,533.2)	(885.4)	(691.3)
Total net borrowings	(2,197.1)	(2,194.0)	(686.8)	(772.1)

40. Principal subsidiary, joint venture and associate undertakings at 31 March 2015

	Country of incorporation, registration and principal operations
Water and wastewater	
South West Water Limited*	England
South West Water Finance Plc	England
Source Contact Management Limited	England
Waste management	
Viridor Limited*	England
Viridor Waste Limited	England
Viridor Waste Exeter Limited	England
Viridor Waste Suffolk Limited	England
Viridor Waste (West Sussex) Limited	England
Viridor Waste Management Limited	England
Viridor EnviroScot Limited	Scotland
Viridor Resource Management Limited	England
Viridor Waste Kent Limited	England
Viridor Oxfordshire Limited	England
Viridor EfW (Runcorn) Limited	England
Viridor Waste (Landfill Restoration) Limited	England
Viridor Waste (Somerset) Limited	England
Viridor Waste (Thames) Limited	England
Viridor Waste (Greater Manchester) Limited	England
Viridor Polymer Recycling Limited	England
Viridor Trident Park Limited	England
Viridor (Glasgow) Limited	Scotland
Viridor (Lancashire) Limited	England
Viridor Peterborough Limited	England
Viridor South London Limited	England
Other	
Peninsula Insurance Limited *, ⁽¹⁾	Guernsey

* Indicates the shares are held directly by Pennon Group Plc, the Company.

⁽¹⁾ Captive insurance company established with the specific objective of financing risks emanating from within the Group.

The subsidiary undertakings are wholly owned and all shares in issue are ordinary shares. All companies above are consolidated in the Group financial statements.

Notes to the financial statements

Continued

40. Principal subsidiary, joint venture and associate undertakings at 31 March 2015 Continued

Joint ventures and associate

All joint ventures, the associate and the subsidiary undertakings of Lakeside Energy from Waste Holdings Limited, Viridor Laing (Greater Manchester) Holdings Limited and INEOS Runcorn (TPS) Holdings Limited are incorporated and registered in England which is also their country of operation.

	Share capital in issue	Percentage held	Principal activity
Joint ventures			
Lakeside Energy from Waste Holdings Limited	1,000,000 A ordinary shares	–	
	1,000,000 B ordinary shares	100%	
Lakeside Energy from Waste Limited			Waste management
Shares in Lakeside Energy from Waste Holdings Limited are held by Viridor Waste Management Limited.			
Viridor Laing (Greater Manchester) Holdings Limited	12,000 ordinary shares	50%	
Viridor Laing (Greater Manchester) Limited			Waste management
Shares in Viridor Laing (Greater Manchester) Holdings Limited are held by Viridor Waste Management Limited.			
Associate			
INEOS Runcorn (TPS) Holdings Limited	1,000 A ordinary shares	20%	
	186,750 B1 ordinary shares	50%	
	62,250 B2 ordinary shares	–	
INEOS Runcorn (TPS) Limited			Waste management
Shares in INEOS Runcorn (TPS) Holdings Limited are held by Viridor Waste Management Limited.			
The Group's economic interest in INEOS Runcorn (TPS) Holdings Limited is 37.5%, as returns from the investment are based on holdings of B1 and B2 ordinary shares.			

Interests in unconsolidated structured entities

The Company holds 75% of the ordinary share capital of Peninsula MB Limited, a company which raises funds through the issuance of debt instruments and third party lending, but does not control the company since it does not have the power to affect returns. Consequently the company has not been consolidated into the Pennon Group.

Pennon Group Plc has borrowed a £200 million floating interest rate-linked loan from Peninsula MB Limited and is owed a fixed rate £200 million obligation from Peninsula MB Limited.

41. Operating lease commitments

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
The future aggregate minimum lease payments under non-cancellable operating leases are:				
Within 1 year	11.0	10.3	–	–
Over 1 year and less than 5 years	32.0	30.9	–	–
Over 5 years	82.4	78.8	–	–
	125.4	120.0	–	–

The Group leases various offices, depots and workshops under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. Property leases are negotiated for an average term of 44 years and rentals are reviewed on average at five-yearly intervals.

The Group also leases plant and machinery under non-cancellable operating lease agreements.

42. Contingent liabilities

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Guarantees:				
Borrowing facilities of subsidiary undertakings	–	–	386.6	438.6
Performance bonds	169.8	150.0	169.8	150.0
Other	4.0	6.9	4.0	6.9
	173.8	156.9	560.4	595.5

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

Other contingent liabilities relate to a possible obligation to pay further consideration in respect of a previously acquired business when the outcome of planning applications is known.

