



Pennon

Pennon Group

General Meeting on the proposed sale of Viridor

Thursday 28 May 2020 at 11 a.m.



General Meeting

Introduction

- On 18 March 2020, Pennon Group plc (the **Company**) entered into a conditional sale agreement for the sale of the Viridor business to Planets UK Bidco Limited (the **Purchaser**) for an enterprise value of £4.2 billion on a cash free, debt free basis (the **Disposal**).
- Planets UK Bidco Limited is a new company established by funds advised by Kohlberg Kravis Roberts & Co. L.P. (**KKR**). KKR is a leading global investment firm that manages multiple alternative asset classes, including energy and infrastructure. KKR aims to generate attractive investment returns for its investors by driving growth and value creation in KKR portfolio companies.
- The Disposal constitutes a Class 1 transaction under the UK Listing Rules, which requires the production of an explanatory circular for, and the approval of, the Company's shareholders.
- Due to the ongoing restrictions in place due to the COVID-19 pandemic, in particular the prohibition on gatherings of more than two people and restrictions on non-essential travel (known as the Stay at Home Measures), the Company has made the decision not to meet with shareholders face-to-face today.
- Despite the restrictions imposed by the Stay at Home Measures, the Company remains committed to providing shareholders with the opportunity to engage with the meeting. The safety and wellbeing of Pennon's shareholders and people is of utmost importance in these challenging times.

General Meeting

Principal terms and conditions of the Disposal

- The Company has agreed to sell the Viridor business to the Purchaser for an enterprise value of £4.2 billion. Net cash proceeds from the Disposal are expected to be approximately £3.7 billion, payable to the Company in cash on completion of the Disposal.
- The Disposal is conditional on the satisfaction of certain conditions, namely:
 - approval of the Disposal by the Company's shareholders at a general meeting;
 - Merger control clearance being obtained from the European Commission, which was obtained on 8 May 2020; and
 - (a) the release of the Company from its obligations under existing bonding commitments relating to the Viridor landfill business or the putting in place of cash collateral or letter of credit support for those obligations if the Company is not released from them; and (b) the release of the Company from its obligations under parent company guarantees given in favour of Viridor companies for the purposes of financing arrangements.
- The conditions described above must be satisfied by 13 August 2020 (being the "Long Stop Date"). However, the Company has the ability to waive the condition relating to its release from the bonding commitments and parent company guarantees.

General Meeting

Principal terms and conditions of the Disposal (continued...)

- The Company and the Purchaser have agreed to enter into a transitional service agreement on completion of the Disposal under which the Company will provide certain transitional services to Viridor for a period of up to 18 months.
- The Disposal is expected to complete in early Summer this year.

General Meeting

Shareholder Q&A

1. Are you able to reassure retired personnel that their pensions will continue in the event of Viridor being sold and that the pension fund will be maintained into the future?
2. The company is proposing to reduce the pension deficit on completion of the Viridor disposal. Pension funds have been badly affected by market weakness caused by Covid-19 –
 - will more of the proceeds than originally planned be used to reduce the deficit?
 - who takes responsibility for the pension fund of the Viridor employees?
 - will they have deferred benefits in the Pennon pension scheme, or will some other arrangement apply?
3. How does Pennon intend to deal with the proceeds generated from the disposal of Viridor? Will shareholders benefit?
4. Given the stable nature of the remaining business and the current very low cost of debt, what is the board's intention for the longer term gearing of the business?
5. With the intention being to return funds to investors, will the board take into account the interests of private investors regarding the form of return of capital?

General Meeting

Shareholder Q&A (continued...)

6. The sale of Viridor would lead to a reduction of the Pennon group's operating profit. What is the rationale for proceeding with the disposal, especially in light of current adverse market conditions resulting from the COVID-19 outbreak?
7. How will the disposal impact Pennon's commitment to delivering South West Water's business plan for the K7 regulatory period?
8. The company has arranged for the meeting to be held "with the minimum number of attendees to satisfy the requirements for a quorate meeting." What is such a quorum and is the general meeting still valid if shareholders cannot attend in person?
9. On what legal basis have shareholders been prevented from attending the general meeting in person?
10. What consideration was given to enabling shareholder engagement in the general meeting by electronic means or otherwise?

General Meeting

Disposal Resolution

- (a) To approve the disposal by the Company of the Viridor business (the **Disposal**) substantially on the terms and subject to the conditions of the share purchase agreement dated 18 March 2020 between the Company and Planets UK Bidco Limited (the **Sale Agreement**) and all other agreements and ancillary documents contemplated by the Sale Agreement, with any changes permitted in accordance with resolution (b) below; and
- (b) to authorise the directors of the Company (the **Directors**) (or any duly authorised committee of the Directors):
 - i. to do or procure to be done all such acts and things on behalf of the Company and any of its subsidiaries as the Directors may consider necessary or desirable in connection with, and to implement, the Disposal; and
 - ii. to agree such modifications, variations, revisions, waivers, extensions, additions or amendments of a non-material nature as the Directors may in their absolute discretion deem necessary or desirable in connection with the Disposal.

General Meeting

Disposal Resolution (continued...)

Ordinary resolution requiring a simple majority of votes in favour. Proxy votes received from shareholders have been received and counted and the results are as follows:

For ⁽¹⁾	Chairman's discretion	Against ⁽²⁾	Withheld
300,163,886	462,379	444,271	1,301,669

(1) **99.85%** in favour (including those at the Chairman's discretion)

(2) **0.15%** against



Pennon



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