In connection with the application of the audit exemption under Section 479A of the Companies Act 2006 the Company has guaranteed all the outstanding liabilities as at 31 March 2015 of certain of its subsidiaries: Pennon Power Limited, Exe Continental and Viridor Waste 2 Limited since these companies qualify for the exemption.

The Group is subject to litigation from time to time as a result of its activities. The Group establishes provisions in connection with litigation where it has a present legal or constructive obligation as a result of past events and where it is more likely than not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

43. Capital commitments

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Contracted but not provided	350.3	373.1	–	–

44. 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 £100.3 million. Sembcorp Bournemouth Water Investments Limited is the holding company for Sembcorp Bournemouth Water Limited (renamed 'Bournemouth Water Limited').

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

The acquisition has been accounted for in 2015/16 using the acquisition method, provisional goodwill of c.£66 million will be 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 £100.3 million.

In accordance with current legislation an automatic merger reference has been made to the Competition and Markets Authority (CMA). A decision is expected to be received on the merger from the CMA within its usual timescales.

45. Related party transactions

During the year Group companies entered into the following transactions with joint ventures and associate related parties who are not members of the Group:

	2015 £m	2014 £m
Sales of goods and services		
Viridor Laing (Greater Manchester) Limited	99.0	104.6
INEOS Runcorn (TPS) Limited	5.6	–
Purchase of goods and services		
Lakeside Energy from Waste Limited	12.6	9.2
INEOS Runcorn (TPS) Limited	1.1	–
Dividends received		
Lakeside Energy from Waste Holdings Limited	6.0	8.5

Notes to the financial statements

Continued

45. Related party transactions Continued

Year-end balances

	2015 £m	2014 £m
Receivables due from related parties		
Viridor Laing (Greater Manchester) Limited (loan balance)	57.2	50.7
Lakeside Energy from Waste Limited (loan balance)	9.3	9.5
INEOS Runcorn (TPS) Limited (loan balance)	31.4	28.0
	97.9	88.2
Viridor Laing (Greater Manchester) Limited (trading balance)	12.8	18.1
Lakeside Energy from Waste Limited (trading balance)	1.0	0.9
INEOS Runcorn (TPS) Limited (trading balance)	5.6	–
	19.4	19.0
Payables due to related parties		
Lakeside Energy for Waste Limited (trading balance)	1.1	1.5
INEOS Runcorn (TPS) Limited (trading balance)	0.1	–

The £97.9 million (2014 £88.2 million) receivable relates to loans to related parties included within receivables and due for repayment in instalments between 2015 and 2033. Interest is charged at an average of 13.0% (2014 13.0%).

Company

The following transactions with subsidiary undertakings occurred in the year:

	2015 £m	2014 £m
Sales of goods and services (management fees)	9.5	9.7
Purchase of goods and services (support services)	0.5	0.5
Interest receivable	35.6	34.9
Interest payable	0.1	0.1
Dividends received	311.6	162.1

Sales of goods and services to subsidiary undertakings are at cost. Purchases of goods and services from subsidiary undertakings are under normal commercial terms and conditions which would also be available to unrelated third parties.

Year-end balances

	2015 £m	2014 £m
Receivables due from subsidiary undertakings		
Loans	936.6	834.1
Trading balances	8.5	9.6

Interest on £70.5 million of the loans has been charged at a fixed rate of 4.5%, on £332.5 million at a fixed rate of 6.0% and on £0.5 million at a fixed rate of 1.4% (2014 £128.7 million at 4.5% and £288.4 million at 6.0%). Interest on £403.1 million of the loans is charged at 12 month LIBOR + 1.5%. These loans are due for repayment in instalments over the period 2015 to 2041.

Interest on £130.0 million of the loans has been charged at 1-month LIBOR + 1.0%. This loan will be repaid in 2015/16.

During the year there were no provisions (2014 nil) in respect of loans to subsidiaries not expected to be repaid.

	2015 £m	2014 £m
Payables due to subsidiary undertakings		
Loans	283.2	283.2
Trading balances	14.6	14.4

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

Five year financial summary

	2015 £m	2014 £m	2013 £m	2012* £m	2011* £m
Income statement					
Revenue	1,357.2	1,321.2	1,201.1	1,233.1	1,159.2
Operating profit before exceptional items	246.6	257.5	245.6	268.8	260.9
Net finance costs before exceptional items	(40.8)	(53.9)	(61.4)	(72.3)	(76.7)
Share of profit in joint ventures	4.9	3.7	5.8	4.0	4.3
Profit before tax and exceptional items	210.7	207.3	190.0	200.5	188.5
Net exceptional items before tax	(13.7)	(48.6)	(176.4)	–	–
Taxation (charge)/credit	(54.7)	(0.6)	7.0	(28.1)	(16.9)
Profit for the year	142.3	158.1	20.6	172.4	171.6
Attributable to:					
Ordinary shareholders of the parent	126.3	142.5	20.6	172.4	171.6
Perpetual capital security holders	16.0	15.6	–	–	–
Dividends proposed/declared	129.5	117.0	103.9	96.0	88.2
Earnings per ordinary share (basic):					
From continuing operations					
Earnings per share	32.3p	38.8p	5.7p	48.1p	48.4p
Deferred tax before exceptional items	4.7p	(7.0)p	(4.0)p	(0.8)p	(6.1)p
Exceptional items (net of tax)	2.8p	10.8p	38.6p	–	–
Earnings per share before exceptional items and deferred tax	39.8p	42.6p	40.3p	47.3p	42.3p
Declared dividends per share	31.80p	30.31p	28.46p	26.52p	24.65p
	2015 £m	2014 £m	2013 £m	2012 £m	2011* £m
Capital expenditure					
Acquisitions	–	–	14.8	29.2	25.1
Property, plant and equipment	301.4	360.8	410.1	257.4	199.0
Balance sheet					
Non-current assets	4,325.9	4,076.6	3,846.0	3,592.5	3,347.6
Net current assets	586.0	241.9	378.5	11.8	335.7
Non-current liabilities	(3,557.8)	(3,120.9)	(3,152.4)	(2,775.2)	(2,903.8)
Net assets	1,354.1	1,197.6	1,072.1	829.1	779.5
Number of employees (average for year)					
Water and wastewater business	1,408	1,356	1,354	1,335	1,196
Waste management	3,101	3,044	3,180	3,148	3,012
Other businesses	49	51	50	46	44
	4,558	4,451	4,584	4,529	4,252

* Prior to the application of IAS 19 (Revised) 'Employee Benefits'.

Shareholder information

Financial calendar

Financial year-end	31 March
Twenty-sixth Annual General Meeting	30 July 2015
Ex-dividend date for 2015 final dividend	6 August 2015*
Record date for 2015 final dividend	7 August 2015*
2015 final dividend payable	2 October 2015*
2015/16 half yearly results announcement	27 November 2015
2016 interim dividend payable	April 2016
2016 preliminary results announcement	May 2016
Twenty-seventh Annual General Meeting	July 2016
2016 final dividend payable	October 2016

Scrip Dividend Alternative*

Ordinary shares quoted ex-dividend	6 August 2015
Record date for final dividend	7 August 2015
Posting of Scrip Dividend offer	21 August 2015
Final date for receipt of Forms of Mandate	14 September 2015
Posting of dividend cheques and share certificates	1 October 2015
Final cash dividend payment date	2 October 2015
First day of dealing in the new ordinary shares	2 October 2015

* Subject to obtaining shareholder approval at the 2015 Annual General Meeting to the payment of a final dividend for the year ended 31 March 2015

Shareholder analysis at 31 March 2015

	Holding of shares	Number of shareholders	% of total shareholders	% of ordinary shares
1-100		2,483	11.38	0.02
101-1,000		9,052	41.50	1.21
1,001-5,000		8,741	40.07	4.77
5,001-50,000		1,173	5.38	3.28
50,001-100,000		90	0.41	1.58
100,001 +		273	1.25	89.14
		21,812		

	Number of accounts	% of total accounts	% of total shares
Individuals	18,031	82.67	6.94
Companies	180	0.82	0.85
Trust companies (pension funds etc.)	7	0.03	0.01
Banks and nominees	3,594	16.48	92.20
	21,812		

Major shareholdings

The net position on 31 March 2015 of investors who have notified interests in the issued share capital of the Company pursuant to the Financial Conduct Authority's Disclosure and Transparency Rules is as follows:

	Number of voting rights (direct and indirect)	% of voting rights
Ameriprise Financial, Inc.	35,301,271	8.85%
Pictet Asset Management SA	25,599,217	6.42%
Lazard Asset Management LLC	20,137,074	5.05%
RARE Infrastructure Limited	19,366,782	4.86%
AXA Investment Managers SA	18,088,394	4.54%
Invesco Ltd	17,212,959	4.32%
UBS Investment Bank	16,610,004	4.17%
Legal & General Group Plc	13,458,627	3.38%

Since 31 March 2015, the following changes have been notified to the Company:

- On 22 April 2015, The Capital Group Companies, Inc. notified the Company that it had crossed the 3% threshold, with an increased total holding of 15,791,347 shares, equivalent to 3.84% of voting rights;
- On 22 April 2015, Ameriprise Financial, Inc. informed the Company that it held 20,328,154 shares (equivalent to 4.95% of voting rights);
- On 1 May 2015, The Capital Group Companies, Inc. informed the Company that it held 16,705,367 shares (equivalent to 4.06% of voting rights).

No further changes to interests in the Company's issued share capital have been disclosed to the Company as at 19 June 2015 (being a date not more than one month prior to the date of the Company's Notice of Annual General Meeting).

Registrar

All enquiries concerning shareholdings including notification of change of address, loss of a share certificate or dividend payments should be made to the Company's registrar, Capita Asset Services, who can be contacted as follows:

Capita Asset Services
Pennon Group Share Register,
The Registry
34 Beckenham Road, Beckenham
Kent BR3 4TU

Telephone: **0371 664 9234** (calls are charged at standard network rates).

Lines are open 8.30am-5.30pm Monday-Friday.

Overseas telephone: **+44 371 664 9234**

Email: **pennon@capita.co.uk**

Website: **capitashareportal.com**

Share dealing service

The telephone share dealing service offered by Stocktrade enables shareholders to buy and sell shares in the Company on a low-cost basis and to make regular investments in the Company. For further details of this service, contact Stocktrade on +44 (0)131 240 0414 and quote: Pennon Group Dial & Deal Service. Commission is 0.5% (subject to a minimum charge of £17.50) up to £10,000, then 0.2% thereafter.

Share gift service

Through Sharegift, an independent charity share donation scheme, shareholders who only have a small number of shares with a value that makes it uneconomical to sell them can donate such shares to charity. Donations can be made by completion of a simple share transfer form which is available from the Company's registrar, Capita Asset Services.

Individual Savings Accounts

Shareholders may gain tax advantages by holding their shares in the Company in an Individual Savings Account (ISA).

Scrip Dividend Alternative

Subject to obtaining shareholder approval at the 2015 Annual General Meeting for the payment of a final dividend for the year ended 31 March 2015, full details of the Scrip Dividend Alternative and how to participate will be sent to shareholders on 21 August 2015. The full timetable for offering the Scrip Dividend Alternative is given on the opposite page.

The Scrip Dividend Alternative provides shareholders with an opportunity to invest the cash dividend they receive on their Pennon Group Plc shares to buy further shares in the Company without incurring stamp duty or dealing expenses.

Online portfolio service

The online portfolio service provided by Capita Asset Services gives shareholders access to more information on their investments. Details of the portfolio service are available online at **www.capitashareportal.com**.

Electronic communications

The Company has passed a resolution which allows it to communicate with its shareholders by means of its website.

Shareholders currently receiving a printed copy of the Annual Report who now wish to sign up to receive all future shareholder communications electronically can do so by registering with Capita Asset Services' share portal. Go to **www.capitashareportal.com** to register, select 'Account Registration' and then follow the on-screen instructions by inputting your surname, your Investor Code (which can be found on your Form of Proxy) and your postcode as well as entering an email address and selecting a password.

By registering to receive your shareholder communications electronically, you will also automatically receive your Dividend Tax Vouchers electronically.

Electronic proxy voting

Shareholders also have the opportunity to register the appointment of a proxy for any general meeting of the Company once notice of the meeting has been given and may do so via **www.capitashareportal.com**. Shareholders who register an email preference will not receive a paper proxy form. Instead they will receive an email alert advising them of general meetings of the Company, with links to the notices of meetings and annual and half yearly financial reports.

Shareholder information Continued

Pennon's website

www.pennon-group.co.uk provides news and details of the Company's activities plus links to its subsidiaries' websites.

The Investor Information section contains up to date information for shareholders including detailed share price information, financial results, dividend payment dates and amounts, and stock exchange announcements. There is also a comprehensive shareholder services section which includes information on buying, selling and transferring shares, and how to notify a change in personal circumstances, for example, a change of address.

Beware of share fraud

The following is taken from the 'Beware of share fraud' leaflet produced by the Financial Conduct Authority:

Fraudsters use persuasive and high-pressure tactics to lure investors into scams.

They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment.

While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud

1. Keep in mind that firms authorised by the Financial Conduct Authority (FCA) are unlikely to contact you out of the blue with an offer to buy or sell shares.
2. Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
3. Check the Financial Services Register from **www.fca.org.uk** to see if the person and firm contacting you is authorised by the FCA.
4. Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
5. Use the firm's contact details listed on the Register if you want to call it back.
6. Call the FCA on **0800 111 6768** if the firm does not have contact details on the Register or you are told they are out of date.
7. Search the FCA Warning List of unauthorised firms at **www.scamsmart.fca.org.uk**.
8. Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
9. Think about getting independent financial and professional advice before you hand over any money.
10. Remember: if it sounds too good to be true, it probably is!

5,000 people contact the Financial Conduct Authority about share fraud each year, with victims losing an average of £20,000

Report a scam

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at **www.fca.org.uk/scams** where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on **0800 111 6768**.

If you have already paid money to share fraudsters you should contact Action Fraud on **0300 123 2040**.

Notes

Notes



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www.pennonannualreport.co.uk/2015



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